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Universitat de Barcelona



# **Creative Industries in Developing Countries**

## **The Film Industry in China**

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## **Summary**

This study is about the development of the Chinese movie industry through the economic and political opening of the country, from 1979 to 2015. It analyzes, in the first place, the demographic changes, as well as the economic and political ones in order to understand the environment in which the movie industry is found. Later on, it overviews the main regulations that have shaped the industry and finally, it goes deep into the business of moviemaking through the analysis of the studio system, the main filmmakers and the use of censorship as a protectionist measure for its cultural assets.

## **Resumen**

Este estudio trata del desarrollo de la industria del cine en China a través de la apertura política y económica del país, desde 1979 a 2015. Examina, en primer lugar, los cambios demográficos que ha habido en el país, como también los económicos y los políticos para llegar a entender el entorno en el que se ha desarrollado la industria del cine. A continuación, revisa las más importantes regulaciones que han forjado la industria y finalmente será posible analizar más en profundidad la industria del cine a través del sistema de estudios, los directores principales y el uso de la censura como medida proteccionista para sus bienes culturales.

## **Key Words**

China, Cinema, Filmmaking Industry, Regulation, Structural Overhaul, Political Opening, Economic Growth
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## Chapter 1 – Introduction

This thesis analyzes the relationship between the government and the creative industries since the opening of the economy in China through the flows in the movie industry, and how this affects the production, trade, and consumption patterns in the sector in the long run. The creative industries, which are not pushed in the same way by the government as other essential industries – like the agroalimentary or the power industry- are still the best indicators of the development of a country, due to this secondary, but still important, function they have in the wellbeing of the citizens. This thesis observes the political, economic and sectorial environments of the cinema industry and its stakeholders, which, taking it as a small sample of a whole, reflects in a great way the different aspects of the Chinese economics we are interested in: the interaction between the public and private business, the national and international market, the dissemination of ideas and business models, the availability of resources and the apparently contradictory role of the censorship.

The study is focused in the film industry because in the most recent years there has been some controversy over China's incomppliance with the World Trade Organization and the agreement over the film import quota with the United States. The base of the study came from the claims of the American government that the Government of China was keeping its increasingly large box-office for itself by limiting the entrance of foreign films into its theaters by 34 films per year. Because of this, different commissions of the United States of America issued reports analyzing how the Chinese government was overprotecting its market, and the related media continued discussing the subject.

This study, therefore, is relevant to the subject of International Economics for two main reasons: first, to show to what extent is the implication of the government is involved in the success of a industry in a country in the path of rapid modernization. Second, since numerous studies have shown that China will be the number one market for films as soon as in 2018, a great controversy has appeared around the Chinese government's protectionist measures in the sector, and its commercial relationships with the USA depend on a great level on it. Therefore, the study will try to analyze the involvement of the state in the Chinese movie business from the beginning of its economic opening in 1978 until the most recent years in which this controversy has appeared, and whether the involvement of the state has had positive effects in the industry or negative ones.

The study will also go through the whole history of cinema of China, emphasizing in the Fifth and Sixth Generations of filmmakers. This will always go in two perspectives: first, the economical perspective, and looking at the numbers these films have produced, which have been the major trends and the consequences of the

government's changes in regulation in the history of film itself. Secondly, censorship is believed to limit the growth and the originality in Chinese creative Industries. However, this needs to be studied more deeply in an analysis of the role of censorship as a business strategy for the country's cinematic history, proving that it does not just have political or ideological value but that it also serves as a protectionist measure for the industry. The presence of both of these factors has been excessive and critical in the careers of filmmakers of the mentioned two generations.

It will also use different meaningful members of the film industry chain within China to demonstrate how the development of the industry has been through the economic opening of the country. In one hand, the film festivals, in the perspective of instruments of promoting the investments, inside and outside China, which tends to be the primary role of the festival industry. In the other, the studios, their evolution through the years at the time when enterprises –which is what they are- were going from being state-owned and state-managed to being privatized.

## **Chapter 2 – Sources and Methodology**

For this work several types of secondary sources were used. Because of how specific the theme was – the film industry of China- the study's main framework had to be done through specialized media centers, being of great use the library of Filmoteca de Catalunya and Casa Asia.

While relevant literature helps clarify the history of cinema until around the mid-2000s, the most recent trend and regulation data had to be collected through different reports, which could be found in the internet. These reports were often issued by official institutions of governments, especially those by the United States of America, because they were the ones complaining about the recent behavior of the Chinese government in the protection via censorship of their film market.

In order to understand better how censorship worked in through the history of Chinese film industry, I watched several films that had raised controversy with their release.

When searching for information, the following terms and concepts were avoided: Hong Kong, Taiwan, Documentaries, Television, and Video.

Hong Kong and Taiwan, which were one of the main reasons for choosing the topic due to the richness of their film industry during the 1980s and 1990s, were later on eliminated from the work, due to the fact that both regions followed very different paths from Mainland China's and were not incorporated to the PCR until 1997 and 1972. Also, being both of them partially free from the Chinese government and following

investment methods that resembles more to those in capitalist countries, had their own crises of film distribution, which were not affected by the Mainland ones: they were completely independent from what happened in the People's Republic of China. These two countries are mentioned in the study only when they have direct connection with the mainland filmmaking, especially when talking about the first phase of the co-productions.

The study did not include documentaries, although they were created in large quantities during the last forty years, even more than non-documentaries. However, they have not been commercialized outside China, and are not as popular as fiction movies in the rest of the world. Also, these films represent a very small part of the Chinese box office and have never been economically relevant.

Television and video were taken out of the study too because their inclusion would mean recollecting data of sales of televisions, videocassettes, ratings or even how many movies were set in the channels per week. The extensiveness of this data makes it implausible to include this branch of the film market, and therefore the data shown in the study will be always only about the box-office in the theaters unless stated otherwise. The television and video branch will be mentioned only in their relationship with the sales of the theater tickets.

It is also necessary to take into account that some data, specially used in the earliest years might not be the most accurate one, either because it could be inflated or deflated by the authorities, or because the methods of obtaining this data were not the most accurate ones. Some data will result more reliable than other. For example, the GDP of the country during should be accurate because the state needed this data in order to make the economic state planning, but the population census might be missing people due to the fact that some rural areas were hard to reach, and a large group of the population could be hiding from the government for having a second child.

Due to the vastness and the diversity of the analysis, the structure of the thesis will be the following: first there will be an overview of the development of China, demographically and economically but also institutionally. These two aspects help understand the following section, which would be centered in the cinema industry of the country, by starting with the main historical regulations and structural overhauls and then following to the analysis of supply and demand of films in and out the country. In the production part the study will focus on film studios –the producers- and also the directors, which give an overlook to how censorship has worked in the country and how it has forged its creative industries. Apart from that, there will be an analysis of the film festivals as instruments of promotions deeply affected once again by censorship, and lastly, its relationship with the outside world through coproductions and its direct relationship with Hollywood, focused in the latest years.

# SECTION I – CHINESE ECONOMIC GROWTH AND POLITICS

## 1978-2015

### Chapter 3 - Economic and demographic development of China

China has been historically one of the world's largest economies. Its large empire and commerce through the Silk Road made China the world's largest economy ever from the early years of the sixteenth century to the early nineteenth century. However, there was a considerable decline of its economy through the years 1820 until 1950, when in an autarkic state, the GDP started falling incessantly. In 1949, right before the Communist Party took the power, half billion peasants lived under the poverty line, which translated to global terms would be the 40 percent of the world population at the time. (Zhu, 2012) China was at the time the biggest but also one of the poorest countries in the world. And although the huge population can be considered normal due to the vastness of the land, it was concentrated within a small area, because of the rugged mountains that can be found in the western region of the country and the large desert zones in the center of the Chinese land.<sup>1</sup>

The population in those previous years to the economic reform remained majorly rural, with barely a 20 percent living in urban areas. Although class differences would be eliminated with the Communist Party in charge, the differences between urban and rural citizens would remain significant until at least nowadays.

From the first years of the People's Republic of China the state thought that a big population could be the key of a successful economy by using the strong labor that it could offer as booster of economic development. However, the purpose of the involvement of the state in the birth planning changed dramatically during the mid-1950, when the authorities started fearing that this excessive growth would difficult the economic development. That would be the starting point of the most famous and controversial policy the Chinese state ever crafted: in 1979 would begin the "one child campaign". The campaign stated that each couple could only have one child, and the compliance of the rule was encouraged through a system of rewards and punishments. This was translated into rules that stated that couples who stopped having children after their firstborn would have preferences in all which the government could take part in: education, health care, housing, job assignment... However, the parents who went for a second baby would be fined, or could even lose the access to education or other privileges.

This one child campaign was performed in different phases, adapting gradually to the evolution of the population. The first phase was implemented in 1979 itself, and

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<sup>1</sup> Annex 1

the previously mentioned rules started being strictly enforced, with incentives and punishments that went as far as encouraging women to undergo sterilization after the already extreme case of having a second child. (Fitzpatrick, 2009; Jiang, 2011)

One of the main results of the ending of the implementation of the first economic reforms was that China started having large internal migrations, which some experts tend attributing to the new relaxation of control the government had over the movements of the citizens –contrary to the hukou system applied before-. During the Mao era citizens were obliged to live near their official household because the labor policies and the distribution of food were tied to this registration system. This control of the movement of the population made citizens need a special permit to move away from their permanent address and maintained the population within the imbalanced percentages of rural citizens and urban citizens. (Chan, Zhang, 1996)

The push towards the market economy destabilized China's health care system. A market oriented health care system made it more difficult for rural citizens to access to health services, and further more for the people who now could not even afford them. This went in line with the overall goal of the government, which in a way of forcing the economic development of the country had left aside the socioeconomic equality that had been a priority during the years of Mao Zedong.

The plan of reducing the growth of the population kept going on, and in April of 1984 the government went into a second phase of the one-child policy, relaxing the previous methods quite a bit. The main reason for this was that rural peasants were posing strong resistance to the compliance of the policy, but also because it would be easier to follow for the local governments and party officials. The new phase, which was announced with the issuance of the "Document 7" by the authorities, made the policy more realistic, while still aiming to meet the goal of having a population of 1.2 billion for 2000. However, by the following year, the words of the central government shifted from having a goal of "no more" than 1.2 billion to "about" 1.2 billion, reflecting the new position of the policy. (Riley, 2004)

By the end of the 1980s the economic reform was working positively. From the beginning of the reform to 1987 the foreign trade had increased a 25 percent of the GDP (Larçon, 2008), which were good news for the government, but the new data about the population of the country alarmed the authorities: the real population was far above that the state needed to reach that goal. Therefore, the policies were once again set tight, and some stricter changes in incentives and punishments applied. (Riley, 2004)

In the beginning of the 1990s all seemed to be good news for the evolution of the population. The health care, on one hand and against all odds, was reaching further than ever, and by 1990 an estimated of 98 percent of children were immunized. In the

section of birth control and after the tightening of the policies at the end of the 1980s, the State Family Planning Commission issued a document in 1993 declaring that the efforts had succeeded and that the fertility rates of the country were, once again, under control. People were also getting out of poverty as a result of the massive economic reforms performed by the government throughout the whole country: in just a few less than fifteen years per capita disposable income had tripled in urban regions and quadrupled in rural areas. (Riley, 2004; Wang, 2004)

Foreign investment had also increased considerably, from less than 1 billion USD per year in the first year of the economic reforms to the almost 30 billion USD per year by 1998, which would result in a 37 percent of the total GDP of the country that year. However, these investments were usually confined to investors from Hong Kong, Taiwan or Japan, those who were familiar enough with the Chinese legal system in order to operate there. For the western investors the legal system would be a burden at the time of operating there, at least until the beginning of the twenty-first century. (Larçon, 2008)

With the new millennia new data arose, and the objectives of the initial government plan about the growth of the population were not fulfilled, with a population of 1.3 billion instead of the planned 1.2 billion. Nevertheless, the authorities instead of being discouraged started a fourth stage in the birth control plan, by adhering to the previous measures but approaching the population with more client-centered services. The death rate had also decreased, from 8 deaths per 1000 people in 1970 to 7 in 2000, which went together with the growth in life expectancy: while in the beginning of the 1980s the life expectancy for both sexes was 64 years, in 2000 this grew until an average of 71.8 years.<sup>2</sup> (Jiang, 2011)

Yet, soon one of the main side-effects of the one-child policy became apparent, widely known as “the missing girls phenomenon”. Based on traditional social and economic roles of males in the Chinese families, the couples had a strong desire to have a son instead of a daughter. This preference has a long history in the country, where the lineage is transmitted through the sons and the daughters are married out of the family. The sons are also the ones responsible for taking care of the parents when they get old, which has even more relevance in rural areas where just a few peasants have retirement pensions. (Riley, 2004) In 2000, the estimated sex ratio for births was 120 men for every 100 girls. The ratio varied within the different regions, being Tibet and Guangdong the only ones with a normal ratio, and Hainan and Jiangxi on the other extreme with a ratio of 135 and 138 men per every 100 females respectively.<sup>3</sup>

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<sup>2</sup> Annex 2

<sup>3</sup> UNFPA, Asia and the Pacific Regional Office, [unfpa.org](http://unfpa.org)

By the end of 2002 the GDP per capita of China reached the 1000 USD for the first time, being this number even higher in developed regions of the country like Shanghai, Beijing, Guangdong, Jiangsu or Zhejiang, where the GDP got as high as 3000 to 5000 USD. (Larçon, 2008)

Nevertheless, the legend of China as the leader of the future world due to its great growth rates began to implode in 2008, when the world-wide crisis hit the country. That year, the growth rate started falling, from an enormous 14.7 percent that was in 2007 to a 9.6 percent in 2008. By 2009, the growth level was already at 9.2 percent, so the government decided to take measures in the topic: as it had been done in numerous countries of the rest of the world, it introduced a stimulus package in the national companies. The local economy felt this help immediately, and by 2010 the growth rate was again up above the average 10 percent. However, the effects started wearing off as rapidly as they had come, and in 2012 the rate was at 7.7 percent, while falling down to a 7.3 percent by 2014. The International Monetary Fund projects that by this 2016 the GDP growth will recess until a 6.3 percent.<sup>4</sup>

It has been calculated by the World Bank that between 1981 and 2010, 679 million Chinese people have been gotten out of poverty, a notable number taking into consideration that by the end of 2011 China's population hit the 1.35 billion, accounting for 19.2 percent of the world population. (Morrison, 2015)

China's GDP has been growing incessantly since 1978, when it was just of 364.5 million RMB. From that economic opening to 2014 the country's GDP has grown in an average of a yearly 10 percent, an enormous amount compared with the rest of the countries: the world's average growth rate –in economic terms- is at 3.2 percent, while this average goes down to a 2.7 percent in developed countries and up to a 5.2 percent in developing ones. The growth rate for newly industrialized countries in Asia during these last 35 years has been a 5.8 percent, high above both of them, mainly because the influence of China. This also means that during the process, China has doubled the size of its economy eight times (Morrison, 2015; Zhang, Chang, 2015). The estimates for the future are that the GDP growth will decline, from an actual 8.5 percent to somewhere around 5 percent by the year 2030.<sup>5</sup>

However, the statistics say that even if China grows at a rate of a third part of its past growth rate, it will outstrip the United States in size by 2030 and also become a high income country. If this happens, it would mean that it would become in one of the few countries that have avoided the middle income trap. This “middle income trap” concept is empirically provable by taking into account that out of the 101 middle

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<sup>4</sup> Annex 3

<http://www.imf.org/external/pubs/ft/weo/2016/update/01/pdf/0116.pdf>

<sup>5</sup> <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

income economies that existed in the 1960s, only 13 have become countries of high income. This happens because countries go through a high growth phase during their developing years, but once they get into a middle class level, the competitive advantages that put them there disappear. The low income countries tend to use their cheap labor combined with technology developed in foreign countries to compete in international markets, but once this low cost labor reaches the middle class, it demands higher pay and disappears.<sup>6</sup>

The previously mentioned demographic changes are closely related with the main challenges China faces nowadays. Currently Chinese population makes up about one fifth of the world population, hitting the 1.38 billion mark, but due to the rapid fertility decline in the country because of the one child policy, the population is going to grow old. Therefore, experts expect for the working population to stay stable for some more years, but after that it will start to decline, which will affect the whole Chinese economy quite negatively (Riley, 2004). By the end of 2011 the government made public that the pension fund was about 2 trillion RMB, but it has been calculated that at the current growth decline rate, the ratio of workers to retirees to be covered will increase from about 5:1 that was in 2013 to 2:1 in just 2030. If the government makes no changes in the current tax-structure it means that the average worker will have to increase their tax burden 2.5 times. This change in the demographical structure will have a serious impact on different aspects of the economy: savings, consumption, growth, labor market, industrial structure, pension system, public finances... In China, this change will at a certain point limit the labor supply and raise the unit labor costs, making it more than probable to be caught in the previously explained middle income trap.<sup>7</sup>

The gap between the urban residents and the rural residents it is still relevant in all matters. For example, the mortality levels are still nowadays much higher in rural areas than urban areas, and poverty is concentrated on these rural zones too. Nowadays two types of rural poor people can be found, as described by the experts:

- 1) People who are victims of the current economic conditions and cannot make profits in it, those who actually have access to the land but have been suffering from falling farm prices and rising farm expenses.
- 2) People who work on marginal land and are already struggling to feed themselves. These are the poorest of all.

Another inequality can be found in the different regions. The Eastern regions are much richer than the Western or Southern provinces. These inequalities, altogether with

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<sup>6</sup> <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

<sup>7</sup> <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

the inequalities between the rural and the urban zones, cause the internal migrations of a large group of people.

Another quite important factor that determines the behavior as a country of China is the new emergence of the middle class. In 2009, only the 12 percent of the Chinese population fell into this class, which is quite small compared to other western countries, but the World Bank calculates that by 2030 over 70 percent of the population will belong to this class. GDP per capita has increased exponentially during the last years, from less than 1000 USD in 2000 to over 7500 USD in 2014, an almost eightfold in just less than fifteen years. This has a positive impact on several industries, due to the fact that it will boost the need for housing and consumer durables. The share of consumption in the GDP will also increase considerably, and it will work as a catalyst for a better government and better public services, because the middle class tends to give power to the civil society.<sup>8</sup>

## **Chapter 4 - Economic and politic opening**

With the rise to power of the government of Mao Zedong in 1949, the government started making an economic planning that resembled the Soviet Union's. A five year plan was initiated from 1953 and 1957, which would be dramatically changed during the Cultural Revolution. This revolution, which resulted very unpopular, happened between 1966 and 1976 and consisted on persecutions and the tightening of the soviet rules, due to the thought of the leader, Mao Zedong, that bourgeois elements had infiltrated in the high spheres of the country. With the death of the leader, the Gang of Four that was supporting him – formed by Mao Zedong's wife Jing Qing, Zhang Chunqiao, Yao Wenyuan and Wang Hongwen- was eliminated and a new leader was set: Deng Xiaoping.

The need for an economic reform had been repeatedly requested by the people, who were sick of the abuses of the Cultural Revolution and had been observant of other surrounding countries that advanced much faster with a market oriented economy: Hong Kong, Taiwan, South Korea or Singapore. Also, the contrast that emerged from separated regions like South Korea and North Korea or East Germany and West Germany increased the eager to adopt the market economy.

Before 1979 the working regulation was forged according to the Soviet Union's, and farmers, which were a vast majority of the population, had to work in teams consisting of forty people, a measure that prevented individual workers to get extra reward for extra input. The education was brought under governmental control, and private schools and universities had been taken by the public educational organizations.

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<sup>8</sup> <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

The universities were modeled according to the soviet system and made into schools specialized in technical training. (Chow, 2004)

The banking system was also taken over completely by the government: People's Bank was a centralized mono-bank that had small branches to keep deposits from the public. It could also issue currency or give loans to citizens, but all had to be revised and approved by the government, so it had no real power of decision.

Deng Xiaoping, the new leader of the state contrasted vastly with the economic views of the Gang of Four. He was full of the revolutionary credentials the people were asking for: he worked in the Shanghai underground movement, was a Long March veteran and had been fighting the guerrilla warfare against the Japanese. Most important of all was that despite being the General Secretary of the Communist Party in 1956, he had been twice purged during the Cultural Revolution for his rightist views. His operation of "dismantling Maoism without discrediting Mao" was set up when he organized the 3<sup>rd</sup> Plenary Meeting of the Chinese Communist Party's eleventh congress, in December of 1978, in which they set the first bases of the new era of China, characterized by economic reform, modernization and liberalization. (Cornelius, Smith, 2002; Tisdell, 2008)

This new economic reform was distinguished from the Soviet Union's mainly for two reasons: first, the political stability was maintained with communist dictatorship despite changing the economic system. Second, it was a gradual change instead of a "shock therapy": as Deng himself described it, "the process was like a person walking across the river by feeling the rocks in each step"(Chow, 2004). Like that, the changes were made by seeing how the previous one worked before, without having really a fixed strategy or goal.

From that first point on the educational system started returning back to normal. Universities that had been closed during the Cultural Revolution were reopened and privately funded schools flourished, which would be even encouraged by the government later in the 1990s.

In August of 1979 the China's State Council formulated fifteen measurements for the economic reform, in which they included for the first time the official regulation of the foreign direct investment (FDI). This regulation included an article, the 13<sup>th</sup>, that explicitly stated that "it is permitted to set up enterprises in foreign countries", which was a practice that had been forbidden during the Mao years. However, this practice was closely controlled by the government, argued by the lack of experience the Chinese companies had in the international arena and because of the limited foreign exchange reserves the state had at the time. Therefore, until 1982, the Chinese enterprises had to

report to the State Council all their investment projects with foreign companies. (Larçon, 2008)

Deng Xiaoping was a firm believer on increasing productivity with the use of material incentives, so his reforms included bonuses and enterprise schemes for industry and agriculture. Apart from instigating a path towards a free market economy, he also gave state concerns more autonomy. With the motto “socialism does not mean poverty”, he made emphasis on raising incomes, especially in rural areas (Bregolat, 2014). In order for the latter, the state set price and ownership incentives for farmers, the main victims of the raw communism of the Cultural Revolution. This reform enabled them to sell a proportional piece of the crops they got on the free market.

This stimulus the government started implementing entered in “the Household Responsibility System”, a reform adopted by over 90 percent of peasant families by setting out production quotas and giving incentives if these quotas were met. The System led to an increase in production, which at the same time led to enhancing the purchase power of the citizens. This stimulated the demand for consumer articles that improved the life quality in the rural areas like televisions, washing machines or sewing machines. (Lin, 1992)

One of the main reforms that pushed the economy at the end of the 1970s was the establishment of four special economic zones in the coast of China. In these economic zones the government experimented with free market reforms, installing trade incentives to attract foreign direct investment and leaving an increasingly wide range of products to have free market prices. The main goals were to attract foreign investors, to increase exports and to boost the imports of high technology into China, which they considered was the fastest way to modernize the country. The government offered facilities to foreigners in order to build plants for their companies while employing local people. These investors were given financial incentives like tax break in order to force the development of transport infrastructures in the coastal regions. The state also tried to encourage the creation of joint ventures between foreign companies and Chinese government agencies by attracting overseas manufacturers with low labor costs. The foreign manufacturing companies could either produce and sell goods for the progressively bigger and bigger Chinese market for goods –like cars-, or sell them afterwards in the western market for a higher price. (Chow, 2004)

In the late 1978 six pilot enterprises in the province of Sichuan started experimenting with having more autonomy in production, marketing and investment, as the first phase of a gradual approach to economic reform of the enterprises. By the end of June of 1980, 6600 enterprises were allowed to make these autonomous choices, a group of enterprises that by competing in a more or less freer market produced about the 45 percent of total output of enterprises. However these enterprises were only

autonomic in theory, because in practice they were usually shareholding enterprises, with the state controlling the majority of shares. After seeing their success the government continued with the reforms, by making them keep their own earnings as long as they paid their taxes to the state. (Maxwell, McFarlane, 2013; Larçon, 2008)

Other additional reforms launched in stages by the government included the decentralization of policymaking in different sectors, with emphasis of the trade sector. This gave more power to the provincial or local governments, even the economic control of certain enterprises, which permitted them to work according to the free market principles. Apart from that, people were encouraged to start their own companies, which helped them to get out of poverty.

During the 1980s more trade reforms were carried out, moving from a monopolistic system to a decentralized one. In the middle of the decade, more measurements boosted the growth in agriculture and private enterprises inside China, but their behavior did not change from the state-run enterprises, which echoed the need of a structural overhaul. The most radical policymakers advocated for abolishing mandatory planning and applying this change to all enterprises, but at the time it seemed implausible.

In order to attract foreign capital, the state created the China International Trust and Investment Corporation in 1981. It was after that year that the government started adapting the currency rates towards a more realistic or at least convenient rate: before 1981, the rate was one dollar per 1.6 RMB, while after that year, the rate changed to one for 2.8 RMB. This was pushing the boundaries for foreign investment, which was taken further when in 1982 an economic zone bordering Hong Kong was opened: the Shen-Zhen zone. Making an effort for foreign companies to set their enterprises there, the government offered special tax breaks for investors. It took less than 10 years from the creation of the zone for that farming region to be developed into a modern city. (Fung, Iizaka, Tong, 2002)

The State Council authorized the Ministry of Foreign Trade and Economic Cooperation (also known as MOFTEC) to approve the processes of home enterprises investments in outward foreign direct investment in 1983. The Council did not set any standard procedure in this reform, so the MOFTEC had to look up every case individually, especially the investments that involved over one million USDs, which were said to be specifically supervised. (Larçon, 2008)

Also, that same year, the People's Bank was nominally transformed into a central bank. Other banks started functioning in more specialized sectors, like the Industrial and Commercial Bank of China, the Agricultural Bank of China or the People's Construction Bank of China. They all were given autonomy to extend loans

and credit, which increased rapidly the supply of currency throughout the whole country.

In 1984 the MOFTEC promulgated a notice on the Authorization and Principle of the Approval of the Establishment of Non-commercial Overseas Enterprises, regulated the following year by the trial regulation on the Approval Procedure and Administration of Establishing Non-commercial Overseas Enterprises. In October of the same year, the household responsibility system evolved in agriculture through a reform Decision of the Central Committee of the Communist party, which would later on, in 1987 become in a enterprise reform with the same basic principles. However, the incentives got through this reform did not turn out as impressive as they were originally planned. (Larçon, 2008)

Zhao Ziyang, who was the third Premier of the People's Republic of China, organized a measurement plan during the 1980s divided in two sub-reforms: a price reform and an enterprise reform. The objective of both of them was to transform the inefficient bureaucratic economy by going on with market prices.

During the 1990s, the state owned enterprises started implementing what was called the "Modern Enterprise System", which aimed to transfer the operating mechanism of state-owned enterprises and establish a system of modern enterprises. These enterprises would have clearer rights and responsibilities, and the government was said to be separated even more from them.

In 1991 the government issued a notice on the Strengthening of the Control of the Foreign Investment, with the aim of revising the procedures of approval for FDI by Chinese companies to solve minor problems of the first settings of the regulation. It was also during these years that the first Chinese stock markets of Shanghai and Shenzhen were established.

The issuance of the "Regulations on Transforming the Management Mechanism of State-Run Industrial Enterprises" by the State Council in the 23<sup>rd</sup> of July of 1992 resulted on a turning point for the structure of the enterprises. This regulation worked in fourteen different areas, entitling autonomy to state-run enterprises in setting their own prices, in hiring/firing workers, in having autonomy to allocate their investment finances and in field capital. Most important commodities got out of the scope of planned prices, which consolidated market prices and tried to eliminate the restrictions of private ownership. (Larçon, 2008)

In October of 1992 China culminated what it could be seen in the last years: in the 14<sup>th</sup> Party Congress of the Communist Party, the leaders declared the goal of the reforms which was to transition towards a social market economy. This was the first

time the government talked explicitly about the real possibility of a future market economy. During the following years, a decentralization process went on, by removing the interference of the government in all type of economic areas and giving power to the regional or local leaders or corporations.

In 1993 the MOFTEC started making a draft of what would be the Regulation on the Administration of Chinese Overseas Enterprises, in order to improve these FDI investments' administration. The National Development and Reform Commission got in charge of carrying out this sort of investments due to this regulation. In November of the same year, the Third Plenum of the 14<sup>th</sup> Central Committee of the Communist Party was celebrated, and a process of acceleration of the financial sector reform started here. Chinese central bank, the People's Bank, started transforming due to this decision, and also the specialized banks, which now were transformed into commercial banks. The two laws that culminated this process were the Law on the People's Bank of China, and the Commercial Banking Law, approved in March 18<sup>th</sup> of 1995 and in May 10<sup>th</sup> of the same year, respectively. (Larçon, 2008; Chow, 2004)

Nevertheless, the provisions of these laws were only passed in theory and never carried out in practice. The largest four banks were owned by the state, and managed by it. The effects of this state governance were the same inefficiencies of the state enterprises due to the problems with the incentives to keep the staff at maximum productivity levels. This idea came up from the fact that only restructuring the state run companies to shareholding enterprises did nothing to help the efficiency if the state was still holding the majority of the shares, so they really needed to have new owners like the own managers.

In September of 1997, the Party Secretary Jiang Zeming made a report in the Congress of the Communist Party. In this report he stated that small and medium enterprises shares should be issued, in order for the managers and staff to purchase them. This way, the state would give up most of its shares, and also its power over the enterprises, but at the same time it would be a capital infusion to the enterprises. (Chow, 2004)

Due to the different measurements made to adapt national enterprises to an international free market arena, out of the 2473 state-owned enterprises that started working with the government in 1994, 81.5 percent were converted to private companies by the year 2000. Statistically, 35.4 percent of the companies had been transformed into limited shareholding companies, 29.9 percent of them had into limited liability companies and the 34.7 percent were still state funded, but with much more autonomy than when they were wholly owned by the government. (Larçon, 2008)

With the entrance in the new millennium, China made one of the biggest steps in their process of opening the country politically and economically: it is in 2001 when the country enters the World Trade Organization. The entrance took place when the WTO was asking for a bigger political cohesion between the countries of the world, right after the World Trade Center attacks, but it answered to the progressive need of Chinese enterprises to go abroad. The enterprises were already facing huge competition between themselves at the home market, and some of them demanded facilities to go try on overseas markets. In order to support this and to enter safely in the WTO, the government first secured the Chinese natural resources, making an emphasis on energy sources and raw materials, which China had plenty of due to the vastness of their territory.

China's objective with taking part on this international organization was to build a, what they called, "moderately prosperous society" in the following twenty years, that is, by 2020. This called for a plan on carrying a sustainable industrialization in different fields, as well as establishing a socialist market economy, as they had declared back in 1992. It also pushed the country towards having a more open economic system and improving the competitiveness of the Chinese enterprises, between themselves as well as against other countries' enterprises. Taking the comparative advantage of China in manufacturing as a base in its international relationships, the country started transforming into a global resource pool, a process which continued until well entered in the 2010s. Large multinationals started to use this advantage as a opportunity to optimize their resource allocation at a international level, so they moved their manufacturing factories to the Asian country, now with more ease than ever. However, as declared by the own government in 2006 there are some limitations or 7 sectors in which the state will continue having absolute control: defense, electricity, petroleum, petrochemicals, telecommunications, coal, civil aviation and waterway transportation. (Fan, Hope, 2013)

In November of 2013 the Communist Party of China celebrated the Third Plenum of its 18<sup>th</sup> Party Congress, which defined a number of measurements to increase competition and the efficiency of its home enterprises. The importance of the market at the time of allocating resources was underlined once again.

Although China's FDI declined in 2008 due to the worldwide crisis, the trade continued booming the following years. This is mainly a result of the liberalization of the trade institutions and policies that have been created around them, the fast growth of the Chinese economy and the devaluation of China's real exchange rate.

But China is not the only one making a profit from its growth, and other countries have benefited from its growth. The growth of China has majorly been because of its participation in the global production value chain, with low labor cost

productions. But the truth is that in the future, if China does not move up in the value chain its exports will start declining. At the moment China's comparative advantage resides in cheap unskilled labor, whose costs is increasing in the most recent years and will continue growing in that pattern. However this movement upwards in the value chain creates tensions with other countries, and will continue to do so, a thing that can be seen right now by looking at the number of disputes China had in just 2013: 107.

## SECTION II – THE CHINESE MOVIE BUSINESS

### Chapter 5 - Regulation history in movie industry

Economic reforms that helped the opening of the People's Republic of China were also extended to the field of creative industries. In the case of the film industry, the major wave of reforms happened from 1978 to 1997.

The first step was to discuss an open door policy of economic reform, modernization and liberalization in the field of movie industry, which happened as soon as in December of 1978, in the 3<sup>rd</sup> Plenary Meeting of the CCP. This established the main foundations of what would be a slow and gradual modernization and opening of the whole industry, which was started with the foundation of the China Imports and Exports Company the following year. This corporation would be in charge of purchasing foreign films for local distribution and the one that distributed the Chinese films in the overseas. During those first years Chinese film studios were still making films according to the annual plans designed by the headquarters of the Film Bureau, and received a flat fee of 700.000 RMB per title from the China Film Corporation for the rights.(Xiao, Zhang, 2002)

#### *The 1980s*

The first applications of the previously mentioned plenary meetings started happening in 1980, very slightly, when the Film Bureau gave part of its censorship power to the own studios. Nevertheless, the final scripts had still to be submitted to the Bureau in order to be approved and released to the public. During the first half of the decade, all changes happened like this, with no coherence or long term strategy. The Chinese government kept adjusting passively and partially to the economic reforms the country was facing, and focusing only in the sectors of exhibition and distribution – a pattern that would continue on until the 90s, forgetting almost completely about the production sector-.

In 1984 the Chinese film industry got redefined, seeing it for the first time as an integral part of the cultural industries instead of just an instrument to reinforce the government's ideology. The state withdrew the government's financial aid to the studios, and according to this new system called the "self-responsibility system", the studios were left seeking financial backing outside. This gave more creative autonomy to the studios, but it also left them without any governmental subsidies in an institutional structure that resembled the Soviet style, which crippled them for the rest of the decade. The way the studios got profits from the China Film Corporation – successor of the China Film Distribution and Exhibition Company- did not help either: they either got paid 9.000 RMB per print or split the revenue by a pre-agreed

percentage, which pressured the studios to consider which films would result in a box-office success before they went into production. The state also revised its distribution policy, making the locals pay the costs for the ordering of extra prints. (Song, 2009; Zhu, 2003)

In the second half of the 1980s the main focus continued being the distribution, passing the responsibility of distributing from the China Film Corporation to local distributors who started functioning as middleman. In this way, the China Film Corporation was in charge of paying fees to studios, setting out the check for promotion and also for the extra prints, while the regional distributors gave the prints to the theaters and collected the revenue to the CFC.

With the goal of reviving the industry through the implementation of a market economy, in January of 1985 the China Film Bureau held a conference, in one hand, to analyze the outcome of the previously mentioned reforms, and in the other hand, to set a new reform package which would consist on a price reform and on an enterprise reform. The first one consisted in going from the planned single price system that had worked until then to a adjustment of each individual film to its market value. The second one, on the other hand, granted individual production units certain managerial autonomy and the needed financial incentive to increase their productivity. (Zhu, 2003)

The restructuring of the Chinese institutions started affecting the audiovisual industry when in January of 1986 the leadership of the Film Bureau goes from the Ministry of culture to the newly created Ministry of Radio, Film & Television, also known as the RFT, which aimed to have “stricter control management” over the industry and to “strengthen supervision over production” (Xiao, 2004). The problem arose with the power struggles this brought to the industry, due to the fact that the reform had only been made at a state level, while the provincial institutions were left unattended. By the end of the year the chaos was unbearable and the organizational glitches caused by the bureaucratic bickering at the local level did not help the distribution-exhibition sector deal with the revenue losses of one third of the companies, which forced many distribution companies to branch out. The only ones that were not affected by this managerial confusion were the nationalized studios. (Zhu, 2002)

The following year, the Ministry of RFT issued the “Document 975” with the aim of dismantling the mandatory price limits, both in high and low ends. The document also allowed studios to share box-office profits with the distributors. Nevertheless, this did not feel enough and both studios and local distribution companies asked for more autonomy from the China Film Corporation, in both production planning and film distribution. Studios and distributors working together in order to dismantle CFC’s monopoly, proposed to allow studios to make their own production-distribution-

exhibition network, but the proposal deemed too radical to the government and was rejected immediately. (Zhu, Rosen, 2010)

Up until 1988 the film industry had been taking shots in the dark without any coherent strategy and adapting passively to the needs of the industry. That year the government held a symposium known as the “Strategic Planning for the Film Industry” which aimed towards a further relaxation of price controls on film exhibition, allowing a limited hike in ticket prices at some upscale film theaters in big urban centers. The only reform that prevailed through the 1980s was the price reform: while in 1980 the film prints could be purchased at 9,000 RMB, by 1989 their cost was of 10,500 RMB. However, instead of connecting a film’s price to its market value, the price adjustment in 1989 retreated to the centralized mandatory system, contradicting the overall reform goal of reaching a market economy. (Zhu, 2002; Zhu, 2003)

### *The 1990s*

During the 1980s and the beginning of the 1990s, and due to the easiness of control of the filmmaking industry tends to have, the government did not make much effort in understanding the whole distribution channel, which can be seen in a permanently out of control industry during the reform era. At that time, the China Distribution Corporation was in charge of the distribution process: a tightly organized state monopoly with centralized power located in Beijing. From there, it controlled the local distributors in a way that it could be called an association instead than a corporation. This meant that all films were the property of the state, and nothing got screened without their consent –even if a certain film passed the censorship control of the Film Bureau-. The Distribution Corporation got even more power after the Tiananmen Square protests in June of 1989, when the censorship increased incessantly. (Zhu, 2002)

The 1990s can be considered as a golden age of economic reform in the Chinese film industry after the chaos created in the 1980s. The first half of the decade focused on an structural overhaul that would proper a further adjustment to the changes made by overall economic reforms while in the second half the government focused on both a distribution and, for the first time, production reform. The goal was clearer than ever: to eliminate the multilayered distribution process under the old bureaucratic system which would dredge the clogged distribution channel and encourage competition among both distributors and studios.

By 1993, the Chinese film industry was facing huge loses, with film exhibition for domestic pictures dropping a 50 percent in the last year and audiences falling as much as a 60 percent. Due to the incoherence with the reforms in other industrial sectors, the studios felt the need for a structural overhaul. (Zhu, 2003)

That same year the Ministry of Radio, Film and Television issues what would be the new peak of the distribution reform: the “Document 3 – Suggestions on the Deepening of Chinese Film Industry’s Institutional Reform”. The document explained the state’s new economic reform policy by steering film production, distribution and exhibition towards a market economy. For the first time, the main function of films would not be pedagogical, but economic. At the same time, Gao Jun, the chief at Beijing Film Distribution Company, connected print prices and ticket prices to the market, while allowing studios to directly negotiate with local distributors, dismantling, in a great manner, the monopoly of the China Film Corporation. (Zhu, 2003; Su, 2016)

Individual studios started implementing reform measures, the main ones being an institutional restructuring and the inclusion of private investment, both from China and overseas. Other minor measures included some internal restructuring in the studios, the outsourcing of talent and, continuing with the government’s aim of going towards a market economy, a link between the bonuses and the profits. The studios started also expanding in a horizontal integration in order to reduce costs and risks, but curiously this happened with other audiovisual businesses but also with discotheques and restaurants.

Nevertheless, the studio’s problems were quite deeper than the policies could rectify. The egalitarian system of remuneration and overstaffing cut deep into the complex labor relations, which could not be solved with a few reforms.

These rules helped to reform the management system, but the problems with financing were still unsolved. In the 1990s, the main funding sources were the state budget, foreign investment and domestic investments from sectors that were not related to the filmmaking industry. Compared to the full monopoly of filmmaking investment the government had at the end of the Cultural Revolution, by 1993 only 23% of the annual production came from the state: the other 77% came from either wealthy domestic corporations that were now interested in film production, or from overseas investors. The latter ones had to overcome the dull bureaucracy: they had to become attached to one of the 16 state-run studios in order to be able to produce in China. Nevertheless, the effort was usually worth it: to set an example, in 1993, all films produced by Shanghai Studio were co-productions. (Zhu, 2002)

This international co-production craze was due to the perfect mix of needs in supply and demand. In 1992, the Chinese market was hitting one of its highest points, and international companies were eager to enter in it, especially from Hong Kong, which at the time was still part of the United Kingdom. Apart from that, audiences perceived that international co-productions had more quality than domestic productions, which tended to lead to large domestic box offices in this type of productions.

Another strategy used by foreign firms was to take advantage of the cheap labor of China and then to distribute the film in the western countries. These investors had to pay the host studio a flat distribution fee, and helped, mostly, to the commercialization of art films in the foreign country, which were the type of films they mainly demanded.

During 1994 the Ministry of Radio, Film and Television issued a new regulation, which stipulated that films from Hong Kong or Taiwan made using Chinese resources had to undergo censorship by mainland authorities before they could be sent overseas for public screenings. The regulation also removed the obligation of producers within China to sell their films to the China Film Corporation. This regulation helped the normalizing the transit between the three regions, mainly because China was very aware of the effect the wealthy film makers from Hong Kong had to produce movies. This free access to participation through the industry would be culminated in 1997, when Hong Kong entered China as a Special Administrative Region. (Zhu, 2002)

In January of 1995, the Ministry of Radio, Film and Television issued a reform relaxing the licensing policy of production. From this point on, any investor, even from outside the filmmaking industry could have the right to coproduce if he were to cover 70 percent of production costs. Aiming to attract many new private investors, the reform was applied in 16 state run studios and 13 provincial level studios. The domestic box office felt the boom of these new films involving private investment, two thirds of the productions being cheap knockoffs of entertainment films from Hollywood and Hong Kong, imitating their style.(Zhang, 2016)

Apart from imitating the western movies and the western production system the government started to introduce the western distribution method, which divided the profit/loss among the producer, distributor and exhibitor. This way the three parts were exposed to the force of the market and had to do their best in order to get the most profit out of it. This copy of the Hollywood style also included other smaller modifications and tricks that helped improve the profits, like the use of direct production-exhibition channels, without the need of intermediaries. These channels started integrating vertically through geographic areas, and also using promotional packages and the very hollywoodesque star-system exploitation.

At that point everything was going towards the opening of the market of the industry, and in the path of creating the Chinese Hollywood which could easily be as big as Bollywood in a few years. But in March of 1996, the Ministry of Radio, Film and Television held what is known as the Changsha Meeting, which changed the course of the Chinese creative industry –at least for some years until it got back to its natural path-. Scandalized by the risqué literature, the politically explicit and exploitable artworks and pirated rock music, the state launched a program to criticize what they called “spiritual pollution”. The main aim was to address their concern over the quality

of the pictures, which they depicted as being too sexually explicit and violent. By regulating the cultural market the state wanted to bring up the pedagogical function and the social impact of these films, so the government sponsored public viewings of biographies of socialist heroes and model communist members. This assured the films to have a box office success, but the revenues started falling. A document issued by the Ministry of Radio, Film and Television soon after the meeting pushed things even more for these “domestic quality pictures”, linking the profits from distributing imports with studios that produced these sort of pictures. Therefore, the distribution of imports got set as a reward, and one import was given to the studio that produced one quality picture. (Zhang, 2008; Zhu 2002)

But the Changsha Meeting anticipated that due to this fall in revenues China would be dependent on imports, so the meeting also took protectionist measures against this: it stipulated that two thirds of the distributed films should be domestic productions and that two thirds of the screening time would be reserved to these domestic productions. These measures steered away the private investors who, being much more profitable, shifted to producing TV dramas.

The generalized anxiety over marketability gave bargaining leverage to the distributors and exhibitors over the studios, accepting, in some cases, even the 28 percent of the box-office revenues, far below the national standard of 35 percent. Studios were also forced to pay prints and promotions when this was internationally and generally distributor’s duty. Because of this situation, studios started lobbying and demanding to be able to distribute foreign films for profits. (Zhu, 2002)

The following July the Ministry of Radio, Film and Television issued the new Film Administration Regulation, which aimed to fight the vagueness of censorship by making the Federal Bureau explain why a film had been banned and to be explicit about the changes required before release, as well as giving reasons for retaining projects. This was essential in the production sector because a lot of private investors were reluctant to participate in the filmmaking industry due to the fact that the Federal Bureau could retain the films indefinitely and without too clear notice once they were produced.

In March of 1998 the Ministry of Radio, Film and Television was suppressed just to establish two new authorities on film, radio and telecommunications: the State Administration of Radio, Film and Television and the Ministry of Information Industry. The SARFT, which would be the most relevant authority over the film industry from that point on, reported directly to the state and was in charge of the approval of content from films and its censorship. This approval always had to meet the requirements from the Chinese Communist Party’s Propaganda Department and although the SARFT lost

ministerial status and the control over broadcasting, the Ministry of Information Industry took power of them.

### *The 2000s*

Other big change was when in 2002, the SARFT announced that China Film Group would have to share its distribution authority of all films in the country with a second company that would handle the distribution of imported films. Also, this new regulation established that all municipalities should have distribution and exhibition companies by the 1<sup>st</sup> of June of 2002.<sup>9</sup>

During the following years several regulations were issued that would lead to the actual film industry. The main ones were issued between 2003 and 2004, which contributed accelerating the Chinese box office. In 2003, the “Temporary Regulations on Access to Film Production, Distribution and Exhibition” was issued, which allowed private enterprises to create their own film production enterprises or to work cooperating with state studios, which allowed them to have the same rights and responsibilities as state-owned studios. This would be the beginning for private studios which would multiply though the next years. (Song, 2010; van der Berg, 2013)

In 2004 the state released a document called “Several Opinions on Accelerating the Development of the Film Industry”, a document that indicated the future path that the Chinese Cinema would follow in the new century. This document was full of details that would be achieved by other regulations later on, like the introduction of a film rating system which would ease the censorship of foreign films, and the possible allowance of sino-foreing joint ventures for coproduction in the nearby future. The same year, “Register and Film Examination” regulation was issued, aimed at establishing film infrastructure, by increasing the availability of capital investment, encouraging innovation of creative talents and protecting the national cinema. (Xu, 2007; Song, 2010)

From the mid 2000s until the mid 2010s the regulations were mainly focused in agreements with other countries, pushed by the inclusion of China in the World Trade Organization in 2001 that will be discussed later on in the context of its relationship with Hollywood.

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<sup>9</sup> [http://dfat.gov.au/trade/agreements/chafta/Documents/cfta\\_submission\\_6se05.pdf](http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf)

## Chapter 6 – The business of movies in China

### 6.1 The movie industries

#### 6.1.1. Movies

China's film supply has historically been dictated by the governments. The first film ever screened in China was shown in Shanghai in 1896, Back at the beginning of the history of Chinese cinema, a number of studios started creating their own movies as soon as in 1905, a film adapted from a Beijing opera by the Beijing Fengai Photo Studio and Tan Xinpei, called The Battle of Dingjunshan. Let us consider that the first "movie" ever created in the world was "Journey to the Moon" by Georges Méliès, just three years before the first Chinese movie was done, so it could be said that China was fast on track of the movie industry. However, the film industry in China is considered to be started in 1913, with a movie called The Difficult Couple, made by the filmmakers Zheng Zhengqiu and Zhang Shichuan. Looking up to the also newly started Hollywood, studios started appearing mainly the zone of Shanghai and Hong Kong, where they laid the foundation of their own channels of distribution and a number of contacts.<sup>10</sup>

Chinese movie industry had time to have two golden ages before the communist revolution of 1949 changed the way of film production and eventually shut it down completely. The first golden age occurred during the 1930s while the industry was still maturing. During this time approximately 60 films were produced every year, and were strongly influenced by a increase in the sense of national identity, given that the Japanese had just invaded Manchuria. The second golden age happened in the 1940s in which the industry grew and flourished.

When the Communist Party rose to power in 1949 the industry started being state-owned, a thing that would be retaken after the Cultural Revolution. During the 17 years that followed until the Cultural Revolution, the state produced a total of 603 movies and 8342 reels of documentaries. In the Cultural Revolution just 8 films were released.<sup>11</sup>

After Mao Zedong died, and Deng Xiaoping started with the economic opening, studios started reopening too and producing movies. During a short period time during the 1980s Chinese cinema enjoyed a third golden age of cinema, where films from all types started being made: drama films, satiric movies, science fiction movies and even kung-fu movies which were not as common in Chinese film history as it might seem. One of the first huge box-office successes was a film produced by North Film

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<sup>10</sup> [http://dfat.gov.au/trade/agreements/chafta/Documents/cfta\\_submission\\_6se05.pdf](http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf)  
<http://www.nationalmediamuseum.org.uk/~media/Files/NMeM/PDF/Collections/Cinematography/AVeryShortHistoryOfCinema.pdf>

<sup>11</sup> [http://dfat.gov.au/trade/agreements/chafta/Documents/cfta\\_submission\\_6se05.pdf](http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf)

Company, called Mysterious Buddha (1980). Also that year, and as a result of how famous the Star Wars movies had become since its release in 1977, the first Chinese science fiction movie was made, called Dead Light on the Coral Island (1980). (Sazatornil, Alonso, 2012)

After the high point for these commercial movies, Zhang Yimou released Red Sorghum (1987), which is highly considered as a milestone of Chinese cinema. During the 1980s, within the previously mentioned third golden age for Chinese cinema some avant-garde movies were created inside what is called the Fifth Generation of filmmakers. These films, even if from a future point can be seen as films that really marked what would be the pure “Chinese cinema” were never a huge success in commercial markets. But Red Sorghum ended that pattern, by giving birth to the era of commercialism by being a huge success in local box-office. It was such a success that it had to be sold at 0.6-0.7RMBs when the average urban prices at the time were between 0.2 and 0.3 RMB. Also, for the first time in China, a film from home won the Golden Bear at the Berlin Film Festival.( Zhang, 2004)

Several avant-garde movies continued with this commercial success until the mid-1990s. Chinese filmmakers apparently also had discovered what made tick to the foreign spectators, who boosted the profits of these artsy films. The best examples of this pattern are The Wedding Banquet (1993), which just five months after its release had earned 6.5 million of dollars, or Farewell My Concubine, that only after three months since the release had already gained sold 4.2 million dollars worth of tickets, and just in the US commercial circuit.

Films started having budgets more according to the international market in order to adapt to them. In 1991, the average budget for a domestically produced film was 1.3 million RMB, a number that increased to 3.5 million RMB by 1997(Zhu, 2003). With the nearby entrance of the new millennia the local tastes were shifting and the public was waiting for movies with much higher budget and with a more hollywoodian look. The main supply of films started being a few films with governmental aid that were called “main melody films”. Sponsored by the stated and based on certain historical events that left the country in a good light, the 2000 were the time for what the westerners call “the propaganda movies”. One of the most famous of these, made by the same Zhang Yimou that made Red Sorghum, was Hero (2002), a historical drama that cost 250 million RMB and just by itself made up to 42.2 percent of the total box-office of the whole country in 2002 (Zhang, 2012). Hero also set a new trend in the budget for promotion, which had never been too important for the Chinese movie producers. During that time, an average of 10.000 RMB was spent in the publicity for each film, while Hero’s budget exceeded the 15 million RMB.

This trend has only been increasing in magnitude, and one of the best examples of its exuberance is the film *Founding of a Republic* (2009) by Han Sampling. The film, which was ordered by the government due to the 60<sup>th</sup> anniversary of the founding of the People's Republic of China was produced by the state-owned China Film Group's CEO, and directed by him. Because of the importance of the event, the film includes the appearance of 177 of Chinese leading stars and directors, including worldwide famous ones like Jackie Chan, Jet Li or Zhang Ziyi. The film got earnings of over 400 million RMB, which reassured that the country was entering the era of "main melody commercial blockbusters".(Tang, 2015)

The film industry's average film budget, however, has not increased too much since the late 1990s. In 1997, for example, the average budget for each domestic film was 600.000 USD, and by 2010 this number was between 600.000 and 740.000 dollars. However, the number of films has increased: while in 1997 only 525 films were recorded, in 2010 it reached the 526 films.<sup>12</sup>

### **6.1.2 Studios**

As soon as Deng Xiaoping got in power and with the opening doors of the country studios started reopening: Mongolia Studio was established in 1979, China's Children Studio in 1980, both Shenzhen and Fujian Studios in 1984... In 1978, that first year, a total of 12 studios made altogether 46 feature films. During the 80s, the Chinese film industry operated the same way the American studio system did during the 1930s and 1940s, which reflected how underdeveloped the Cultural Revolution the left the creative industries of the country. (Semsel, Xia, 1990)

The output the studios had during these first years was totally uncompensated, some studios producing way more than other ones. For example, Beijing Studio, Changchun Studio and Shanghai Studio produced an average of ten to twenty-one films per year, which was above the combined production of the rest of the studios. Facing this inequality, the smaller studios had to retreat to the production of a varied catalogue of specific genres, like agricultural films, scientific and educational films, documentaries or animations. (Semsel, Xia, 1990)

Every studio got their own signature look in order to differentiate their product from the others and to fight this unbalance: for example, PLA's studio made films focused on how great the Chinese army was, while Changchun Studio, still with the influence of being the first studio that operated under communist control, made more conservative movies in terms of structure and political correctness. Shanghai, following the path started 50 years ago when the studios were first installed in the country, made

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<sup>12</sup> Annex 4

films that had the “Hollywood look”, and Pearl River Studio, located next to the province of Guangzhou and Hong Kong, imitated the style of the films of this latter region, which feeling not Chinese nor English had developed its own style during the years. The Film Studios of Chengdu and Emei, located in the countryside, focused on regional matters and in pleasing the peasants that populated their surroundings. At the same time, the Youth Film Studio (operated by the Beijing Film Institute) and August First Film Studio (operated by the previously mentioned PLA Studio) focused on films for the young and films for those who were enlisted in military service respectively.

One of the most important studios during the 1980s, and one of the few that was able to compete in the international arena, was the Xi’an Studio. The studio’s main turning point was when in 1983 Wu Tianming got in charge, a man that bet for the avant-garde filmmaking and who allocated all of the limited resources of the studio to support this type of filmmaking. This way, he started to produce films of rather experimental filmmakers that got right out of the Beijing Film Institute at the time: Chen Kaige, Huang Jianxin, Tian Zhuangzhuang or Zhang Yimou. These directors would be the ones that would be later considered as the “fifth generation” of Chinese filmmakers, and the ones that would help situate China in the international cinema map by winning dozens of awards. In order to make this investment possible, Xi’an studio also produced a large number of entertainment films per year, which subsidized the art-films. (Zhang, 2004)

In the middle of the 1980s the inefficiency of the studios started coming out to light: as of any other state-run enterprises the studios had very low productivity problems. Each studio was filled with staff members, who were writers, directors, cinematographers, designers or technicians. To put it on perspective, Beijing Film Studio, which was the largest of them, had 70 fixed directors, and produced approximately 20 films per year. Its subordinate, the Children’s Film Studio, paid the salaries of 90 professionals. Most studios also had a fixed group of actors and were extremely well equipped in comparison with other state-run sectors, but at least they saved some money by contracting the extra cast in the place of the location of each film. (Semsel, Xia, 1990)

During that time, studios depended completely in the China Film Corporation, who bought film prints for a flat fee, which meant that their profits depended on the volume of orders made by this governmental corporation. Due to the tensions this produced and the profit-sharing potential the market had, the studios started demanding a distribution reform that would allow them to share the profits between the different members of the distribution channel.

From the beginning of the 1980s to 1986 the costs kept escalating quickly by as much as 36 percent, and studios started having loses. To put it on perspective, in 1986,

only 20 percent of movies -30 out of 151 produced that year- gained back their investment. By the end of the year, the organizational confusion and continuous shrinkage of the domestic film market lead to a loss of revenue of one third of all Chinese distribution companies. Because of this, many of these companies were obliged to branch out by seeking revenues from other commercial ventures. However, the state-owned studios that were under complete governmental control resulted immune to this managerial chaos.(Zhang, 2004)

So it was in that same year when Shanghai Studio and Xi'an Studio made echo of this problem by starting negotiation with the China Film Corporation with the aim of sharing the box-office receipts. Their negotiation was a success; they both got what they wanted, but the results not that much: both companies failed to make any real profits that year. Shanghai Studio discovered that their films were totally out of sync with the shifting tastes of the Chinese spectators. Xi'an Studio, on the other hand, produced films that were big hits in the Chinese market, but also discovered that profits from the box-office were not as fast and as liquid as selling directly to the CFC.

By the late 1980s, this problem only aggravated and the state-run studios were in financial trouble. The continuous distribution reforms of the time just left clearer and clearer the need for an structural overhaul in the companies. In 1989, for example, 30 percent of the state-run studios were losing money, as well as 23 percent of the provincial level distribution companies and 24 percent of provincial theaters. By the end of 1989 the debt was astonishing: Shanghai Studio owed 20 million RMB, Xi'an Studio another 20 million, Beijing Film Studio 10 million, and Changchun Studio 30 million RMB. The companies now had to deal with the difficult times by producing entertainment films of low budget. (Zhu, 2003)

In order to help, the government started giving some extra funding for these studios to produce propaganda films, or as they like to call them "main melody films". With this financing, in 1993, twenty-five state-run studios produced 150 pictures in just a year. The government put between one and two million RMBs per year to produce these films, which ended up being up to 25 percent of the total annual output of films. The rest were 70 percent entertainment films, and just 5 percent of art-films, number that decreased in the following years of the mid-1990s. (Zhu, 2003)

During the early 1990s, and due to the new shared-revenue regulations, the distribution system took advantage and the control of the stated studios. The China Film Corporation was still the one deciding how many prints it would need to distribute, and then it gave this copies to the provincial and local branch agencies, that worked as a subordinate of the corporation. These prints were sold at a fixed price of 10500 RMB, no matter what was the expectation or cost of the film. The branch agencies accorded the distribution contracts with the projection units, who had no control over the titles

that were offered at the local level. The studios were put out to deal with the risks, while the profits were kept in other parts of the channel. The screenings only gave losses to the projection units, which can be deducted from comparing the high costs of a screening (and increasing, from the 51 RMB that cost in 1983 to the 99 RMB that a single screening cost in 1988), with the very low cost of tickets (about 20 fen) (Pickowicz, 2012). Even if this inequality could be seen by anyone, the Price Control Bureau did not even consider increasing the ticket prices.

With these high levels of expenses almost none projection units showed profits, and if they did so, the regional branch agencies of the CFC recollected the funds in order to pay their costs. Then, these agencies gave the after-expense profits to the office in Beijing, and from that moment on, profits were divided: 29 percent of the money went to the film studios, and 71 percent was held by the corporations. But that was not the end of it: if the studios were to show any profit after that, they had to pay a high 55 percent industrial tax, which basically meant that during the 1980s, only two to three studios were able to show a positive balance each year. (Pickowicz, 2012)

The consequences of this bad settlement of the studios was that even the films that had won several international awards like *Yellow Earth*, *the Horse Thief*, *Evening Bell* or *King of Children* got distributed in just fifteen copies or less, because the studios did not want to absorb the losses they made. (Zhang, 2012)

During the first half of the 1990s, the studios started suffering the consequences of badly performed restructuration. The total revenue for all 16 studios that were working in 1991 was of 179 million RMB, with profits of just 56 million RMB out of that, and that after the 35 million RMB tax and the 8.4 million RMB studio overhead payments it ended up in nothing. (Song, 2010)

In 1992 the state made an investment of 12.6 million RMB with a target of 120 movies. However, this investment could only cover 10 small to middle sized films, and the studios had to get a 150 million RMB investment from somewhere else. (Zhu, 2003) This shortage affected not only quantity, but also quality of films, which were forced to operate at the lowest possible budget. That year, the most expensive production was of only 1.5 million RMB, and the least expensive one only of 660.000 RMB.

Nevertheless, this trend did not stop studios from appearing and in the followed years they kept expanding: 8 studios opened in 1994 alone, more than a third part of the total studios at the time.

Chinese studios started becoming smaller and smaller. The videocassettes that were smuggled from abroad made almost disappear the demand for domestic mainland

films and the studios had turn into supporting film-making units for studios from Hong Kong that were not under direct Chinese governance.

The number of state-studios has not really grown since the 1990s, but the number of films has fivefold, which means that each studio makes on average five times more movies than twenty years ago. However this is not entirely true, due to the inequality at the time of producing films. Nowadays, the film industry in china is controlled by four major corporations that have appeared from fusions between early studios.

The biggest of this corporations was born in 1999 under the name of China Film Group Corporation (the CFG), which is a conglomerate governed by the state. It has the most complete industry chain of all, which assures its obvious dominance in the Chinese film industry. The CFG also produces more than 30 percent of the whole country's film output year by year, and owns the only movie channel in the state, called CCTV-6. This conglomerate also includes a share-owned theater, whose circuit takes up to 40 percent of the total domestic box-office. Since 2004, the CFG has a joint-venture with Warner Bros and the Hengdian Group, who is the owner of the Hengdian World Studios. This is the closest thing to Hollywood China has, and its considered the most magnificent TV and movie shooting base in the country. It is located half a day distance from Shanghai and it has different palaces and landscapes to create movies in. (Song, 2009)

Huayi Brothers, founded in 1997, was one of the first private film corporations of China, and also the biggest one. It works in both the film production and film distribution and it takes 30-40 percent of the film market.<sup>13</sup>

Although it is shifting into movie production, PolyBona Film Distribution Company, as its name states it, has historically worked in the film distribution. PolyBona is the largest shareholding distribution company, managing 120 domestic and foreign films in the last five years and taking up to a 20 percent of the overall market share. With its immersion in film production, in 2006 alone it produced and coproduced over twenty films. (Song, 2009)

Finally, and integrated by the government in 2001: Shanghai Film Group is one of the top five largest film production enterprises and top fifteen TV series production enterprises. This large conglomerate also owns a movie channel called the Oriental Movie Channel and the largest theater chain in China, the Shanghai Lianhe Cinema Circuit. It holds up to 25% of the box-office.

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<sup>13</sup> <http://www.prnewswire.com/news-releases/imax-and-chinas-huayi-bros-group-expand-film-partnership-169408446.html>

However, and although the production of big budget films by these few studios is the major trend, there is an alternative one that has appeared from the impossibility of small studios to compete with them. There are over 300 private film corporations and 20 other state-owned studios operating independently without having any vertical or horizontal integrations. (Song, 2009) These film corporations have two ways of succeeding: the first one is by working on the production of artsy movies, usually joined by partners in Hong Kong or Taiwan, and aiming to reach overseas niche markets that ask for oriental-style independent movies. The second way is by producing main melody films financed by the government, a path that usually the state-owned small studios follow.

Looking at the future of the studio system of China, Dreamworks recently set up a studio in Shanghai for the creation of Kung Fu Panda 3 in co-production, and it is expected to keep making more co-productions in the nearby future.<sup>14</sup> However, one of the main investment in the recent years has been by Dalian Wanda Group Corporation, whose owner, Wang Jianlin, is on the top richest persons of China. He is actually building a new movie studio that will be set up by 2017 and will be the largest in the whole country.<sup>15</sup>

### **6.1.3. Directors**

The history of cinema in China started quite early, but it was never quite defined until it could be looked from the perspective that the years of the post-Cultural Revolution offered. Experts consider this because after the Cultural Revolution there was a group of movie directors that for the first time were consistent enough to be considered a “filmmaker generation”. For several reasons, including the number of years the Beijing Film Academy had been operating by their appearance or their position in movie history, they were called the 5<sup>th</sup> Generation, and represented China for the first time in the international movie market.

The categorization of the film generations that went before them are still being discussed by the experts in the subject, but a generalized view can be made. The First Generation of film directors would be the ones that started making movies at the beginning of the 20<sup>th</sup> century, the early birds of the industry. The Second Generation would include those directors that developed the industry of cinema in the following year, centering mostly, like Shi Dongshan, in martial arts films.<sup>16</sup> The Third Generation can be situated between the 1930s and 1940s, in the golden age of the Chinese cinema. One of the big names of this time was Cai Chusheng, who, with his film Song of the

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<sup>14</sup> <http://www.scmp.com/lifestyle/film-tv/article/1908885/kung-fu-panda-3-dreamworks-chinese-gamble-looks-its-starting-pay>

<sup>15</sup> <http://www.ft.com/cms/s/0/95e3615c-deda-11e5-b072-006d8d362ba3.html#axzz4AEIMrvIU>

<sup>16</sup> [http://www1.chinaculture.org/library/2008-01/18/content\\_66775.htm](http://www1.chinaculture.org/library/2008-01/18/content_66775.htm)

Fishermen (1935) won the first international prize any Chinese movie ever got, at the Moscow Film Festival. The Forth one, still before the Cultural Revolution, would be all those filmmakers who made propagandistic style films in the early Mao years, inspired by the tradition of the soviet style. (Cornelius, Smith, 2002)

In 1978, and after having its doors closed for the whole duration of the Cultural Revolution, the Beijing Film Academy reopened. During the first years a small numbers of students –about 150- could enroll in directing, photography, design, recording or acting. This reduced number of students was mainly for the lack of funding the school had, not because of the lack of interest the youth had in cinema.

Nevertheless, the need of money was not the only problem the film academy during the reopening days: the school was set up according to the soviet system, resembling how it work right before its closing in the beginning of the Cultural Revolution. During the 1980s the heads of the academy often stated they wanted it to look more like the western models, but the change required a big amount of money they lacked of. The Beijing Film Academy was operating under government control by the time, and all their students received financial aid from it. This contributed to the limitation of 150 students, because the government could not sponsor the learning of all the filmmakers that wanted to enter. Film director and one of the heads of the academy Xie Fei travelled to the United States in numerous occasions in the hope of adapting some of the basis of the western model to his school, but after it considered that the main problem that prevented the restructuration was the lack of financial capability. (Semsel, Xia, 1990)

#### **6.1.3.1. Fifth Generation**

It was from the class of the 1982 of this Beijing Film Academy that a new wave movement emerged in the mainland Chinese cinema. As it has been stated before, apart from being the Fifth Generation for their place in Chinese film history, they were called like this because the generation was mainly formed by students from the 5<sup>th</sup> class graduating from the Academy's directing department.

After the political orthodoxy and governmental oppression they suffered during the Cultural Revolution, this group was eager to express themselves with freedom, and felt the desire to create art. In response to the previous thirty years of propaganda-filled media, they chose to film with blunt locations and representations, and wanted to film stories about the social history of China, as a method of protest and stating constancy.

This generation had to work in a very conservative environment and within an industry filled with severe censorship. With the sudden openness of the country the need to investigate whether Chinese culture was a “diseased body” began to be clearer

than ever, and the economic measures of Deng Xiaoping's government just propelled this thought. (Cornelius, Smith, 2002) The western culture had suddenly become a threat to the purity of Chinese culture.

The initial films of the Fifth Generation started in the Guangxi Studio, a tiny studio in the mid-southwest of China, in the border with Vietnam. It was there *One and Eight*(1983) was produced, which would be widely considered as the first Fifth Generation film. During those initial years, these filmmakers despised the Hollywood looking commercial films and desired to make more author cinema, taking cinematography into account. Even if they had a little number of spectators at that beginning time, the most passionate producers were attracted with this idea and kept investing on their films. (Semsel, Xia, 1990)

The most important directors of the Fifth Generation were Chen Kaige, Zhang Yimou, Wu Tianming or Tian Zhuangzhuang but there were also other minor ones like Wu Ziniu, Xia Gang, Zhang Junzhao, Hu Mei, Ping He, Huang Jianxin, Li Shaohong or Peng Xiaolian.<sup>17</sup> Filmmakers like Wu Tianming set a good example of how this group of directors had to live, who after making films like *Life* (1984) or *Old Well* (1987) had to exile to the United States between 1989 and 1994 because his political viewpoint differences with the Chinese government.

#### **6.1.3.1.1. Case Study: Zhang Yimou**

Zhang Yimou is one of the best examples of how entire careers of filmmakers were shaped by the censorship of the government and how sometimes the own directors used this at their own favor, a complex case that requires its own case study. He is easily the best known Chinese filmmaker with 30 movies made by now and over 60 wins and 40 nominations in international film festivals, and his relationship with the Chinese government has shifted through the years at his own convenience, as it has happened with more Chinese directors like Chen Kaige.

Zhang Yimou was born in the province of Xi'an, back in 1950. He was admitted in the Beijing Film Academy at the same time of the other directors, and he graduated in 1982. Despite being from a land of great film culture, he was sent to the small Guangxi Studio, well, after working as a cameraman for Chen Kaige in *Yellow Earth*, made his own movie in 1988: *Red Sorghum* (Lent, 1990). This drama, located in a rural region of the north-east of China got really popular in the country, becoming what could be called "a cult film" within the youth. The movie also got critical acclaim in the overseas, winning the Golden Bear in the Berlin Film Festival of 1988(Sazatornil, Alonso, 2012),

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<sup>17</sup> Out of these directors, four are men, three women.

and being shown in other first class movie festivals like Cannes or Venice. This move opened the distribution doors for Yimou in the western markets.

His following films, *Ju Dou* and *Raise the Red Lantern*, released in 1990 and 1991 respectively, gained critical success in several international film festivals. *Ju Dou* resulted being the first Chinese movie that ever represented the country in the Academy Awards -which would be followed by the nomination of the other film, *Raise the Red Lantern* the next year-, as well as winning the prize of Best Director in the Cannes Film Festival. Both films were a success in the United States, a public that started to adore this sort of artsy Asian films, and, although they were initially banned in China for controversial reasons, said ban was lifted in 1992 due to the commercial success the movies had.

The bans that influenced the careers of the Fifth Generation's filmmakers were more related to the control of bureaucracy and to making money than it was to politics: after the Tiananmen protests the government allowed the filmmakers to make movies with international financing. This created the controversy whether which movies could or could not represent China internationally and that is why the government was so concerned about banning directors from making movies inside the borders.

However, this deal went very well for filmmakers like Zhang Yimou, who was able to make movies with foreign money, in studios that offered him a better payroll and with much better skilled technicians. It also gave him much more freedom of creation, because he would not have to face the severe censorship of the Chinese Film Bureau.

With his following movie, *The Story of Qiu Ju* (1992) it seemed that he had just raised a white flag against the Chinese government. The movie, which was about a peasant girl fighting for justice, was acclaimed even by the Chief of the Propaganda Ministry himself, and internationally it won the Grand Jury Prize at the Venice Film Festival in 1992 (Cornelius, Smith, 2002). Nevertheless, his next movie proved this to be a false alarm. *To Live*, released also in 1992, made him the biggest enemy of the Chinese censors once again. Concious that the film would never pass the censors, Zhang had to send a copy of the film to Cannes in secret, where he won two different Foreign Language Film awards.

Once again Zhang was banned from making any film in China for the next five years, but the government took it even further: the main actress of the movie, Gong Li, was also affected by the severity of the measures, and was banned from attending any International Film Festival or from giving interviews to newspapers and other media. However, as soon as the government saw how well received the movie was in the foreign market, the ban was lifted.

In 1997 he made *Keep Cool*, which momentarily entered to competition in the Cannes Film Festival, just to be withdrawn right after due to the conflict of interest the Chinese government had with the festival. The same year, *Kundun*, Martin Scorsese's film about the Tibet was being screened in the festival, and Chinese authorities forbid Zhang from attending when Cannes refused to withdraw Scorsese's movie. (Whitmore, Havis, 2007)

He started the new millennium releasing *The Road Home*, in the year 2000, a film that contrasts with his previous work by being considered one of the films that best defines the "Chinese" filmmaking style, with a strong Confucian basis. With the film he wanted to claim that new generations of the youth in China could be as noble as the old generations just by paying more attention to the traditions.

During this time he stated that he did not have any intention to leave for the western countries, which he argued saying that China was his main source of inspiration while making films. Nevertheless, his relationships with the government started getting clearer than ever: his position as the political enemy of the state starts shifting until he is revealed to be in very close contact with the top chiefs of the state, which fund him.

From this point on, his movies were either historical dramas holding China in high regard, like *Hero* (2002), which surprisingly also resulted in a great success for the box-office of the United States. The movie was also nominated for best foreign movie by at the Oscars. His following movies continued in this line: huge productions that kept beating all records in production budgets: *The House of Flying Daggers* (2004), *Riding Alone for Thousands of Miles* (2005), or *A Woman, A Gun and a Noodle Soup* (2009).

Zhang is the best example for the political reception of the 5<sup>th</sup> generation in China, being a strong critic of Chinese history at the beginning of his career but ending up in charge of the opening ceremony of the Beijing Olympic Games. Finally it has been shown that he is actually very privileged inside the Chinese film industry and that he enjoys having great contacts within the cultural establishment of the country.

### **6.1.3.2. Sixth Generation**

The Sixth Generation was born as a contra-cultural response to the conformance of the Fifth Generation with the practices of the government and Chinese society in general in the mid-1990s.

In about 1993, the authorities started being concerned with some unauthorized films that were being recorded in the streets and being commercialized as movies belonging to an underground movement. These movies – *Beijing Bastards*, *Red Beads*, *The Days...* - were showing a depressed and dark idea of what urban life was in China, a topic that the government did not feel too comfortable with.

However, this idea of the films being out of the “officialdom” was not coming from this films being made in secret, because they were shot in the streets quite openly. The main reason was that the Sixth Generation films were not funded by the state, nor by the big private Chinese studios: they were low-budget works, and were usually funded by the filmmakers themselves that in some cases received help from other places like Hong Kong or Taiwan. This group of young directors was just those who could not compete with the state-owned studios without following their strict guidelines, and they were not willing to follow them.

The existence of this underground generation was questionable until right after *Beijing Bastards*, a film by Zhang Yuan won the Critics Circle award at the Lucarno Film Festival of 1993. (Zhang, 2012) That same year, in a way of protest, the official delegation of China stormed out from the Tokyo Film Festival when it became known that *Beijing Bastards* had entered in the competition of the festival. This summarizes the relationship this Sixth Generation has had with the authorities, which once again –as in the starts of the Fifth Generation- really guides the process of development of said generation of filmmakers.

## **6.2. The Market for movies in China**

The downfall of the Gang of Four was a boost to the theaters of the whole country. In 1979, the attendance in the theaters was of 29.3 billion, which, considering that at the time China had a population of 1 billion meant that on average each person went to the cinema more than 29 times a year. Taking into consideration that rural and very poor areas are counted for these data, it is statistically astonishing. However, this was pushed by the novelty the new cultural panorama offered, because soon after that year the moviegoers started declining steadily. By the time of 1991 the number of admissions to the theaters would have declined in a 50 percent. (Ni, 1994; Gomery, Paford-Overduin, 2011)

With the time the moviegoer pattern started changing, probably with the appearance of theaters in the more rural areas. From the start of the opening process to 1984 the rural exhibition revenues rose by 55.2 percent, which could be translated to compare the 290 million RMBs of earnings they produced in 1979 to the 450 million RMBs it created in 1984. That latter year, to set as an example, within the rural population on average each person watched 24 films. (Zhang, 2004)

Those numbers can be put in contrast with the downfall in a 10 percent the tickets had from 1980 to 1984, selling “only” 26 billion tickets. In the mid-eighties the discography industry had its own boom, which stole audience from the movies, as well as the increase of people who owned a television. These people started preferring

watching TV series –both local and foreign- in the comfort of their own homes, which resulted in a considerable fall in audiences. (Zhu, 2003)

These could be seen just as soon as in 1985, when in the first quarter of the year the number of tickets sold resulted being 30 percent smaller than during the same period the previous year. The result of just those first three months was a loss in the revenue of 9.36 million RMBs, or 1.17 million dollars. All the sectors in the industry – production, distribution and exhibition- lost money due to this, which pushed the further implementation of measures by the government and the rush in the negotiations by the studios with the China Film Corporation. (Zhu, 2003)

This resulted on a turning point for even the rural audiences which seemed to have a crosscurrent pattern, and which started to shrink in audiences. By 1986, over 40000 mobile projection teams had surrendered and closed their doors. (Zhang, 2004)

It was not until 1991 that the recession of the box-office started turning around, but still at a very low speed. In 1993, however, with the entrance of foreign movies for the first time in Chinese theaters, these movies started outnumbering the Chinese counterparts, in both the number of films screened and ticket sales. Even if the Chinese studios were not gaining almost anything from it, this resulted in the propulsion the ticket sales needed in the country. The film tickets started rising significantly, but just until the government, scared by the success these foreign films had in the country –the box office of the domestically produced films had declined to a record of 20 percent that year- and afraid they would tarnish the good spirit of the Chinese, started forbidding their entrance.

The reform that had been issued the 11<sup>th</sup> of October of 1992 might as well had something to do with that decline in the box office: this reform stated that now the ticket pricing would reflect better the market price of each individual film by having the owners of the movies setting the ticket prices themselves (Nilsson, 2015). These new prices ranged from 2 RMB up to 80 RMB, depending on the geographical zone and the theater.

In 1995 the Ministry of Radio, Film and Television decided that 15 percent of the screen time now should be given to key films (Nilsson, 2015), specially selected by the ministry, and which represented the values of the main melody films. These movies would be especially focused on historical events, mainly for the education of children, peasants and the army. The involvement of the government in sponsoring cinema made the total films of 1995 to increase to 146, up from the 133 films released in 1990 – but that would go back down to 83 by 2000-.<sup>18</sup>

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<sup>18</sup> Annex 4

In another attempt to control the entrance of foreign films, the Ministry of RFT issued the “9550 project”, which stipulated that China would let 10 high quality films enter the market each year between 1996 and 2000 (Hemelryk Donald, Hong, Keane, 2014). Nevertheless, this did not stop the negative trend of diminishing the domestic film’s share in the home market. It would not be until 1999 that the domestic share started improving a bit, but once again, this was just an outcome of the total shrinking the entire market was having.

Until that point on, the box-office started declining incessantly, to the point where in 2003 the earnings from ticket sales got under 1 billion RMB. This revenue was generated mainly in the big cities and their theater chains, which were much more used by people than small independent theaters.

But during the mid-2000s the things started to speed up a bit, not having any yearly setbacks since 2003. In 2007 China’s box-office revenue hit the 3.3 billion RMB, 6.7 billion if we count the whole chain of the industry. This revenue kept coming from the urban theater chains, or at least 83.8 percent of it did. The following year, the revenues reached the 4.3 billion RMB and for the first time in the history of China, this situated the country in the top 10 markets of the world for cinema. (Zhang, 2012)

The movie market was skyrocketing. In 2009 the numbers were at 6.1 billion RMB, and by 2010 a new record was set up, with 10.17 billion RMBs in a sole year, with a growth of 43 percent compared with the previous year (Su, 2016). In that 2009 something new also happened, an American blockbuster called 2012 won the top of the box-office, but this was what could be an American “propaganda film”, one in which only China can save the world. The success this film raised many issues over how to market films and how the audience responded to certain patriotic storylines.

With the skyrocket raise of box-office revenues, the number of screens started going up exponentially. Before 2010 a little more than a screen per day was opened per day though the country, but after that year the number doubled: even whole cinemas were built at a speed larger than one per day. Things only got faster after that, from the 4.2 screens per day that were inaugurated in 2010 to the 8.3 screens of 2011 up to the 10.5 screens that were daily opened in 2012. (Leung, Lo, 2015)

China surpassed Japan in the list of biggest movie market of the world, situating itself in the second place, only behind the United States. (Pulver, 2013)

From 2010 onwards Chinese films started having more and more leadership in the box-office share. The majority of top ten box-office films started being productions or co-productions of state-owned film studios, and in 2012 and 2013 the number one films were solely produced by China. During the last fifteen years alone the domestic

share has increased from 33 percent to 60 percent, which is considered a high share for a market. (Nilsson, 2015)

It is also important to acknowledge that the box-office tends to concentrate in big cities: in 2008, the eighth part of the total box-office was collected just in Beijing. This reintroduces the idea that the migration patterns of people from rural to urban areas increases the overall box office, which has increased more than 25 times in less than fifteen years. In February of 2015 a historic record happened when the Chinese box-office surpassed the American one for the first time. (Brzeski, 2016)

### **6.3. Film Festivals**

The film festivals have historically been used to ease the distribution of films. These festivals are not just for spectators to go watch movies but most of them are used for producers and distributors to gather and seek for new talents and negotiate between them. In fact, what it could seem as a secondary function is taken much more seriously by the organizers of the festivals, who set up private screenings for the talent scouts and other workers from the industry and press.

#### **6.3.1. In China**

As with other cultural events and institutions, during the Cultural Revolution the Gang of Four forced to shut down all film festivals within the country. The movie industry was also clogged, so the existence of film festivals within the country would not make any sense. The main Chinese festival was the Hundred Flowers Awards, which started in 1962 right before they went to suspension in 1963 due to the said Cultural Revolution. After this hiatus, the festival was reinstated in 1980 sponsored by a magazine called Popular Cinema. The winners of the festival would now be chosen by the readers of the magazine.

The following year the official China Filmmaker Association started sponsoring another side festival, called the Golden Rooster Awards. The name came from its year of inauguration, 1981, which coincided with the year of the rooster in the Chinese calendar. Contrary to the Hundred Flower Awards that were given by the readers of a magazine, the Golden Rooster Awards were given by specialized actors and critics that worked in the industry.<sup>19</sup>

Both of these awards would be unified in 1992, with the creation of the “National Film Festival” which is considered the most important film festival in mainland China. These awards are peculiar: one year the Golden Rooster are given and the following one the Hundred Flowers. (Ye, Zhu, 2012)

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<sup>19</sup> [http://www.chinaculture.org/gb/en\\_festivals/node\\_196.htm](http://www.chinaculture.org/gb/en_festivals/node_196.htm)

The Ministry of Culture also started giving out annual prizes to films, awarded for their excellence but also awarded according to the political agenda, giving preference to main melody films. These awards went on until 1986 when the administration of the Ministry of Culture was transferred to the Ministry of Radio, Film and Television. However, the new ministry decided to keep giving out the awards.

With the same function as a film festival a film exchange market was set up in Beijing in 1993. Each year a production-distribution conference would be held there with the aim of bringing the producers and the distributors closer together. This exchange market worked as the film festivals did in the way of testing the market value for films.(Zhu, 2003)

### **6.3.2. Overseas**

Foreign film festivals have been the escape door for movies that could not succeed in China, especially during the 1980s and even more during the 1990s. Filmmakers from the fifth generation started showing the rest of the world that Chinese cinema should be looked at closely.

The first film that represented China in the festival of Cannes was *The Story of Ah Q*, made in 1982 and entering into competition in the festival the following year, but it was not until the 1990s that an international craze for Chinese movies appeared. The eager for having Chinese films in the festivals was so big that many festivals gave invitations to the Chinese directors to submit their work even before they were finished.

Klaus Eder, the program organizer of the Munich International Film Festival stated in 1993: “New Chinese Cinema has dominated many international festivals, most recently Venice in 1992 (*The Story of Qiu Ju*), Berlin in 1993 (*Women from the Lake of Scented Souls*) and Cannes in 1993 (*Farewell My Concubine*) That is a surprising and admirable series of successes, which no other cinema has ever duplicated, at least not within the last two or three decades”(Zhang, 2002). This resumed fairly the success of Chinese films in the international festivals and the so favorable critical reception they had overseas.

The awards were plenty during that time, but the censorship of the PRC did not leave it easy for the filmmakers to be so internationalized. The same year that *The Wedding Banquet* (Taiwan) and *Women from the Lake of Scented Souls* (Mainland China) won the ex aequo Golden Bear for the best film category, the Chinese authorities got angry because uncensored versions of several Chinese films were sent to international festivals. As a consequence, in 1994, the government started taking more severe measures to control this sort of behaviors. One of the main results was that the delegation of mainland China boycotted the Third Seminar for Film Directors from

Taiwan, Hong Kong and mainland China. The mainland authorities also took back nine films that had already been allowed to show in the Hong Kong International Festival as a warning for filmmakers to not disobey the authorities.

However, the uncensored versions kept going to international festivals, like Zhang Yimou's *Lifetimes*, which could be seen in the Cannes International Film Festival. The government strictly punished him for it by postponing his following movie, *Shanghai Triad*, and making him change from the original Gaumont Film Corporation to the Shanghai Film Studio. (Hu, 1993)

However, this did not stop the Chinese films from being an utter success in the festivals: mainland Chinese movies won different prizes in over ten different festivals with international category, from Cannes to the San Sebastian International Film Festival.

The censorship has prevailed through the years. Directors have been prevented from attending festivals by just persuading them or by more severe measures like confiscating their passport. But that has not stopped Chinese directors from sending their work to foreign festivals, and from winning awards: filmmakers from the Sixth Generation like Jia Zhangke keep being regulars in A-list Festivals.

#### **6.4. Coproduction**

From the point when the Chinese film industry opened to the overseas investors, the coproductions have had a huge importance. The China Film Coproduction Corporation was founded as soon as in 1979, a state branch that handled the films Chinese studios made in a form of a joint venture with other countries and regions – most commonly with Hong Kong during those first years, which was the third main producer of films during the 1980s, right after Hollywood and Bollywood-. (Cheung, Marchetti, 2015)

According to the Chinese legislation, it is stated that a coproduction should include two or more parties of investors, having one of them from home and other one at least from a foreign country. It should be taken into account that the home investor could perfectly be the state itself, a case that has happened in numerous occasions, especially at the beginning of coproductions.

In 1997 a new regulation about coproductions was introduced, which stated that a maximum of 25 percent of movies could be done through the international coproduction method. Things would be done that way from that point on until approximately 2002, when the government established the Cultural Industries Division

of the Ministry of Culture. This division formalized the idea of using culture as a tool to promote China and the Chinese government's political agenda.

This had a lot of relationship with the signing of the Closer Economic Partnership Arrangement (also known as CEPA) the 29<sup>th</sup> of June of 2003. This agreement's aim was to strengthen trade and investment cooperation between Mainland China and Hong Kong. Translated into filmmaking industry terms, this meant that Hong Kong would not need to be in the coproduction block anymore, and could freely make films using Chinese cultural assets (Peng, 2015). However, China used this agreement in its own favor too, by being able now to use Hongkongese directors as its own: directors like John Woo or Ang Lee who already had high profile films in Hollywood.

Nowadays, coproductions are arranged through the China Film Co-Production Corporation and take up to 43 percent of ticket sales (Peng, 2015). This corporation is state-owned, and, like other film production enterprises, is supervised by the SAPRFT. Co-productions have been increasingly common: for example, from 2002 to 2012 a total of 37 films were produced via co-productions, while in 2013 alone 5 films were made this way. (O'Connor, Armstrong, 2015)

However, in order to be accepted as a co-production, the film has to follow certain minimum requirements and guidelines. The film must have at least one scene shot in China, cast one Chinese actor, have a minimum of one third of the investment from Chinese companies and to illustrate "positive Chinese elements".

The facility to enter into the Chinese market just by following this makes it a good incentive and many big foreign filmmakers are willing to comply the requirements to enter. The most recent and famous one is the new Avatar movie, which will be completed through a joint-venture by Cameron Pace Group and China's Tianjin NorthFilm Group and Tianjin Hi-Tech Holding Group, who will take care of the 3D effects of the movie and will grant James Cameron's movie a greater access to China in his upcoming film.(O'Connor, Armstrong, 2015)

## **6.5. Relationship with Hollywood**

From the starts of the filmmaking industry, in the beginning of the 20<sup>th</sup> century, it has always depended in the relationship between different countries, due to the demand of the public of variety and the need of producers to get as much profit as possible. Prints are easy to export, import and have run around, and are great subjects to economies of scale for this reason, so their cost of exportation tends to be much lower than the possible profits.

Nevertheless, China having a closed economy until 1978 did not make things easy for the adaptation of the speed other countries were going in the import/export section, nor did the attempts of China to maintain protectionist measures to promote internal production.

Although before 1979 there was one film that was imported to China -The Salt of The Earth-(Sandhu, 2014), it was not until the 1990s that the state started addressing seriously the foreign film production, probably because the structural overhaul that was needed before made Chinese studios too unproductive to compete with the big Hollywood studios. Therefore the first film that was imported to China from the United States of America under this objective of opening the market was *The Fugitive*, in 1993. It grossed 3 million dollars in China by itself, which alarmed the Chinese authorities over the power these foreign movies had in the local spectators. (Tempest, 1994)

During 1995, out of the whole box office profits, between 70 and 80 percent came from imported pictures (Zhu, Rosen, 2010). This did not just mean gains from foreign pictures, but it also boosted the big domestic pictures: the Chinese film *Red Cherry* was placed on the box-office ratings, topping other international films, and the total return increased in a 15%. Hollywood's high cost of production was set as a standard measurement for quality in the Chinese studios, companies that had been budgeting on average a low 10 million RMB per film during the mid-90s. With movies like *In the Heat of the Sun*, *The King of Lanling*, *Red Cherry* or *Shanghai Triad* the Chinese industry started setting some investment records in the history of its national cinema.

The government saw that a regulation for the entrance of these films was necessary. It was then when the Ministry of Radio, Film and Television introduced the "9550 Project" that has been explained before, and which stated that a maximum of 10 foreign films would enter per year from 1996 to 2000. These films would be those which the government deemed excellent, and principally the quota was filled almost entirely by American films, followed by those made in Hong Kong.(Hemelryk Donald, Hong, Keane, 2014)

The regulation linked the right to distribute these foreign imports with the studios who were involved in the production of "quality pictures", films which the government wanted to subsidize indirectly for showing the good morals of Chinese culture. In 1996 the three big studios that produced the main 10 box-office hits -Beijing Studio, Changchun Studio and Shanghai Studio- got the distribution rights of movies like *Toy Story*, *Waterworld* or *Jumanji*, in a shared box-office returns basis with Hollywood. (Zhu, Rosen, 2010)

In the other face of the same coin, when at this same time Chinese films started being distributed in overseas countries by the home studios, the profits created by these imports were not reaped by the studios. These imports were run by the China Film Import and Export Corporation, a government company that operated from an office on Wilshire Boulevard, in Los Angeles. The studios that distributed the movies ended up getting only 14 percent from this corporation, who managed solo the rights to foreign buyers.

During the 2000's, and with the entrance of China in the WTO, the Chinese government started accepting the importation of 20 revenue-sharing foreign films into theaters per year, which still did not seem to be enough for the American authorities (Zhang, 2008). Things started steering up when in April of 2007, when the USA won a case against China through the World Trade Organization for the restriction on imports.<sup>20</sup> It took the WTO two years to consider China's constraints a violation of its rights and obligation as a member state, and was obliged to comply with the norms by March of 2011.

In December of 2009 the WTO rejected China's appeal against the ruling, which said China should stop forcing owners from the United States to use Chinese state-owned companies to distribute movies and books, and which broke the monopoly that China Film Group and Huaxia Film Distribution -partially owned by China Film- had. However, this ruling ignored the claim against the twenty revenue sharing foreign films per year, and it also agreed with China that their authorities had the right to ban foreign films that the censors deemed objectionable. (Zhang, 2012)

As the Chinese rules are established, even with an increase in the quota, the future of each foreign film that enters the Chinese market is uncertain. The government can take measures at it pleases it, like different times during the year when foreign movies cannot be shown. For example, the 18<sup>th</sup> of May of 2004 the authorities announced that the films that had been already agreed to be imported would be banned from Chinese cinemas during July and October – because of the anniversary of the founding of the People's Republic of China in October 1<sup>st</sup> and the anniversary of the Tiananmen Square Events the 4<sup>th</sup> of June-, with no earlier warning. This tends to happen continuously, like when the State Administration of Radio, Film and Television announced that during the year there would be three times – June 10<sup>th</sup> to July 31<sup>st</sup>, September 25<sup>th</sup> to October 10<sup>th</sup> and December 1<sup>st</sup> to December 20<sup>th</sup> – where only domestic blockbusters should be shown.<sup>21</sup> These times had the lowest box-office figures of the year, but still the policy continued going on.

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<sup>20</sup> [https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds362\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm)

<sup>21</sup> [http://dfat.gov.au/trade/agreements/chafta/Documents/cfta\\_submission\\_6se05.pdf](http://dfat.gov.au/trade/agreements/chafta/Documents/cfta_submission_6se05.pdf)

Other indirect instruments are used by the Chinese authorities to reduce the presence of American films from the Chinese theaters. For example, the authorities are reluctant to keep these films in the theaters once they reach the 100 million RMB mark, with the exception of “super-blockbusters” and sagas, which could be Harry Potter or James Bond. (Zhang, 2012)

Nevertheless, as the Chinese government failed to modify its practices according to what was established in the WTO ruling of December of 2009, it was forced to reach a temporary settlement with the United States’ government.

This settlement between the United States and China, official in February of 2012, was called the Memorandum of Understanding, which increased the access of foreign films to the Chinese market. The exact numbers were 34 films in comparison with the previous 20 per year, and a share in the box-office of the 25 percent instead of the 13 percent that was stipulated before. The settlement is to be consulted in 2017 again, with the aim of producing an official agreement by the 1<sup>st</sup> of January of 2018. (O’Connor, Armstrong, 2015)

American authorities are focused the Chinese market because since not too long ago it’s the second biggest market in the world, and its closing the gap that separates it with the first biggest one -Hollywood-. Experts have stated that at the actual rate the Chinese film market will overcome the American one by 2018 (Child, 2015). The increase in the Chinese middle class will make the citizens spend more money on entertainment, and with a GDP that has eightfold in the latest fifteen years the Chinese film market taking the first position seems unavoidable.

While Chinese market is growing, the American one is stagnant. Yet, the cost of producing a Hollywood movie keeps growing: the average production cost right now is around 200 million USD, with an additional 50 or 100 million USD for marketing, which is quite an increase compared to the numbers in 1996 when the average cost was just of 60 million USD. This forces Hollywood to look at foreign markets in order to just get profits and the Chinese seems the most succulent one. Just in 2014, the 6 biggest Hollywood studios got 70 percent of their revenue from markets outside North America. (O’Connor, Armstrong, 2015)

The United States have arrived to the point where the need to enter into Chinese film market is so big that American screenwriters alter scripts, scenes or castings taking the Chinese censors and the 34 film limit into account. For a Hollywood movie, sometimes being between those 34 films is not a privilege, but a necessity. Big blockbusters like X-men have been adapted to please the Chinese: the film added scenes in Hong Kong and a cameo of a famous Chinese boy-band to be liked. It worked: the film got 116 million USD of gross revenue just in China. Other films that include space

programs like *Gravity* or *The Martian* have to take into consideration that the Chinese authorities do not like films which imply their inferiority in military or spaceships, and that is why they both had to add scenes in which the Chinese helped them –even in a minimal way- in the outer space. This way, *Gravity* obtained 71 million USD in China, 10 percent of its worldwide gross profit. Sometimes these changes are imposed directly by the censors, who give vague guidelines over what is prohibited to the American scripts and once the film is made directly ban entire scenes. In *Mission: Impossible 3*, for example, a scene of clothes drying flat roofs had to be erased because the censors indicated this showed a negative portrayal of Shanghai as a city where no people owned dryers –a signal of poverty-. (O’Connor, Armstrong, 2015)

Another way of making investment in China, although it is a less popular one, works the other way around: the authorities allow foreign investors to invest in Chinese companies up to a 49 percent in revenue sharing films. This way leaves aside the focus from the Chinese market and centers in the production factors from the country. The law also allows investors to put money in theaters up to a 49 percent of said theater’s cost, a number that goes up to 75 percent in the largest cities – but however, they cannot create own cinema chains- (Xu, 2007). In this way foreign companies can either produce Chinese films for the Chinese market or for foreign markets, as it is common in the artsy films of the Sixth Generation.

However the importation and distribution of foreign films is still controlled by the China Film International, which was formerly known as the China Film Import and Export Corporation.

## SECTION III – CONCLUSIONS AND ACKNOWLEDGEMENTS

### Chapter 7 - Conclusions

The changes the Chinese film industry has gone through have been numerous and have lead towards one of the most prominent film markets in the world. However, the path has been full of drawbacks and never in a straight line. The government has followed the same gradual lawmaking system that characterized the economic opening of the country for the modernization of the film industry institutions and studios.

Although the information is limited due to the lack of literature about the industry of the Chinese cinema that focuses on the economic part and there should be more things taken into account to analyze the environment in which it has developed – like the entrance of the VHS or the Internet- the study has reached to three main conclusions based on the things I have been able to read, and based on the questions that were set out in the introduction.

It could be said that the late modernization of the filmmaking industry has little to do with the government. The cinema in china has not been successful because of the government, but despite of it. The regulations in the cultural industry have been one step behind and more as a passive instrument to try to fix what was wrong instead of having a fixed strategy. This has been once and again proved by times when the censors have allowed an increase in the entrance of foreign productions, and the increase in box-office the Chinese market has had during those periods. Their correlation is inevitable. The increase in foreign film decreases the share the domestic films have in the box-office, but it increases their revenues by increasing the total number of moviegoers.

The first conclusion is that what has been critical in the increase of the latest box-office are the policies of the government that have pushed the GDP per capita up throughout the whole country, getting people out of poverty, especially in rural areas. It could be said therefore that the positioning of the Chinese film industry as one of the most successful in the world is due more as a consequence of this enormous market that has appeared once the average Chinese person is shifting towards a middle class and spending more and more in entertainment. The increase in the living standards, altogether with the migration to urban centers and to the eastern part of China makes people climb in the Maslow pyramid of needs. This change, and the already huge population the country has, allows for a boom in the market other countries could not even dream of. Nowadays, the change is represented in the incremental creation of cinema chains and projection screens throughout the whole country. However, the truth is, China is able to absorb even more screens, and the habitants-per-screen ratio is still very high compared to other more modernized countries, which means that if this trend goes on, China's film industry could easily double its size in just some years.

This brings us to the second conclusion, which is one that a little detail in the mass-creation of these cinema chains has boosted in its own way: the cinema which is consumed in China is almost totally mainstream cinema. These cinema chains are focused on that type of films and small or alternative cinemas are almost nonexistent. However, there are niches and the trend of small avant-garde films has not disappeared yet, giving China its value as an art creator. These films are produced by other hundreds of little studios throughout the whole country, which tend to focus on the artistic aspect as a way to differentiate their product and compete with studios who are able to invest much more money in a single picture than them.

This reinforced the need of an alternative way of making films in China and another trend apart from the newest main-melody blockbusters that have flooded the billboards keeps making its way. These are the small artsy films, which now no longer need to recur to censorship: the Chinese film arena is too crowded to restrict further visibility to the films, and the need to go overseas is a reality from the beginning for them. Although Chinese cinema is not going through the international festival craze that happened in the 1990s, a number of Chinese films still appear in each film festival, where the variety they offer is a precious good. However, in order for these films to fully swim in international seas, some last steps are yet needed in the structural overhaul, and the management of exports is begging for it.

Lastly, the role of censorship in the history of China has had more to do with economic strategy than with politics or ideology. Nowadays and with the creation of numerous agreements that have reduced the trade barriers, like the integration of China in the WTO, censorship is the main protectionist instrument that the country has left. The WTO cannot change the censorship each country has, and therefore, China can choose to ban a certain number of films with its vague censorship guidelines in order to protect the home production.

As it has been seen in the directors of the fifth and sixth generation, the economic role of the censorship has worked both ways. The banning of the films from these filmmakers in mainland China forced them to get overseas investors, who paid for larger productions that Chinese studios could ever afford. Filmmakers started soon making the controversy against China their own signature films, by introducing themes they explicitly knew would be banned from home, which would forcibly open doors for overseas markets.

China has the best protectionist measure of all, which in economic theory is called a strong cultural discount. Chinese culture strongly differs from the American one and it is because of that that when both goods have the same quality Chinese viewers will prefer Chinese films than American ones. This would allow the Chinese

film market to open to foreign films to increase the total number of moviegoers because of the variety, while keeping the leadership of it.

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## **Chapter 10 – Filmography**

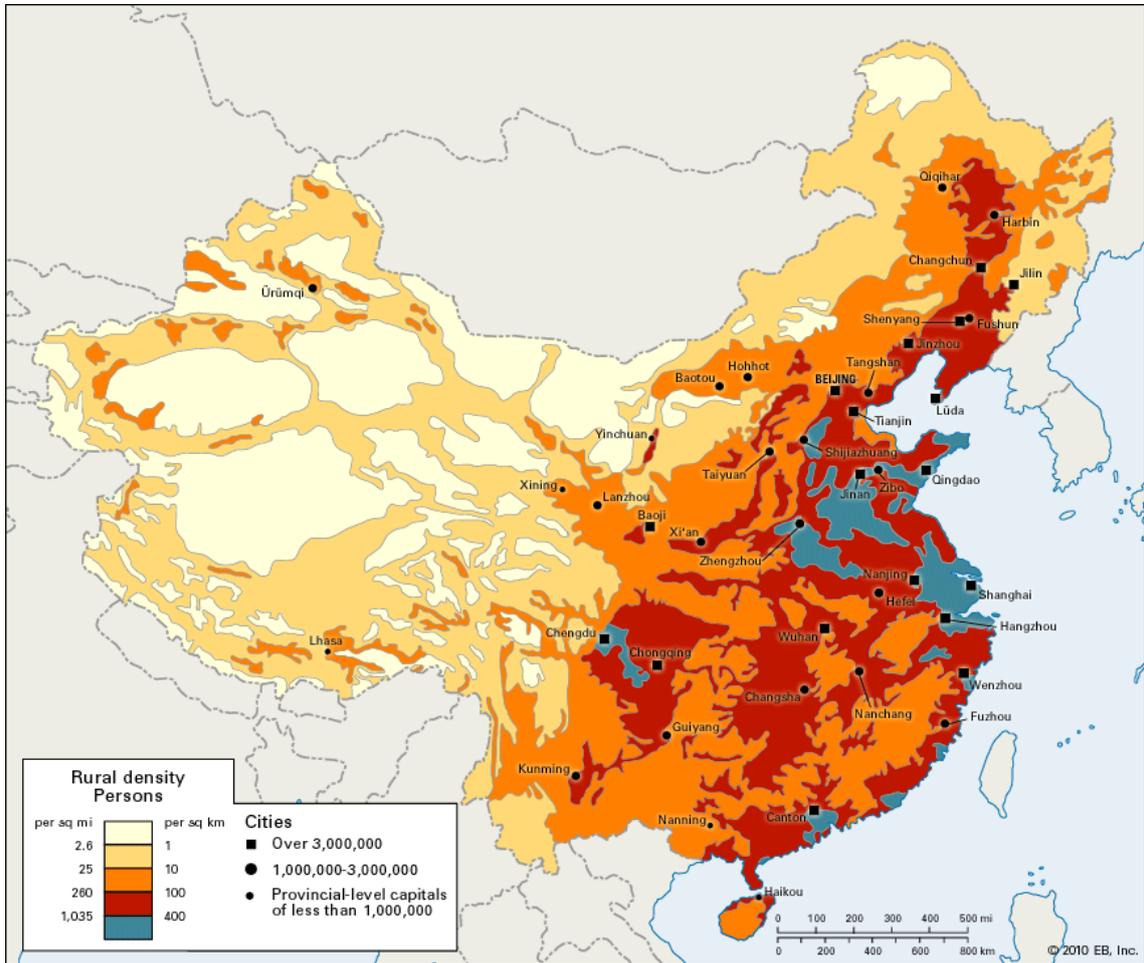
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Yimou, Zhang. 2004. "*House of Flying Daggers*". Coproduction China-Hong-Kong;  
Edko Films / Zhang Yimou Studio Production / Beijing New Picture Film Co.

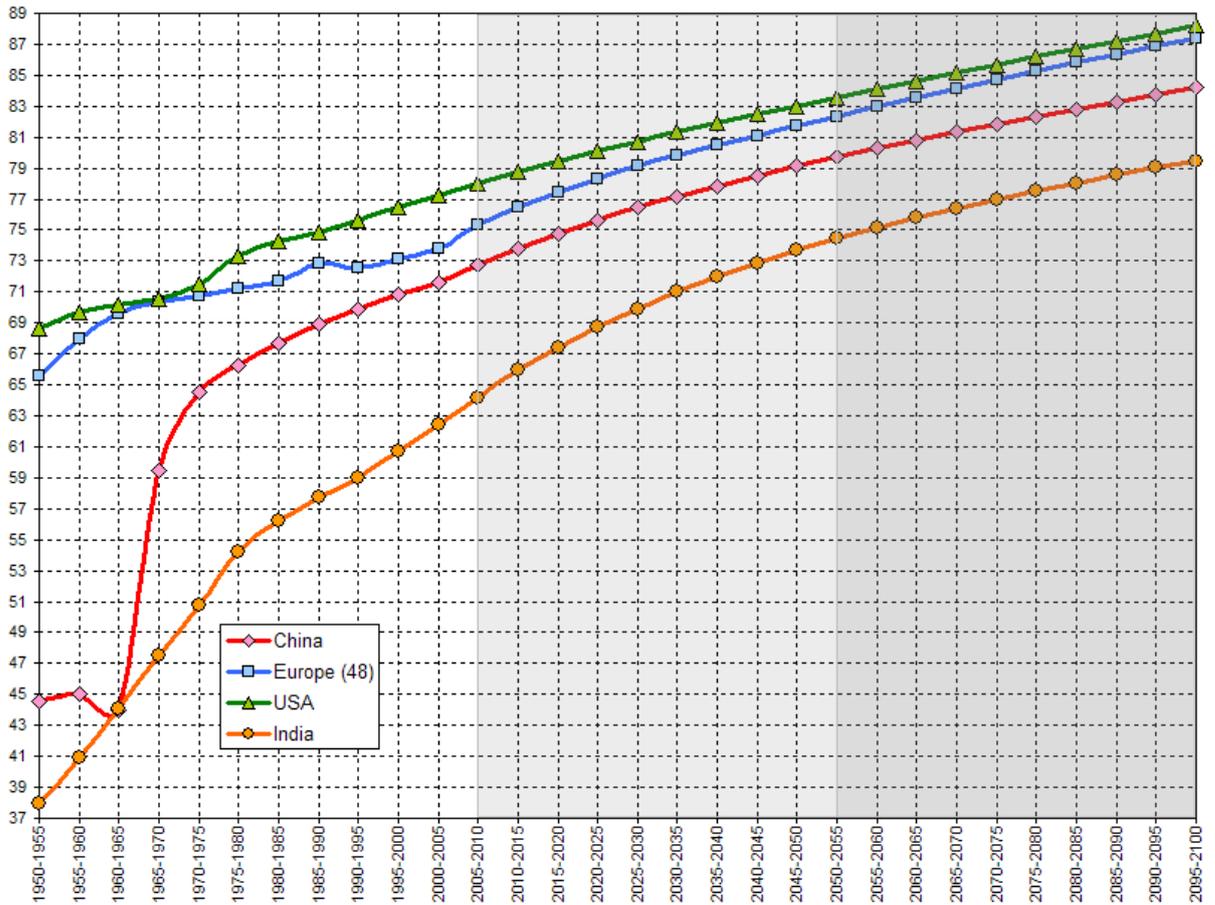
# ANNEX

## Annex 1



**Source:** Britannica Online For Kids. *China: population density.* Encyclopedia Britannica, Inc. Retrieved from <http://kids.britannica.com/comptons/art-143477> (26/05/2016)

## Annex 2

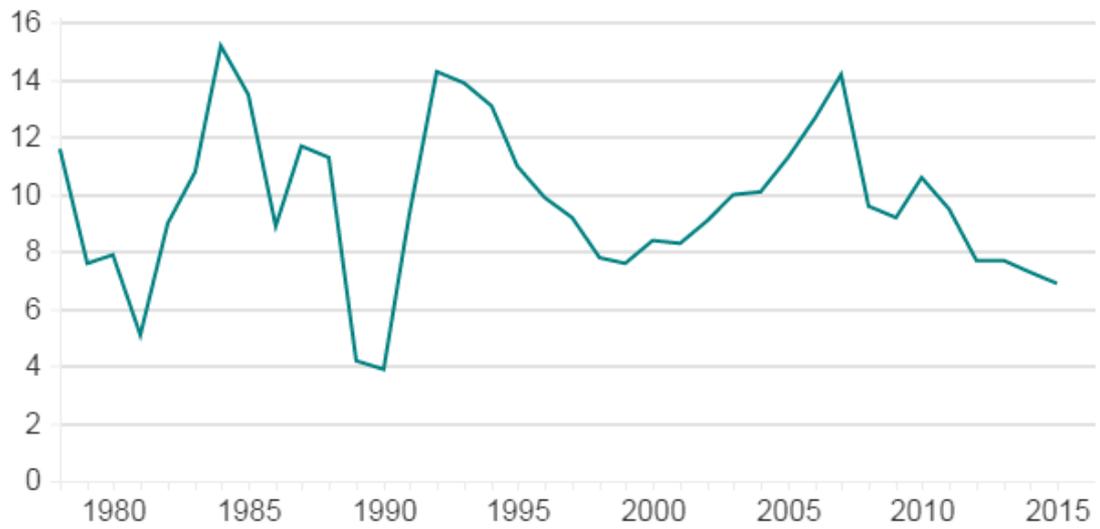


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### Annex 3

#### China's GDP growth rate

%, inflation-adjusted



Source: National Bureau of Statistics of China



Source: National Bureau of Statistics of China

#### Annex 4

Year	Total output of films
1979	67
1980	84
1981	106
1982	117
1983	133
1984	144
1985	126
1986	151
1987	144
1988	153
1989	129
1990	133
1991	124
1992	166
1993	154
1994	148
1995	146
1996	110
1997	85
1998	82
1999	99
2000	83
2001	80
2002	100
2003	140
2004	212
2005	260
2006	330
2007	402
2008	406
2009	456
2010	526

**Sources:**

Zhang, Yingjin (2004), *Chinese National Cinema*. Abingdon, Routledge.

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## Annex 6

### List of films that appear in the study

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