China

China’s M&E industry is on track to reach $219.4 billion by 2018. China has the second largest economy in the world, powered by state-owned enterprises (67 are listed on the Fortune Global 500). The population of 1.3 billion has more than 600 million Internet users and 500 million mobile Internet users. Wifi is widespread and free, but free speech is curtailed and Internet sites are monitored and blocked for offensive content. China’s growing affluent middle class is seeking quality and diversity of entertainment products and services. The government has put its weight behind promoting culture, and is building movie theaters at a furious pace, now standing at 23,600 screens (compared to 40,000 in the United States) and more than 3,700 theaters and growing and with an estimated 60 million movie goers, there are excellent M&E growth opportunities in the world’s most populous country.

China ranks second on ITA’s list of top M&E export markets by sheer size. China offers a powerful, large market place and the government is making sure the entertainment industry is rising to the challenge to match global markets and offerings for its vast consumer base. However, trade barriers such as content restrictions and rules for Chinese ownership limit how U.S. exporters can access and trade in this market, hence it ranks second. U.S. film producers and distributors can enter coproduction agreements or other entrusted production agreements to bring U.S. content to film and TV viewers, both in theaters and online.

The music industry is also growing, and is equally challenging to enter due to regulatory restrictions and state mandated censorship approval. Demand for Western music, while popular (especially American music) has not developed to the same degree as K-pop (Korean pop music), and Chinese opera and other local content is still very dominant in the Chinese marketplace.

The games sector is also booming, and both digital console and online games are facing robust growth in the next five years, presenting excellent opportunities for U.S. exporters who would like to enter the marketplace with a Chinese partner. With 13 percent of

Figure 8: Media and Entertainment in China (2014-2018)

* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018
the world’s global mobile revenues, a new trend has emerged with games spreading due to the popularity of mobile chat apps. Piracy plagues China and both nations are working to improve copyright and IP protections.

Overview of M&E Market

China’s M&E market is growing faster than the overall economy as the government has strategically invested in M&E and the growing middle class consumer base can afford to spend on entertainment. The Chinese government has emphasized training in the Chinese M&E industry and has increasingly made capital available to the cultural and entertainment sectors, while cautiously allowing foreigners to invest, such as for example creating an M&E investment fund in collaboration with Singapore and a media project with U.S. media conglomerate Time Warner, to note just one example.

In addition, both governments view this industry focus as a “soft power” tool in a five year plan to grow the domestic industry and increase China’s global influence, as well as their image abroad. There is high demand for mobile games, film, and Internet use, and some experts advise new exporters to start investing in second or third-tier cities that have established international business ties and active ports before venturing to the capital and so-called first-tier cities like Beijing and Shanghai that are more competitive.

Opportunities for U.S. Companies (by Sector)

Filmed Entertainment

China’s filmed entertainment sector is expected to grow 13 percent by 2018, to reach $7 billion, almost doubling from $3.8 billion in 2013. This is due to China’s policies to stimulate the sector, build its domestic movie production and digital theaters and expand the role of co-productions, as well as addressing their quota system and increasing revenue sharing imports. According to official statistics released by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT), box office receipts increased 36.1 percent to $4.6 billion by year end 2014, and 54.5 percent of it was generated by Chinese films. Chinese screens increased by more than 5,000 in 2014, compared to only 100 a year in the United States since 2010.

China boasts the second largest theatrical market worldwide after the United States, and box office revenues are on a meteoric rise and are expected to reach $90 billion (13.5 percent) by 2018. This is a main driver for the sector.

In 2015, foreign films had a 45.5 percent market share, in large part due to the success of the U.S. blockbuster Transformers: Age of Extinction, and 67 foreign films were released in China in 2014. Thirty-three of those were released on a flat-fee basis and 34 on revenue-sharing basis, meeting the full quota of films. The U.S. – China film deal of 2012 allows for 14 additional movie imports of new format films in 3D or animation on a revenue sharing basis. China’s overall import quota on revenue sharing basis now stands at 34 films annually for all countries. Co-production is gaining in popularity, and several major Hollywood studios as well as indie film makers engage in these deals with China.

Whether importing or co-producing, foreign firms interested in working with China will have to understand how to address SAPPRFT regulations for the industry, including cultural and content restrictions, and garnering data and earnings from unclear box office reporting. There are two major modes of co-production in China: joint production (collaboration) or assisted production (entrusted production). Joint production, or “co-pro,” is considered a domestic film and not subject to the quota, and will also be at least 51 percent Chinese-owned. In an entrusted production agreement, the foreign party puts up 100 percent of the capital; the Chinese side produces the film, but it counts as a foreign film under the import quota.

U.S. exporters and licensors also face a marketplace with widespread piracy of creative content, and are advised to conduct a cost-benefit assessment prior to entering the market. The Department of Commerce offers IPR resources specific to the China market, available on www.stopfakes.com. In addition, the China Film Group controls distribution of imported movies and investors will have to either use a joint partnership or hire U.S. or local experts to help maneuver the bureaucracy. It is a must to speak Chinese or have a local representative who is fluent in Chinese (Mandarin on the mainland) when doing business in China.

U.S. producers and exporters will compete for the online generation in China with the “BATs,” namely the three Internet giants in China: Baidu, Alibaba, and Tencent, which have all moved into film production. Dalian Wanda Group, China’s largest cinema owner, which acquired U.S. AMC in 2012, is building a movie studio to rival Hollywood studios in Qingdao, a major...
port city in eastern China, with a $160 million fund to attract producers. The studio is set to open in 2016 with a theme park, film museum, wax museum and a colossal film studio.

China has the largest cable market in the world with 216 million cable TV subscribers. Via the media giants TenCent, Baidu, LeTV and Youku Tudou, Through-TV-subscription revenues are projected to reach $390 million in revenues by 2018, up from $238 million in 2014 (10.4 percent). Electronic home video is expected to reach $340 million (18.4 percent), driven by smartphone and mobile expansion. OTT and streaming will grow at a whopping 31.5 percent from $102 million to $402 million during 2013-2018, and China is the largest IPTV market in the world, yet this sector is also under siege from piracy.

Effective April 1, 2015, SAPPRFT requires foreign films and TV series to register for a “publication license” in order to show content and stream online. Imported TV series also have to be reviewed by China’s censorship authority in their entirety before streaming on the Internet. This will have a huge impact on weekly shows. Programs that were not registered by March 31 will be removed from VOD platforms. Finally, a recent 30 percent limit on foreign TV shows and films has been implemented, creating challenges for U.S. industry and raising questions in the context of the 2012 film agreement which promised to make the process of importing films easier and more transparent.

Music
China’s $714 million (2013) music market is dominated by local content and is expected to reach $1.08 billion in 2018 (8.6 percent). Of this, recorded music will grow 9 percent to reach $810 million, led by digital revenues and mobile devices. By 2009, digital had substantially surpassed physical recorded music and in 2013, the ratio was $506 million digital to $21 million in physical revenues. This is expected to expand to a ratio of 80:1 or $800 million digital and only $10 million physical recorded music revenues by 2018.

In contrast to most music markets or any of the top markets in this report, mobile is king at $663 million, dwarfing both streaming services ($54 million in 2013, expected to reach $119 million by 2018) and legal downloads which will grow from $12 to $18 million during 2013-2018. The live music market is growing and reached $188 million in 2013, and should expand to $268 million in 2018, presenting performance and touring opportunities for bands that are able to connect with state and festival organizers for a slot for foreign entertainers.

Piracy of creative content is a very significant problem. In 2012, USTR reported that 99 percent of music downloads constituted illegal file sharing in its annual Special 301 Report, where China remains on the Priority Watch List of countries with the most rampant piracy rates.

Games
China has the second largest video game market in the world after the United States, with Japan coming in third. The Chinese games sector posted $8.8 billion in revenues in 2013, and should grow to $12.3 billion in 2018. Recently, China ended the ban on the sale of game consoles such as Xbox and PlayStation, but circumvention devices are proliferating, presenting challenges for new and existing entrants to that market segment. Roughly 345 million Chinese play online games (close to the size of the entire U.S. population), which accounts for the bulk of the industry revenues, and has spurred growth in Internet services revenues. The marketplace consists of 65 percent online client gamers, 16 percent browser gamers, and 4 percent PC gamers. The sector will generate game-related ad revenues of $371 million by 2018 (14.7 percent).

Challenges Facing U.S. M&E Exporters

China remains on the U.S. Special 301 Priority Watch List for IPR due to heavy piracy, especially online, on mobile devices, and from the proliferation of media or set-top box piracy. Rogue manufacturers can access, pre-load, and store unauthorized content, including pay TV, movies, music, and games and sell them (cheaply) to users who seek access to premium content without paying subscription or market prices. Consumers can also download content from a multitude of illegal sites, onto set-top boxes or other devices. The set-top boxes are sold all over Asia, including markets where much of the content is not even legally licensed, creating deep losses to rights owners and M&E firms. Pay-TV and signal theft is also on the rise, and illegal camcording of movies in theaters is widespread.
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