Shanghai Animation Attracts Hollywood Investors

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The booming Chinese film industry has been attracting the attention of Hollywood investors looking to cooperate with mainland partners to cash in on the fastest growing film market in the world. Nowhere is this more evident than in Shanghai's animation industry, where companies such as Disney and DreamWorks are looking for a point of entry that allows for broader corporate expansion into China. Fueled by local Shanghai capital, this new wave of transnational cooperation attempts to combine Chinese animation elements with Hollywood storytelling techniques in order to create a new phase of Sino-US film co-production and to expand China's cultural presence in global markets.

As the cradle of Chinese animation, Shanghai has a rich history of cultural production. Local animation firms have been cultivating audiences over several generations by developing the brand potential of animated characters. In fact, the city is home to many of the most well-known and beloved characters in Chinese animation. More recently, the Shanghai has also become renowned for generating the highest box office revenues for animated films.

Both China's central government and the local municipal government have promoted Shanghai's animation sector through the enactment of favorable policies that have encouraged local media conglomerates to expand their influence and build up their animation infrastructure. Fully developing this animation industrial chain requires the support of US investors, but these foreign investors also face a volatile regulatory environment that involves the government's cultural foreign policy as well as other film production regulations, which have shifted back and forth since China's entrance into World Trade Organization in 2001.

Here are four reasons why Shanghai is a place to watch:

1. Drawing on past strengths, the animation infrastructure in Shanghai is growing, making it a national leader and an attractive partner for joint ventures with American studios.

2. Co-productions allow greater access to the PRC for Hollywood partners and in turn provide their Chinese counterparts with Hollywood expertise in production and distribution.

3. Local media conglomerates are attractive co-production partners that can leverage creative, administrative, and distribution resources to support animated projects.

4. Even though the Chinese government still exercises significant control, new models of cooperation are expanding the creative capacity of Shanghai's animation industry.

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Chinese animators have been adapting classic Chinese literature since the early days of film animation. In 1941, the Shanghai-based Wan brothers, created the firstChinese feature-length animated film, *Princess Iron-fan*, a story adapted from the well known Chinese classic novel *A Journey to the West*. Many of their films during the 1940s were relatively popular and successful. After liberation in 1949, the Wan brothers became the core staff of the Shanghai Animation Film studio when it was established in 1957. Government policies encouraged the studio to make films with strong Chinese characteristics, especially adaptations from classic Chinese novels and legends. Although successful, their efforts were derailed by the Cultural Revolution during the late 1960s and early 1970s. In its aftermath, however, the studio took off, becoming the center of the modern Chinese animation industry. It continued to produce short animated films and, as television grew more popular during the 1980s, the Shanghai Animation Film studio became an important supplier of popular series. Part of the studio's success has been attributed to the traditional Chinese illustration techniques, such as Chinese ink wash and paper-cut animation, used in SAF films.

Today, Shanghai's animation industry plays a major role in the Chinese film industry. In 2010, eleven feature-length animation films were released to theaters. In 2011, that number grew to fifteen and these animated films earned $52 million at the box office. More than 66% of that total box office came from Shanghai-based companies. Shanghai Animation Film Studio, as a subsidiary ofShanghai Film Group, keeps exploiting the value of its previous productions by producing 3D versions of library titles or developing feature-length films based on popular TV series, such as *Black Cat Detective* and *Calabash Brothers*.Shanghai Media Group also distributes titles by other successful animators, such as Creative Power Entertaining, the studio behind the franchise *Pleasant Goat and Big Big Wolf*, a perennial leader at the box office during the all-important Spring Festival season. For four years running, *Pleasant Goat* and its sequels have collectively generated more than $16 million in ticket sales, and ranked in the top 10 for box office revenue among domestic productions.

Shanghai Media Group is also building the brand value of its successful animation properties by turning them into franchises that can be exploited in comic books and theme parks. For example, only 30% of the profit from the *Pleasant Goat and Big Big Wolf* series was derived from the TV series itself. The rest was generated by ancillary products and copyright licensing.

The Chinese animation industry has gradually developed since 2004 when the State Administration of Radio, Film and Television published *Several Opinions in Developing the Film and Television Animation Industry*. Yet it still remains a diminutive sub-sector of the film business, accounting for only 6% of the total domestic box office. That may change over the next few years. Disney and DreamWorks have announced plans to expand their investments in the Chinese market and this will likely stimulate various aspects of the Chinese animation industry. Both will build tourist attractions and commercial facilities but they've also announced their intention to support animation production in the PRC. DreamWorks is collaborating with Chinese partners to launch a major animation facility in Shanghai, called Oriental DreamWorks. One of the new studio's first projects is *Kung Fu Panda 3*, the latest sequel of an animation franchise that has been hugely successful with Chinese audiences. Oriental Dreamworks will also release other animated features and serve as the anchor of a $3.1 billion cultural and entertainment district now under construction along the Huangpu River south of the city center. Meanwhile, Disney, which is partnering on a $3.7 billion theme park in the Pudong section of Shanghai, is also collaborating with the Ministry of Culture's China Animation Group andTencent, China's biggest Internet company, offering expertise in such areas as story writing and market research.

2. Co-productions allow greater access to the PRC for Hollywood partners and in turn provide their Chinese counterparts with Hollywood expertise in production and distribution.

Sino-US co-produced films have become more and more popular because the co-production form itself creates a win-win situation for both investors by providing access to important foreign markets for each partner. In 2012, *Looper, Cloud Atlas,* and *The Expendables 2* all performed well at the global box office, but the collaborations were largely motivated by Hollywood's desire to access the rapidly expanding Chinese theatrical market. Government quotas limit the number of US releases imported to the PRC each year. Regulations furthermore limit their revenue share to 13% of gross ticket sales. Even though that share increased to 25% in 2013, the figure still pales by comparison to the 43% share that co-productions can earn in other markets. For the Chinese partner, a co-production allows access to the elaborate distribution infrastructure of the Hollywood studios, ensuring the film's exposure in countries around the world. The overseas box office revenue of Chinese films grew from $80 million in 2003 to $560 million in 2010. In 2005, Chinese companies sold 60 films to foreign markets, 27 of them were co-productions. In 2010, they sold 47 Chinese films to foreign markets, 46 of them were co-productions. Overseas revenue earned from co-productions also has increased significantly in recent years, rising from 58.8% of China's total overseas box office in 2006 to 99.9% in 2010.[1]

PRC co-productions first began with the reform of the Chinese film industry in the early 1990s. They were given a further boost with the emergence of private film production companies around 2000. China's entrance into the WTO in 2001 deepened the reform process by building film groups and stockholding corporations. During that period, two models of co-productions took hold. The first model is mainly driven by overseas partners who steer the financing, scripting, and directing of the film. They also handle distribution outside of mainland China. The second model is driven by state-owned studios and private film companies that oversee most creative aspects and seek overseas investors and distributors.

As the largest film production company in Shanghai, Shanghai Film Group has shown an openness to both co-production models. Twenty-six years ago, the company was one of the first to collaborate with foreign producers, providing labor, facilities, and actors for Steven Spielberg's *The Empire of Sun*. Entering the 2000s, Shanghai Film Group co-produced *The White Countess* and *The Mummy 3*. Yet the bulk of the film remained in the hands of the US partner, which made these co-productions more like Hollywood films with limited Chinese elements designed to meet the requirements of the *China Foreign Film Co-production Regulations*.

In the new wave of Sino-US cooperation, Chinese partners place more emphasis on collaboration and look for a winning strategy for marketing Chinese productions in the global market. *Kung Fu Panda 3*, which is set for release in 2015, is a good example of this second model. It is the first mainstream Hollywood animated film to make significant use of Chinese resources, with fully one third of the film produced by Oriental Dreamworks. The Chinese partners are furthermore expecting to leverage their relationship with Hollywood to create and distribute other animated feature films for the global market. This collaboration aims not only to build the technical capacity of the new Chinese enterprise but also to foster an expansion of the Chinese animation industry and a revival of China's distinctive animation aesthetics and traditional culture. The partners point to past successes at blending the strengths of East and West, such as Disney's *Mulan*, and DreamWorks's *Kungfu Panda* films. The new cooperation aims to create animated films with strong Chinese elements that can garner international success.

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[1] Wang Fan. 王凡 "On Co-production and the Strategy of China Film Globalization," 中外合拍片与中国电影全球化战略 Contemporary Cinema 当代电影190.1 (2012): 10-16

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The 2011 groundbreaking of the Shanghai Disney Resort marked a milestone in Disney's twenty-year campaign to break into the mainland China market. As a joint venture between the Walt Disney Company and Shanghai Shendi Group, Shanghai Disney Resort is 57% owned by the state-run Chinese partner. Widely seen as a commercial and popular success, the Disney-Shendi collaboration was soon followed in 2012 by an announcement from DreamWorks Animation that they would be collaborating with three Chinese partners – China Media Capital, Shanghai Media Group (SMG), and Shanghai Alliance Investment – to form DreamWorks Film & Television Technology, based in Shanghai. At the center of the venture is Ruigang Li, who brought the partners together. He is the chief executive officer of Oriental DreamWorks, the former president of Shanghai Media Group, and current president of Shanghai Media and Entertainment Group (SMEG).

As the parent company of Shanghai Media Group as well as the largest media conglomerate in Shanghai, SMEG is comprised of twelve major subsidiaries, including Radio & Television Shanghai and Shanghai Film Group. Before the reform, SMEG already enjoyed a 70% market share in the Shanghai TV market and more than a 90% share of the metro area radio market. In addition to radio and television broadcasting, SMEG subsidiaries are engaged in film financing and production, comic book publishing, film and TV animation, sporting and musical events, online shopping, and new media services. SMEG has been striving to build an integrated industrial chain with trans-media and trans-regional linkages. Radio & Television Shanghai is not only a leader in the metro area, but also is touted by policy makers as a "national champion." Consequently, it was the first provincial-level media group to receive permission to spin off some of its non-broadcasting operations as semi-private subsidiaries. This was a dramatic departure from past policy, since all PRC television stations are owned by national, provincial, and municipal governments. This policy reform has allowed SMEG enterprises a greater amount of operational flexibility, including the opportunity to attract foreign partners and investors. The resulting spin-offs include The Entertainment Team and Toonmax Media. Similarly, Shanghai Film Group, has spun off such ventures as Shanghai Animation Film Studio and Shanghai Eastern Distribution Company.

SMG film and television enterprises are therefore well positioned to compete for audience share and to extract maximum value out of its successful animation properties. For example, *The Pleasant Goat and Big Big Wolf* was originally a cartoon TV series made by a company in Guangdong province, which then was acquired by Toonmax Media, which then cycled the series through its Toonmax Channel, and through SMG's children's channel, Haha TV. Shanghai Eastern Distribution Company, one of the most successful animation film distribution companies, then released a feature film version, which was then shown on the screens of another sister company, Shanghai United Circuit. The success of such properties is due in part to the extensive network of corporate subsidiaries working together to promote SMG brands.

4. Even though the Chinese government still exercises significant control, new models of cooperation are expanding the creative capacity of Shanghai's animation industry.

This new wave of collaboration with foreign partners is happening because of the opportunities made possible by media policy liberalization in the PRC, which accelerated after China's entrance into the World Trade Organization in 2001. Yet, Chinese national media policy has shifted back and forth over time and even though joint ventures can be very prosperous, they are also somewhat risky.

Warner Bros.' experience in the Chinese theatrical market is a good example of the riskiness of doing business under such conditions. Initially encouraged by reforms in 2003 that allowed foreigners to own up to 75% of cinema ventures in selected cities, Warner Bros. was the first foreign media company to invest expertise and capital in the Chinese theatrical market through Warner Bros. International Cinemas (WBIC). Shanghai Paradise Warner Cinema City, the nation's most profitable cinema from 2002 to 2005, was a joint venture between WBIC and Shanghai Film Group, with Warner Bros. as the majority shareholder. By the end of 2005, the joint venture had eight multiplexes in China, with 67 screens and 14,449 seats. Seven of these cinemas were among China's top 30 earners. WBIC's 2005 box office takings in China far exceeded US$15 million, a growth of 81 per cent from 2004. Warner planned to increase the number of locations to 30 by 2006, but it suddenly decided to pull out in 2006 because of policy changes that tightened restrictions on foreign ownership.

Trouble began in 2004, when the State Administration of Radio, Film, and Television published the *Film Enterprise Operation Qualification Regulation*, saying that overseas companies should own no more than a 49% share of theatrical joint ventures. In 2005, the Ministry of Culture followed up with *Several Opinions on Foreign Investment in the Culture Industry*, requiring mainland investors to own at least 51 percent or play a leading role in their joint ventures with foreign investors.

Such reversals in policy reflect deep divisions in the ruling Communist Party where the desire for economic development is tempered by anxieties about foreign cultural influence. On the one hand, party leaders are aware that creative industries offer China an opportunity to expand beyond its low-wage manufacturing economy and to exercise “soft power” on a global scale through its cultural exports. On the other hand, they are worried about the standards for global success in the movie industry, pointing to what they see as violent, sexually explicit, and subversive content in many Hollywood films. Animation seems to offer a middle way forward. It can enhance the productive capacity of creative enterprises by turning them into global competitors that can enjoy economic success at home and abroad while promoting Chinese aesthetics and values. Animation therefore enjoys special status as being both creative and politically acceptable, making it a favorite for state investment and regulatory liberalization.

Under the 12th Five-Year Plan (2012-2017), China will expand its commitment to animated TV and film productions. By 2015, planners hope to increase the output of animated films to more than 30 per year, up from under 10 in 2010. The country will also establish ten new animation firms that can be listed on China’s domestic stock exchange. Such signals from the Chinese leadership have encouraged a spurt of joint ventures and co-productions, indicating that Disney and Dreamworks may be part of a growing trend and that Shanghai may be an especially attractive location for such ventures.