Executive Summary and Findings

This first-of-its-kind Media and Entertainment Top Markets Report projects export opportunities to six countries through 2018: Brazil, Canada, China, India, Mexico, and the United Kingdom (in alphabetic order). An additional 19 markets were evaluated in order to develop this report. The report is designed to highlight opportunities for U.S. exporters and note important trends in licensing in the Media & Entertainment sector. The report also identifies trends in the rapidly evolving digital media and entertainment industry in the United States. It also analyzes the continued growth of the industry in select global markets, the drivers of future export competitiveness, and the impact of intellectual property policies and piracy on growth. The report focuses on three sub-sectors in the field of media and entertainment: filmed entertainment, music, and games, with an emphasis on digital media and licensing, and to a lesser degree the physical marketplace and product exports.

The U.S. media and entertainment (M&E) industry is the world’s largest, expected to be valued at $723 billion by 2018 – up from $598 billion in 2014. As a marketplace, the United States is larger than Asia, Europe, Latin America, or the Middle East-North Africa for media and entertainment. The U.S. M&E industry is concentrated on the two coasts: in the greater Los Angeles community, and in New York City, with regional hubs for each sub-sector.

The film industry boasts a trade surplus, and the U.S. filmed entertainment hubs are in Hollywood and Los Angeles, California and New York City, New York, with a cluster of smaller hubs across several states that specialize in production facilities, filming incentives (for both domestic and foreign firms), and hubs for sub-sectors that produce film, TV, or digital streaming content. U.S. box office revenues declined during 2010-2011, but have seen a slow uptick in the following years.

During the years 2014-2017, box office revenues are projected to grow only 3.3 percent on average each year and growth is expected to decline in 2018 with only a 2 percent increase. This shift has to do with the change from physical to digital, competition from multiple viewing devices and the convenience of watching movies anywhere, available to consumers 24/7, as well as increases in ticket prices, fewer films being released, and a reliance on the development of movie franchises around blockbusters rather than new movies. Financing is a key challenge to making a movie and typically has to be secured prior to preproduction with guarantees for reasonable returns. Funding has become increasingly difficult to secure and there is high risk associated with film production and distribution.

Despite slower growth at the U.S. box office (which still garners the highest revenues worldwide), U.S. movie studios are doing very well and the major studios as well as larger independent studios are earning billions of dollars in global box offices, underscoring excellent opportunities for global export and licensing. This includes independents although they do not have the same resources as multinational media firms or the six Motion Picture Association of America (MPAA) member studios.

In certain circumstances, however, the independents have a competitive advantage in being smaller and therefore more nimble, with the ability to react swiftly to market conditions, and many smaller film producers and studios offer specialty or niche skills, including in new formats such as animation. In addition, the major

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**Figure 1: Projected 25 Top Markets for Media and Entertainment Exports 2015-2018**

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*U.S. Department of Commerce, International Trade Administration*
studios often outsource or hire smaller, independent companies for special projects for these reasons. Indies often collaborate with majors and distribution is frequently done through large corporations. Major music hubs are concentrated in Los Angeles, New York City, Nashville, and Miami. While NYC and LA represent the industry broadly, Nashville’s music industry is centered on the country genre, while Miami’s industry is centered on Latin, Electronic Dance Music, and Hip-Hop. The U.S. music industry declined by 7 percent from 2009-2010, and experienced a small uptick in 2011, only to decline again from 2011 to 2012. In 2014, the industry began to grow again, but growth is tenuous in the U.S. marketplace.

This is due to the shift from a physical record and CD marketplace to digital distribution, as well as the early market dominance of iTunes, and later YouTube, both of whom have launched many artists, although YouTube does not necessarily yield high returns on play; the monetization model has to be managed in order to generate a substantial income. There is currently a major debate in the industry about how the tech versus creative and music sectors are engaging and supporting growth in the music industry, although this report does not address this matter. Add illegal file sharing to the challenges in the digital marketplace, and small businesses, artists and labels are left with lower earnings. Music publishers however, are in some instances less affected by piracy, when they represent catalogues of music or licensing to major distributors.

Monetization in the digital era continues to be very challenging, even for the best-known artists, and it’s all about scale. Touring and synch licensing (i.e. licensing music to film, advertising, airline entertainment services and more), along with diversification and added merchandise (“merch”) provides a basket of opportunities for the industry. Many artists are still discovered via terrestrial radio play, while yet many others are debating how lucrative it is to be represented on streaming services or social networks and other online platforms. Music labels are increasingly challenged to create value in a marketplace plagued by piracy, and music publishers are increasingly challenged to collect royalties and create opportunities for songwriters or copyright owners in their portfolio.

The U.S. games sector is witnessing a high-growth period, and constitutes big industry in the North-West corridor of the United States, with California and Washington leading the way, followed by Texas and New York, with major game developer hubs in Massachusetts, Illinois, Florida, Oregon, Colorado and Pennsylvania. The international market place is ablaze with opportunities to sell digital games across multiple platforms, including digital console, digital PC, mobile and online games, whereas physical PC games are in decline worldwide (but still earning good money even as demand shrinks from the hey-days of physical gaming). Some markets are seeing massive increases in digital console games, and the most popular ones in the United States are PlayStation Now, OnLive, and Nvidia Grid, although some reports indicate consumers are not ready for the expensive digital prices and still prefer physical copies which can be resold. As with the publishing industry, some consumers still prefer to hold a physical copy in their hands, although most industry experts agree that the convenience of the digital download is poised to overtake physical in the very near future.

Consumers, especially millennials, or ‘digital natives’ (those aged 14 to 30), are strongly influencing M&E industry trends worldwide. According to Deloitte Consulting’s U.S. Media & Entertainment Leader "more than 90 percent of millennials are typically engaged in four different activities when in front of the television." These consumers expect to access video content 24/7 and are less dependent on TV subscriptions, and when watching a TV show, are typically also simultaneously on social media, sending text messages, listening to music or playing video games. This is affecting the attention span of consumers, and spurring desire for individual channels online, and the desire for tablets, smart phones and technology with easy and swift interfaces.

**International Trends**

**Global M&E Markets**

Demonstrating major contributions of uniquely American culture, the United States boasts the largest global share of M&E earnings for film, music and games (as well as publishing). By 2016, China will become the second largest market, followed by Japan, Germany, and the United Kingdom.

**China**

America’s entertainment revenues are 3.3 times larger than China’s and with a fraction of the population. China’s M&E growth is principally led by advances in Internet advertisements and Internet access. The Chinese industry is strongly trending towards digital, and 65 percent of the growth in global entertainment...
and media revenues, or roughly two of every three extra dollars, will come from digital consumer advertising, to the tune of $157B of total M&E revenues by 2018. These figures include revenues from a broad set of physical and digital sales across media and entertainment sub-sectors. By sheer volume, China stands to offer a promising consumer market for foreign investors. However, regulations hinder free trade and the market place is still adjusting to pressure from trading partners to open up more.

Top Markets

United Kingdom
The United Kingdom landed on the top export spot in this report as it is one of the largest and more robust M&E marketplaces with steady, reliable growth, relatively fewer trade barriers, and as an English speaking country, easy for American exporters to navigate.

China
China came in second and may have come in first due to the sheer size of the market and market potential, were it not for the fact there are serious market access barriers due to censorship rules on cultural content sectors, including Internet, TV, film, music, radio, text messaging, games, newspapers, books, and print media, significant import restrictions, joint projects that have foreign direct investment (FDI) caps, and co-production requirements for Sino-foreign partnership which renders the final product or service [i.e. film] more than 50 percent Chinese.

Canada
Canada ranked as the third top market given the size of the market, the long standing and significant trade relationship and, the close proximity to the United States, as well as a well-developed professional sector that makes trading easier and more efficient for U.S. exporters, although there are also trade barriers for American businesses in Canada.

Brazil
Ranked number four, Brazil is one of the most desirable markets presently for U.S. M&E firms. This is also a large and growing marketplace, with remarkably difficult business practices. It was chosen despite numerous trade barriers and very high taxation on foreign M&E sectors, because Americans wish to trade in this market and U.S. content and industry know-how is in very high demand.

Figure 2: Top Ten Entertainment Trends for the 21st Century

1. New digital technologies will reshape the economics, production, distribution, and marketing of the entertainment industry.
2. Traditional media enterprises must learn to adapt new Internet and computer technologies to maintain competitiveness.
3. The convergence of the Net with TVs, telephones, kiosks, autos, and wireless devices will create many new media channels.
4. On-demand interactive entertainment content that is personalized for our preferences will be a standard feature.
5. Advanced virtual reality bundled with digital agents and holographic entertainment worlds will transform our experience of entertainment.
6. Movie theaters will receive digital broadcasts and satellite downloads of movies, video conferencing, and other interactive programming.
7. Faster, smarter and more powerful multimedia communications devices will enhance our capacity for producing and distributing entertainment.
8. Digital TV will provide new programs where we will experience real-time participation with the media content, personalities, and shows.
9. Edutainment, the merger of entertainment and education, will offer a new genre of programming that will be greatly in demand.
10. Nontraditional entertainment producers, empowered by Power Tools, will change the industry, offering new products, channels, and innovations.

*Institute of Global Futures
India
In the fifth slot, India offers a growing middle class of high-tech savvy consumers and a new president who has promised to grow innovation sectors. This is also a very challenging marketplace, with trade barriers and high piracy threats, and uncertain implementation of laws that govern the M&E sectors.

Mexico
The final top market is Mexico, which has a booming M&E sector and in addition to being America’s immediate neighbor, is the second largest media market in Latin America. As a developing economy, there are many challenges for U.S. businesses, but for early adopters and Spanish language content, there is a lot of opportunity, especially on TV and streaming sites.

The strong U.S. export base in the M&E sector is buoyed by the presence of a growing, vibrant, and platform-diverse international market in which to sell. The global M&E industry is expected to reach $2.3 trillion by 2018. Global industry growth is expected from emerging markets in Latin America, Asia, the Middle East, and Russia. The six top markets were identified for current M&E export growth opportunities although there are many opportunities in other markets. Utilizing a methodology that relied on analysis of revenue growth across multiple M&E sectors, trade policy and piracy, these markets came out on top.

The International Trade Administration works to assist the creative content sector with specific export and licensing goals, and can tailor export projects according to expansion and global plans of businesses in foreign markets. The agency also advocates for U.S. business in global trade negotiations, and for M&E sectors, to ensure robust intellectual property laws and addresses regulatory matters of the utmost importance to U.S. exporters and licensors. While regulations vary widely and sometimes present major trade barriers, distribution is easier than ever and American exporters are well advised to position themselves in these top markets for partnerships, to achieve greater exposure and access.

Consumers are demanding an experience and wish to interact and connect with content and creators. Services are always on, which requires technical agility from companies in this field. Experts point to similar trends across the globe, captured nicely in the ‘top ten’ by the Institute of Global Futures in Figure 2.

Digital Media
One clear trend dominates every media marketplace in 2015; the consumer as a key player and influencer in the digital economy – a trend that ITA anticipates will strengthen greatly through 2018. In today’s business practices amongst leading M&E conglomerates, CEOs and top management follow (young) consumers closely before devising strategic plans and assigning marketing budgets, as consumers are setting trends, producing and disseminating entertainment content, and in some cases, directly competing with professional content production and dissemination, while wielding influence online through the use of social networks. Most M&E executives will agree the role of the consumer has changed from a passive listener or viewer to an active participant in the entertainment sphere, and their ability to impact businesses cannot be ignored or understated.

However, experts say that consumers are not spending at the rate they are using or consuming digital media, underscoring the fact that Internet access is currently a key feature in the growth of digital M&E, rather than consumer spending on digital content. In other words, consumers actively listen to or view a high volume of free (legal) digital media, but they do not purchase it at the same rate. Additionally, volumes of other

Figure 3: Consumers Supplement Traditional Entertainment with Social Media and Use it to Connect to New Entertainment*

*According to the report THR’s Social Media Poll: How Facebook and Twitter Impact the Entertainment Industry, 88% of consumers increasingly use Facebook and Twitter to supplement traditional entertainment experiences. Within the study, it was found that consumers spend more time on social media platforms on a weekly basis than watching TV, viewing films, or finding clips on YouTube; even more than listening to music and texting. Even when people are watching TV or films, they are also on social media. The platforms act as a sort of connective tissue allowing consumers to multitask during their entertainment experience."

consumers are illegally downloading, camcording, or otherwise accessing content without paying for it, creating an imbalance for the business community. According to interviews posted in the PwC Outlook report, a global M&E CEO noted that the cost of Internet access could take away from consumer spending on content and services, potentially limiting U.S. M&E exports in the future, or at least creating a weakness for the industry market place.

With the expansion of broadband Internet service, social networking sites have gained significant importance for M&E sectors in advertising, branding, generating consumer awareness, and building new customers. Digital and online advertising was fueled by this sector, as companies learned to target segments and consumers, and were able to measure impact immediately.

The social network industry is comprised of social network website publishers and developers and is expected to reach $11 billion in 2014, with an annual growth rate of 25 percent. The industry employs more than 66,000 across more than 5,600 businesses in the United States, according to market research company IBIS World. Facebook, Instagram, LinkedIn, and Twitter are leading the charge.

Global Digital Marketing

Despite tremendous growth in online advertisement, television will still serve as the largest advertising medium by 2018, although Internet advertising is poised to take over by 2019 as it is expected to grow 10.7 percent over the next five years, narrowing the gap between traditional TV and online streaming, and signaling a sea change for the M&E industry, according to analysts at PricewaterhouseCoopers (PwC).

Global Film & Digital TV

Global filmed entertainment revenues will surpass $100 billion in 2017 to reach $118 billion by 2018 at a 4.5 percent growth rate. Box office will grow 4.9 percent in the years leading up to 2018 while physical home video (i.e. DVD and blue ray rentals and sales) will decline 4.8 percent, and digital home video (i.e. over-the-top (OTT), streaming and video on demand) will grow 19 percent, surpassing physical in 2018. By the end of 2015 the world’s movie theaters will have fully converted to digital screens, marking the end of 35mm film distribution.

Combined with the upwards trending of OTT and streaming services which are expected to grow 28.1 percent globally during the five year period studied here, broadcast television and filmed entertainment has been transformed in to a digital sector led by HBO, Hulu, and Netflix and many new entrants to the marketplace. In addition, pay TV, VoD and IPTV are popular in many markets, and consumers have an array of sources to view content on and devices to download or stream content to for viewing. Filmed entertainment is pushing the non-digital consumer M&E market towards digital models.

Global Music

Global music sales will grow 1.2 percent, leading up to 2018, with much higher growth rates in digital music streaming (13.4 percent), and declining growth in recorded music (0.8 percent) and physical (-8 percent) music worldwide; with the exception of physical music growth in France (0.9 percent) and South Korea (2.3 percent). Live music will grow 2.7 percent during the same period, and emerging economies such as Brazil (6.3 percent) and Indonesia (8 percent) have become popular live music destinations. These figures do not show the wide variation in growth trends by country and segment, but do demonstrate the general struggle for the industry to capture a larger slice of market share, and growth of digital over physical music.

In emerging markets led by Nigeria (21 percent), Malaysia (10 percent) and China (8.5 percent,) the mobile music industry will grow due to the increase in affordable mobile phones. Digital music surpassed physical sales globally in 2014, and with the industry shift to digital from physical production and distribution, music is increasingly licensed digitally or online, although physical content is still in demand. The trend is the same with the other M&E sectors, although at a slower pace due to a combination of factors such as consumer demand, Internet access, production costs, and the regulatory environment in various countries that controls how media is handled in domestic markets and in cross-border transactions.

Global Games

Global video games will experience robust growth at 6.2 percent during the research period through 2018, and as with the other sectors, is set to experience a marked difference in digital versus physical games distribution with variations across regions. Games are one of the fastest growing M&E sectors worldwide.
Ranked by revenues and growth rates, the United States has the largest video game market, followed by China, Japan, South Korea, and the United Kingdom, France and Germany.

Nintendo (Japan) ranked as the top game publisher in 2014 according to Metacritic\(^5\). The second largest game publisher in the world is a French multinational company, Ubisoft, which developed the famous Assassin’s Creed, Raving Rabbids, Just Dance, and Game of Thrones that are extremely popular in the United States.\(^6\) The top global game distributors by revenues are Ten Cent (China), Sony (Japan), Microsoft (USA), Electronic Arts or EA Games (USA), Activision Blizzard (USA), Apple (USA), Google (USA), King Digital Entertainment (UK), which is the largest game developer for Facebook and the creator of Candy Crush Saga, followed by Nintendo and Ubisoft.

Smartphone sales have spurred gameplay on mobile, and new features have enabled consoles to be viewed more as a piece of the living room furniture, such as X-Box One, spurring growth in console games as it appeals to a broader demographic, is used more frequently, and stays around longer than prior generations of consoles. Social games, such as Candy Crush Saga (U.S.) and Dragons (Asia) are very popular, but hard to monetize as consumers want to play for free. Increased broadband access is facilitating online console game growth; yet micro transactions are facilitating growth in online gaming. Mobile and PC online games are leading growth in the sector, and some question whether Microsoft and Sony will retain their leadership. Consulting firm DFC Intelligence estimates that 85 percent of the games industry will be digital by 2019\(^7\).

The Nature of U.S. M&E Licensing (i.e. Exporting Digital Content)

The global M&E industry has recently transformed to a digital content sector, revolutionized by the Internet and (mostly) 24-hour access, rapid broadband penetration, proliferation of mobile devices and smart phones, tablets and other consumption devices. Historically, physical media was produced and sold in hard copies or as masters, and music publishers, labels, film and TV studios, and game retailers made the bulk of their income from manufactured goods. Today, much of the physical product is available electronically or strictly produced and distributed digitally. For many small companies and artists, licensing of their content is a key method of earning revenues, including monetization of digital content. Therefore it is critical for businesses to protect their intellectual property, in order to adequately and fairly monetize the content for rightful owners and creators.

M&E executives acknowledge that consumers are the single most important decision maker determining and influencing trends at a rate previously never experienced by the industry, and any savvy exporter is well advised to capture consumer behavior and demand in a given market, in order to create the best licensing deal possible. It is also critical that a licensor has registered a copyright with both U.S. and foreign authorities (laws vary by country) and, for the music industry, that the two copyright holders (the composition and the sound recording owners) are properly registered with rights collecting bodies in order to fully capture and monetize all licensing deals\(^8\).

Digital content sectors are often referred to as intellectual property (IP) industries as much hinges on proving the rights to copyrighted materials and content that is licensed, distributed, file shared, streamed, or downloaded globally. Parties to a licensing contract agree to a set of rights and uses of specific IP, whether it is text, images, film, audio files or other content.

It can be challenging to track digital content in global markets, and businesses and industry trade associations are forming partnerships to identify and educate consumers of legitimate websites and sources for finding and downloading such content legally. A few examples include a listing of music discovery services (found on the Recording Industry Association of America’s (RIAA) website)\(^9\); a site dedicated to authorized digital music services; a partnership between the RIAA and the Music Biz Association\(^10\); and the Center for Copyright Information which offers educational resources for consumers and links to a one-stop site to access legitimate online platforms to rent, stream, or purchase movies and TV shows. \(^11\)

There are many reasons consumers engage in illegal file sharing, but chiefly it is either because 1) it is easy and a widespread practice, whether or not a consumer can afford to purchase digital content legally, and 2) because certain markets do not offer subscription services or they have heavy restrictions on legal access to a variety of content. Many consumers, especially in developing economies are frustrated that their country restricts creative content and M&E imports, including streaming and other services, creating a void in the market for legitimately available content. Restricting
cultural content can lead to increased piracy. Many consumers do not have reliable access to broadband, or simply cannot afford to pay for legitimate content online, and sometimes consumers opt to access the content illegally.

It is critical for all stakeholders, including creators, performers, businesses that sell and license M&E content, Internet service providers (ISP’s,) partner companies, government and enforcement bodies, law firms (who specialize in IPR and M&E sectors), and educational institutions, to collaborate to offer sound copyright advice that is clear and simple to understand, as well as educational tools for use in groups and universities to stem piracy and illegal file sharing early.

Enforcement bodies must play their part and rigorously enforce the laws that protect creative content. The U.S. Government (USG) advocates robust IPR policy and encourages trading partners to protect IP. Many educational resources are available to stakeholders, including StopFakes, a U.S. government portal, and the Special 301 Reports and other information on how creative content sectors are affected by copyright policies from the International Intellectual Property Alliance. All of the key trade associations for the filmed entertainment, music and games sectors offer information and resources regarding piracy in their respective industry segments, and ways in which to inform about the problem and solutions to minimize piracy. A list of some of the key associations can be found in the appendix.

Challenges Facing U.S. M&E Exports/Licensing

ITA suggests that policy-makers remain mindful of two challenges facing the M&E industry in the years ahead. In order for the industry to continue to grow, the M&E industry must monetize the digital consumer and protect copyrighted material. Both rely heavily on consumer education, access to legitimate content, income to purchase, reliable distribution, technology tools, enforcement of IP laws, cooperation between Internet service providers (ISPs), media corporations and trade associations representing industry, as well as global policy and enforcement cooperation. The USG will continue engagement with interagency and Congressional stakeholders as well as industry partners and trade associations and foreign trading partners to ensure broad discussion of the issues and to raise awareness.

Focus on Small and Medium Size Businesses (SMEs)

The USG represents U.S. business interests in global trade negotiations and multilateral fora such as the World Trade Organization, the Asia Pacific Economic Cooperation, and the Organization for Economic Development and Cooperation. The government plays a critical role in working with foreign governments to build favorable markets for business expansion and trade, and frequently collaborates with foreign trading partners to address known trade barriers. Our clients represent both large and major creative content businesses as well as SMEs, and Indies.

ITA is creating opportunities for SME and independent studios, labels, music publishers, producers, and distributors of creative content to meet legitimate buyers and secure licensing deals in global markets. ITA represents the industry in trade shows and on trade missions, and can support SME industry marketing campaigns, virtual trade fairs, webinars and market research to highlight opportunities in foreign markets and the value of U.S. content, using the Market Development Cooperator Program (MDCP), International Buyer Program (IBP) and trade specialists across the United States and in foreign markets. A list of additional services offered to U.S. businesses can be found at www.trade.gov.

ITA works closely with the trade associations representing different segments of the industry; as both the major and independent groups represent important parts of the U.S. economy; and both large and small or medium-sized business seek out and rely on export guidance and resources from the Commerce Department. That said, USG has a long standing working relationship with the key trade associations for M&E sectors (a select few are listed in the appendix), and works across all segments of industry.

Although this is not exclusively the case, the majors and the trade associations that represent them tend to collaborate more on the trade policy and regulatory side of export assistance with ITA, rather than export promotion and related activities that are more tailored to SMEs. The trade associations that represent Indies and smaller companies are of course equally vested and engaged in the policy debates.

In this report, the country studies outline specific challenges and trends in each of the six top markets leading up to 2018. Despite strong competition coupled with trade barriers that will stifle growth in certain
markets or industry sub-sectors as outlined in this report, the United States will nonetheless remain the global leader and is expected to increase its market size leading up to 2018 and beyond.

**Top Markets Methodology**

The M&E top markets study explores six markets and analyzes revenue growth projections over a five year period from 2013 to 2018; utilizing data and revenue projections principally from the 2014-2018 PwC Global Entertainment & Media Outlook, unless otherwise stated in the endnotes. Additional information sources in the report include trade association reports, U.S. Department of Commerce export data, management consulting industry guides, information garnered from meetings and export projects directly with industry partners and business leaders, financial news sources, and other industry publications.

ITAs domestic and global offices were consulted for industry, business and IPR insights in each of the six countries studied, as well as trends in the United States. The public report has been reviewed by a handful of industry experts, trade associations and other business partners who have experience with trade in M&E sectors and whom work closely with ITA on export project and trade policy. *This report is not an assessment of how foreign markets view their own cultural content industries, trends identified by foreign governments of their own markets, or how popular domestic content is in each country. ITA respects each market’s unique characteristics and analysis which may vary from research presented here.*

**Determining 25 Top Markets**

The report methodology includes an in-depth analysis of industry revenue growth and trends across three subsectors: filmed entertainment (which includes film and television), music, and video games, with an emphasis on digital expansion. Absent robust export data for each subsector, the 25 countries were ranked on growth, known or expected trade barriers, overall market conditions and the size of the population (with an eye towards consumer purchasing power,) the size of the M&E marketplace, piracy rates and the ability of governments to stem piracy, and regional comparisons to derive the robustness of a particular country against another in a given region. The list of 25 countries began with an early assessment of 36 markets, and from this research the six top markets were identified.

The country case studies, and rankings of the six top markets, are based on the following criteria:

- Export flows to the extent data is available and comparable across the top markets, including the historic trade relationship with the United States
- Copyright infringement and intellectual property rights readiness in each market
- Internet access and broadband penetration, and reliability as distribution channels
- Digital licensing and distribution growth potential
- Trade or market entry barriers including import quotas, cultural and content restrictions, withholding of box office receipt payouts and other payment matters, tax structures, foreign investment limits, unfair customs valuation, other protectionist measures, camcording, illegal file sharing, and piracy
- Other aspects of doing business in global markets, such as joint ventures, co-production, monetization, licensing requirements
- The overall trading environment, as well as infrastructure readiness and economic development
- Consolidation or convergence across M&E sectors
- Consumer behaviors and trends and the digital revolution, including growth of the middle class with purchasing power (especially in emerging markets).
- Ways in which the USG can support global licensing for creative content sectors

**Focus on Digital Growth**

The industry is strongly trending towards digital production, distribution and consumption, although some countries still have a strong physical market. In some countries physical piracy persists although with the global proliferation of smart phones and tablets, consumers are increasingly seeking digital content instead of VHS tapes or CDs. The digital approach was chosen as the industry, along with the high-tech and telecommunications sectors, is moving at a rapid pace and M&E sectors are expected to be especially affected by consumer demand for digital content and devices to access, view and share content on, new technology innovations, copyright laws and enforcement, Internet access and broadband penetration, pending trade agreements related to these sectors, and national laws and regulations in progress that may support trade and licensing deals. Also, there’s a good measure of convergence across the digital M&E subsectors.
**Determining Six Top Markets**

U.S. ME&E content, know-how, and business acumen are in high demand worldwide, partially witnessed by the desire of many foreign companies and artists to enter the U.S. market place, or as demonstrated by large scale joint ventures in foreign markets; and partially for the high-quality productions and the American brand. Hollywood, for example, is a place, a brand, a business center, and the creative hub of the global filmed entertainment industry, which evokes images of glamour, red carpets, and world class entertainment – both for American and foreign consumers and businesses. The United States also has the most open content market worldwide, or the least restricted from a trade perspective, although it is not always easy for foreign entrants to comprehend the varying State regulations in addition to Federal laws that governs licensing and business practices. On the other hand, U.S. content is sometimes shunned by markets that wish to protect or build their own robust M&E market place. The U.S. media and entertainment industry faces significant barriers in foreign markets, some of which will be discussed under each country case study.

To identify the top twenty five export markets, a list of 36 countries were reviewed, and an assessment was made of the following factors: the digital media landscape, growth in broadband or Internet access, box office revenues, TV and electronic home video subscriptions, over the top streaming (TV) services, digital music streaming and downloads, mobile music, physical music, video games on digital consoles, PCs,

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<th>Export &amp; Licensing Prospects</th>
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<tbody>
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<td>Strong Prospects</td>
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<td></td>
<td>7</td>
<td>France</td>
<td>Larger Market, Smaller Share</td>
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<td>Moderate Export Growth</td>
<td>8</td>
<td>Germany</td>
<td>Larger Market, Smaller Share</td>
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<td>9</td>
<td>Russia</td>
<td>Larger Market, Less Certain Growth</td>
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<td>15</td>
<td>Turkey</td>
<td>Smaller Market, Less Certain Growth</td>
</tr>
<tr>
<td>Less Certain Export Growth</td>
<td>16</td>
<td>South Africa</td>
<td>Smaller Market, Growing Share</td>
</tr>
<tr>
<td></td>
<td>17</td>
<td>Sweden</td>
<td>Smaller Market, Growing Share</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>Switzerland</td>
<td>Smaller Market, Smaller Share</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>Japan</td>
<td>Small to Larger, Moderate Growth</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>Argentina</td>
<td>Emerging Market, Less Certain Growth</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>Netherlands</td>
<td>Smaller Market, Growing Share</td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>Israel</td>
<td>Smaller Market, Growing Share</td>
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<td></td>
<td>23</td>
<td>Norway</td>
<td>Smaller Market, Growing Share</td>
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<tr>
<td></td>
<td>24</td>
<td>South Korea</td>
<td>Emerging Market, Growing Share</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>Singapore</td>
<td>Smaller Market, Less Certain Growth</td>
</tr>
</tbody>
</table>

*U.S. Department of Commerce, International Trade Administration
online, and mobile, as well as known trade barriers, piracy rates, and economic development factors across the 36 countries.

The list of 36 was then narrowed to 25, based on growth in one sub-sector but losses in others, and considering the current political environment making growth prospects more tenuous in an otherwise robust M&E market, such as for example in Russia. In other cases, the country’s entertainment sector and imports of M&E to said market, was found to be either too small or too nascent to warrant robust returns at this time for U.S. exporters who enjoy the largest and most relatively sophisticated domestic M&E marketplace in the world.

While arguably the last ten countries on the list of 25 (Figure 4) are largely considered sophisticated global players, the overall market is too small, too protected, or too young to yield returns in at least one significant subsector or more, compared to others on the list. Colombia, Italy, Nigeria, Spain and Turkey got listed ahead of the last ten on the list of 25, as they are each expected to experience good grow in one or more M&E sectors leading up to 2018. This does not automatically infer excellent export and licensing opportunities for U.S. companies, but with market conditions, size, and support from local government, there is a higher chance than otherwise, on the balance of the other considerations discussed in the methodology.

**Highlights from the Six Top Markets**

The six top markets identified here are located across the globe and found in Europe, North America, Asia and Africa. Four of the six top markets in this report are considered emerging economies with tremendous growth potential (in alphabetic order): Brazil, China, India, and Mexico, and two are more established economies with proven and arguably, more stable growth opportunities: Canada and the UK. While sales or export revenues may be higher in the developed markets, the growth rates may be exponentially higher in the emerging markets selected as top markets in this report.

Middle Eastern markets were eliminated in the early analysis, primarily due to the small size of the markets, of which several are just now developing their M&E sectors domestically, regardless of possible strong trade in other sectors. In addition, M&E content faces cultural barriers to content, sharia law, and other market access restrictions on investment and trade, that make it less attractive compared to other markets at this time for U.S. content providers. That said, many of these markets are eager to collaborate with U.S. media and entertainment companies, and it is possible there will be good opportunities to bring U.S. technology transfer, know-how, and skills to said markets and such deals could present another measure of M&E exporting, as these markets continue to evolve.

Argentina is experiencing good growth in M&E sectors, but has one of the most protectionist markets of U.S. trading partners, making it virtually impossible for U.S. exporters to rely on deals in that country at this time. Japan is also seeing solid growth and is a large M&E marketplace but it is expensive to do business there and American exporters, especially small companies, may opt for a less expensive market, such as Mexico.

The Nordics, such as Norway and Sweden, have experienced solid growth in digital music and streaming services, thanks in large part to developments that evolved in Sweden’s music industry, but the market size is relatively small compared to other export markets, and, these are very expensive countries in which to do business. France has a rich cultural history and interesting M&E trends along with a large M&E sector, yet the strong cultural values may create challenges for U.S. entrants. Language and copyright issues further complicate trade between U.S. and French M&E sectors, however, there is very strong desire for U.S. content and know-how in France, as there is in much of the world.

Australia is also a solid M&E marketplace, albeit a bit fragmented due to the size of the country. It is far from global distribution centers and from the United States, making it more challenging and possibly more costly for U.S. distributors and exporters to travel and ship M&E content and merch than to certain other countries.

Israel, Italy, Netherlands, and Spain are experienced trade partners but smaller markets, each with various trade barriers, but all very much interested in U.S. content, and thereby more likely export targets of the very large corporations or small firms with a unique genre or content particularly popular in those countries.

The more established markets in Europe, North America and Asia have larger markets but slower percentage growth compared to many developing economies; nonetheless, many represent billion dollar export and M&E revenue growth markets, and even where physical product is declining, there is still a large
market, such as for example the music industry in Japan.

**Filmed Entertainment**
Movie-going is extremely popular in emerging markets such as Brazil, China and India. Nigeria’s film industry is growing, but primarily in mobile and digital which some say may compromise on the quality of filmed entertainment, but, saves costs on physical space and equipment. Depending on the source consulted, all of the six top markets are amongst the top 10-20 countries in spending on movies worldwide.

Filmed entertainment is moving towards digital, streaming and satellite models, and movies as we knew it ten years ago will soon be a case for the history books. There are good growth trajectories in TV (joint-) production and licensing, especially for streaming content in all of six top markets. Many of the countries in the top 25 markets offer film incentives such as tax credits, in an effort to lure U.S. film production overseas, although smaller studios are advised to consider language, local players, infrastructure, professional labor, regulatory, cultural and other matters when filming in some emerging economies.

**Music**
The music industry is ever challenged to monetize and has good growth potential in several markets, but is persistently challenged by losses due to piracy, which are difficult to quantify, and by consumers who wish to listen to music on multiple devices for free. The industry is asking itself how it can compete with free.

Music intersects with technology and there is a tug and pull in the industry between the Internet and social media giants that promote and market music for free and streaming services that are criticized by some for not remunerating artists sufficiently, as witnessed in the high profile case where Taylor Swift dramatically withdrew her music from Spotify entirely, and varying regulatory environments that protect local creative content in the name of protecting culture and language at the expense of growth in the marketplace. There is a lot of volatility in the music sector and innovators are seeking the next big trend that will make money for this sector.

Mobile music has seen a spectacular fall in most markets, and no longer promises strong sales, although ringtones and ring back tones are still popular in some markets. Mobile music is on the decline in every market studied here, with the exception of China, the Netherlands, South Korea, and Turkey. It is hard to say if the mobile growth trends will sustain, other than in China and the Netherlands which reported very good growth trajectories, despite major growth in streaming or downloading music. However, mobile film and other production and use of mobile in entertainment sectors is on the rise worldwide.

**Video Games**
The game sector is growing dramatically in nearly every market and unless regulators decide to put the brakes on, the industry is set to take a bite out of global M&E revenues. Revenue growth for the video game industry is growing faster than the filmed entertainment and music sectors in North America, Asia Pacific, Latin America, Western Europe, and the Middle East-North Africa, although there are some variations by country. Only in Central and Eastern Europe does filmed entertainment lead over games, and only by a small margin. The games sector is expected to see very strong growth in the Eastern European markets as well.

**Observations on Intellectual Property & Copyright Industries**
All 25 markets are affected by serious content piracy, and many are rife with illegal music file sharing and camcording (i.e., illegal recording) in theaters, as well as a proliferation of set-top boxes with pirated content, especially, but not limited to, Asian markets.

Most of the markets reviewed here with the highest M&E revenues are also markets with extremely high piracy rates and are listed in the submissions by the International Intellectual Property Alliance, which represents more than 3,200 M&E industry companies, in connection with the Special 301 report by USTR. There appears to possibly be a correlation between piracy and growth, contrary to what one might imagine, as can be seen from the data used in this research provided by PwC and market analysis by the IIPA and other industry analysis.
If there is in fact a direct correlation, the reasons could be that the more companies and content enter a market, the more it is pirated or copied and dispersed, and the more the companies fight to maintain a legitimate market place. Another theory is that the more established, larger markets have historically enjoyed very robust physical sales and while they are transitioning to digital market places, they still lead in M&E revenues, despite high piracy rates. The gap between high physical sales and the increasing revenues from digital trade is expected to narrow over the next ten years.

Further information on the three subsectors and more in-depth industry analysis is offered elsewhere in this report.

**Figure 5: International Intellectual Property Alliance**

The IIPA is a private sector coalition, formed in 1984, of trade associations representing U.S. copyright-based industries working to improve international protection and enforcement of copyrighted materials and to open foreign markets closed by piracy and other market access barriers.

IIPA’s five member associations appear below, and represent over 3,200 U.S. companies producing and distributing materials protected by copyright laws throughout the world—computer and video games for video game consoles, personal computers, and the Internet; theatrical films, television programs, DVDs and home video and digital representations of audiovisual works; music, records, CDs, and audiocassettes; and fiction and non-fiction books, education instructional and assessment materials, and professional and scholarly journals, databases and software in all formats.

Members of the IIPA include Association of American Publishers, Entertainment Software Association, Independent Film & Television Alliance, Motion Picture Association of America, and Recording Industry Association of America.

The IIPA offers detailed explanation of M&E industry concerns in their 2015 Special 301 Report, available to the public.

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