

Your Market Is Everywhere

International Market Series

China

How Canadian producers can benefit from looking beyond borders



This report focuses on the state of the television, gaming and virtual reality industries in China.

Also included: genres that are on the rise in China, media consumption habits, major local broadcasters, the regulatory environment, current trade agreements with Canada, recent deals between Canadian producers and Chinese companies as well as advice from experts.

Fast facts:

▶ Since joining the World Trade Organization in 2002, China has adopted a much more open policy to foreign involvement in media production. ↓

▶ China counts close to 560 million gamers and the annual growth in the country's gaming industry reached 27.3% in 2016. ↓

▶ There is a growing demand for documentary in China: in 2016, it represented a market worth approximately US\$755 million—a 12% year-over-year increase.

▶ With 324 million subscribers China has the largest pay TV market in the world. ↓

▶ China is home to a large and growing VR market, owing in no small part to the more than 200 hardware companies that produce advanced handsets, headsets, mobile devices and kiosks at affordable prices. ↓

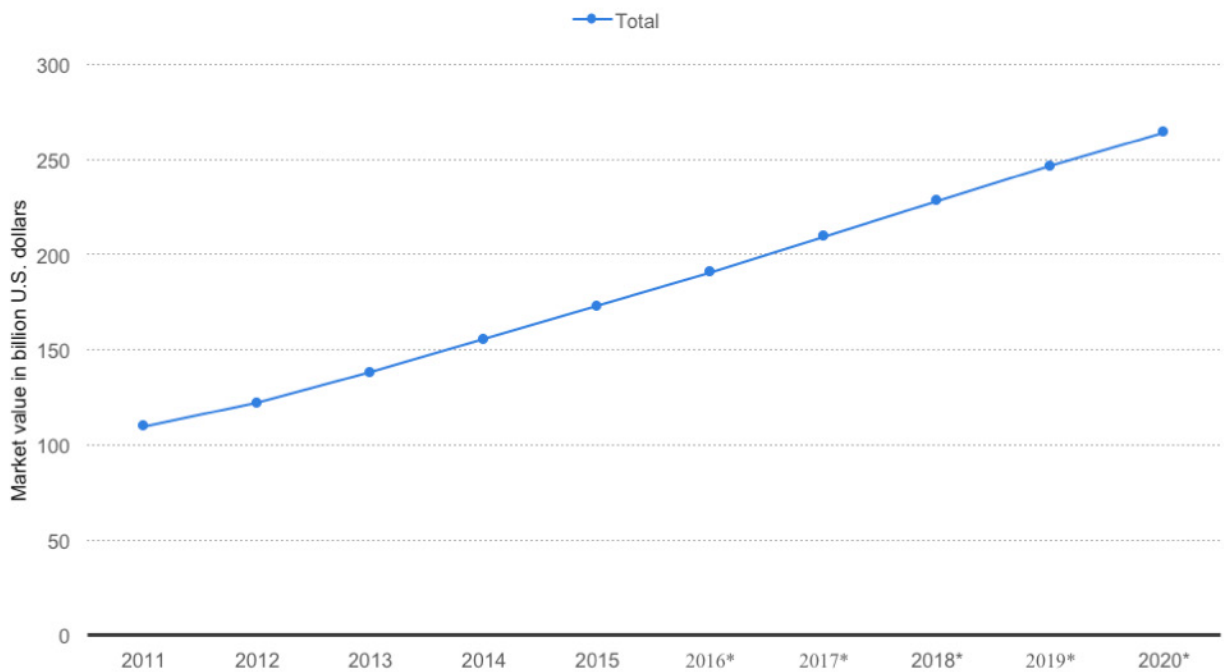
▶ In 2016, the governments of Canada and China signed an agreement that enables film producers from both countries to access national incentives and subsidies. ↓

It is no secret that China is an economic powerhouse, but what may be less known is its strong position in the media and entertainment sectors.

For purposes of comparison, China's media and entertainment industry represents about one third the size of the considerably more established U.S. market and 10% of the \$2 trillion global market^{1,2,3}.

In 2017, the market is valued a little over US\$200 billion, and it has doubled over the past five years.

Value of the entertainment and media market in China from 2011 to 2020



Note: China; 2011 to 2015; includes business-to-business, book, magazine and newspaper publishing, filmed entertainment, internet access and advertising, out-of-home advertising, radio, music, video games as well as TV advertising and subscriptions and licence fees

Source: PwC

*Forecast

statista

TRACK RECORD WITH CANADA

Though various government and industry restrictions are still in place, since joining the World Trade Organization (WTO) in 2002, China has adopted a much more open policy to foreign involvement in media production, and a number of Canadian producers and companies are now enjoying favourable working relationships with broadcasters, production companies and industry organizations.

Several Canadian companies have had success both exporting to and collaborating with Chinese producers.

One of the most prominent Canadian media companies working in China has been Montreal's EyeSteelFilm. Speaking at the 2017 HotDocs conference in Toronto, producer Bob Moore told the crowd this: "It wasn't a strategic plan to work as much as we do in China. We just looked for interesting stories and developed the experience and the relationships as we went along." EyeSteel's portfolio of Chinese co-productions includes the documentaries *Up The Yangtze* (2007), *Last Train Home* (2009), and *China Heavyweight* (2012). The company's latest collaboration with China is Still Tomorrow, directed by Fan Jian.

Other Canadian success stories in China:

▶ Toronto's eOne Television launched children's program *Peppa Pig* on China's CCTV in 2015, and then moved to the online platforms Youku, iQiyi, and Tudou in 2016. In the space of 9 months, the popular children's program netted over 5 billion online views⁴.

▶ Vancouver animation studio Big Bad Boo signed a multi-year linear and video-on-demand deal with China's CCTV in 2016 for its animated comedy *1001 Nights* and the show was opened up to an audience of 340 million children⁵.

▶ Halifax-based DHX Media recently licensed over 2400 hours of children's content, including *Yo Gabba Gabba*, *Caillou*, *Twirlywoos* and *Inspector Gadget* to five different video-on-demand services in China: iQiyi, Youku, PPLive, Mango as well as Shanghai Media Group's BestTV and SiTV⁶.

INSIDER TIPS

Change is constant; be prepared to be flexible

"If you're a co-producer, if you want to work with China, and you come to China with a well-established plan, well, get ready to be disappointed! The market changes every day, so always upgrade your plan and your agenda [...] and never take a 'yes' as a 'yes' in China until you actually see a signed contract. Often we will say 'yes' as in 'we understand,' not 'yes' as in 'let's do it!'"

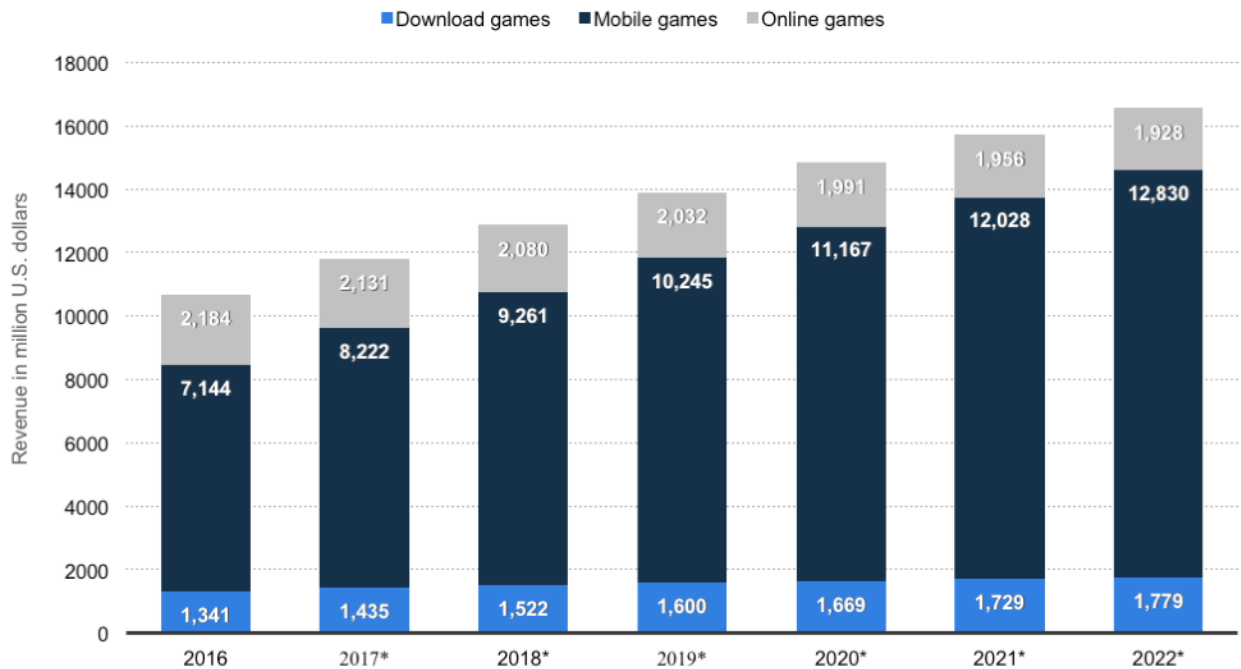
– Wang Yi, founder of China's Media Caravan⁷

SUCCESSFUL GENRES

In addition to children's programming and animation, other promising genres in the Chinese market for exporters and co-producers are video games and documentaries.

The country counts close to 560 million gamers, of which over one third play games that are 'pay to play'⁸. At \$8.2 billion, mobile games lead this industry sector, followed by online games with a market value of \$2.1 billion and downloaded games at \$1.4 billion⁹. Annual growth in China's gaming industry reached 27.3% in 2016, 29.9% in 2015 and 23.9% in 2014¹⁰.

Digital games revenue in China from 2016 to 2022, by category



Note: China; 2016

Source: Statista; Statista DMO

*Forecast

statista

Similarly, the documentary industry is one of China's fastest growing. Speaking at the 2017 HotDocs conference held in Toronto, Mr. Gao Xiaomeng of the Beijing Documentary Development Association pointed out that, in 2016, it represented a market worth \$5.2 billion yuan, or approximately US\$755 million—a 12% year-over-year increase. On the same HotDocs panel, Mr. Chen Xin of CTV Golden Bridge (CTVGB) said that its channel spends hundreds of millions of Chinese yuan annually to purchase both domestic and international documentaries and that topics of particular interest are nature, biodiversity as well as social and ethical issues. Mr. Yang Haitao, VP of iQiyi, which has collaborated with the BBC and Discovery, echoed these sentiments. "Science, discovery, and social issues are always in China's top ten," he told conference attendees.

MAJOR BROADCASTERS

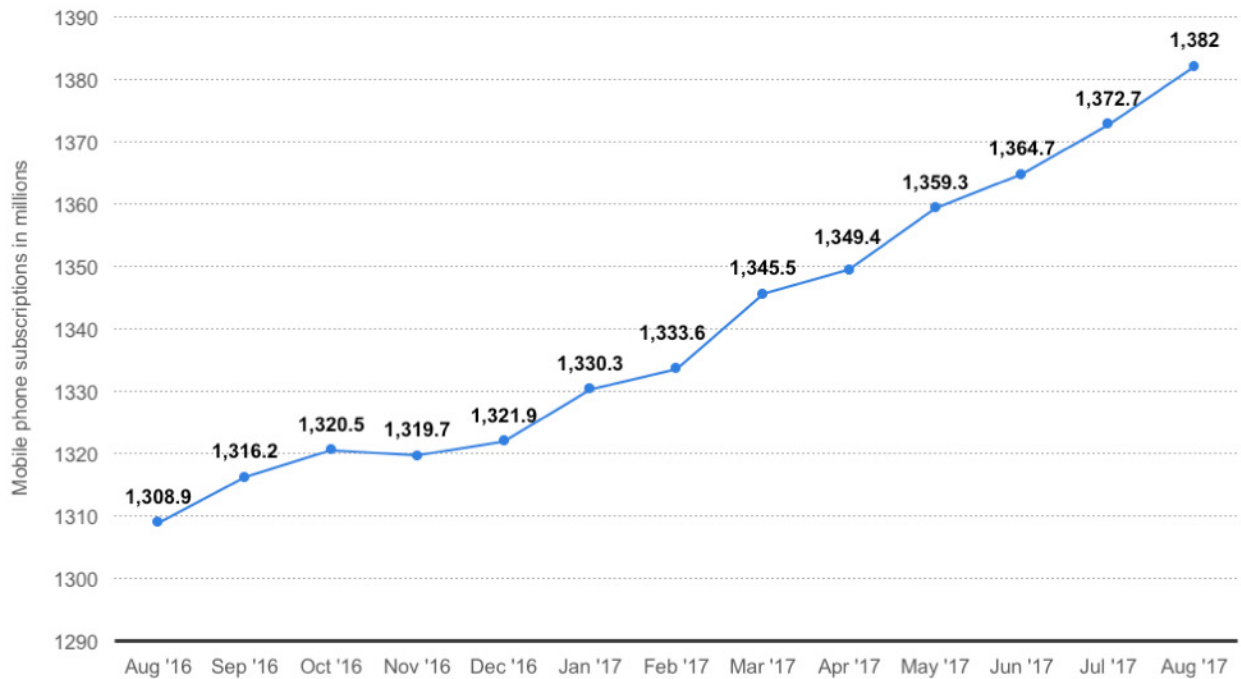
China's national television network and official state broadcaster is Central China Television, also known as CCTV. It owns over a dozen nationally broadcast channels, with specialities ranging from sports to finance, music, children's programming, and documentaries. CCTV's digital media channels include Boosj.com, Lotour.com and Wugu.com.cn. At the end of 2016, CCTV's international and digital channels were rebranded as the China Global Television Network, or CTVGB¹¹.

In addition to the major networks noted above, China has the largest pay TV market in the world, with 324 million subscribers¹².

MAJOR DELIVERY PLATFORMS

As of December 2016, there were more than 730 million Internet users in China¹³. The most staggering statistic, however, is the number of cell phones in the country, which now equals the number of people: 1.4 billion¹⁴. Of those 1.4 billion cell phone users, 500 million use smartphones to access the Internet¹⁵.

Number of mobile cell phone subscriptions in China from August 2016 to August 2017



Note: China; August 2016 to August 2017

Source: National Bureau of Statistics of China

statista

Whereas, in North America, the Internet is dominated by the Facebook-Google duopoly (which together account for over 71% of all Internet ad revenue)¹⁶, in China, the ‘Big 3’ are Baidu, Alibaba and Tencent, sometimes referred to as BAT. Baidu and Alibaba are largely similar to Google and Amazon and, not unlike their western counterparts, what began as search and e-commerce businesses respectively has since branched out into other areas of Internet-provisioned information and entertainment services, ranging from music to news, maps, videos, and social networking. Similarly, Tencent provides a large assortment of online services including Internet access, messaging, social networking, mobile and PC gaming as well as e-commerce, with some of its applications—such as the QQ messaging service—counting a user base of 900 million¹⁷.

China is also home to a large and growing VR market, owing in no small part to the more than 200 hardware companies that produce advanced handsets, headsets, mobile devices and kiosks at affordable prices, and with sophisticated technological capabilities for gaming and immersive environments in retail and even educational settings¹⁸.

One such example is BaoFeng, a company unknown in the western world, which sold over 1 million VR headsets over a three-month period in 2016¹⁹. Beijing-based Xiaomi, the world’s third largest mobile phone manufacturer after Samsung and Apple, recently introduced its smartphone-compatible Mi VR headset, priced at just \$8, thereby heralding the democratization of a once high-end and largely out of reach technology. Baidu, Alibaba and Tencent are said to be introducing systems to compete against Xiaomi’s low-cost entry into the VR market²⁰.

Online video in China is dominated by iQiyi and Youku, two companies that are neck and neck in terms of market share. iQiyi was launched in 2010 and is owned by Baidu. In 2016, Alibaba completed its \$4 billion takeover of Youku.

Other online video providers in China include le.com, fun.tv, mgmtv.com, pptv.com and tudou.com. Netflix, once blocked from establishing a presence in the Chinese market, is available in China by way of a licensing deal with iQiyi since April 2017²¹.

TRADE AGREEMENTS WITH CANADA

On August 31, 2016, the governments of Canada and China signed a new agreement that enables film producers from both countries to access national incentives and subsidies. Contributions from both countries have been set at a minimum of 15% and a maximum of 85%²². Though the treaty is limited to film projects, it encompasses “any distribution platform intended for viewing”²³. The full treaty can be viewed [here](#).

Note that there are two types of co-productions in China. The first type is a joint production, sometimes referred to as a ‘collaboration,’ which must be at least 51% Chinese-owned and, as such, is considered as a domestic film. The other type of co-production is called an assisted/entrusted production agreement, in which the foreign partner invests 100% of the capital, production is completed by Chinese crews in China, and the film is considered as a foreign film under the country’s import quota²⁴.

INSIDER TIPS

Find your financing first, then find your partners in China

“A production company cannot come to China with a project that has no financial support already in place and expect to find potential partners falling over themselves to work with it.”

– Zhi Hengyi, manager of Daneng Culture in China²⁵

REGULATORY ENVIRONMENT

Since joining the WTO in 2002, China has made rapid and dramatic leaps in the world of media production. Nevertheless, there are a variety of restrictions and regulations with which producers need to familiarize themselves, including cultural and content restrictions as well as quotas applicable to foreign productions.

For example, since April 2016, the country's regulatory body, SAPPRFT (State Administration of Press, Publication, Radio, Film, and Television of the People's Republic of China), calls for foreign film and TV programs to obtain a 'publication licence.' Programs are also subject to review by the country's censorship authority. In addition, state television does not allow more than 30% of television productions to originate outside of China²⁶.

Another reality of the Chinese market is rampant piracy, which can occur anywhere from movie theatres to set-top boxes, mobile devices, and online. In 2016 alone, China's State Copyright Administration shut down 290 websites in a country-wide crackdown on online piracy²⁷. Foreign producers are therefore urged to do due diligence with media and production partners and weigh the risks and rewards accordingly.

SELECT MARKETPLACES, TRADE EVENTS AND INDUSTRY ASSOCIATIONS

- ▶ Documentary: [Guangzhou International Documentary Film Festival](#)
- ▶ Video Games: [China Joy, Shanghai](#)
- ▶ Animation: [China International Cartoon & Animation Festival](#)

INSIDER TIPS

The importance of face-to-face meetings

“It's important to go beyond things like a panel at HotDocs in Toronto. Many Canadian producers that went to Guangzhou for the festival ended up having success.”

– Bob Moore, producer, EyeSteelFilm²⁸

MAJOR INDUSTRY ASSOCIATIONS

- ▶ China Cultural Industry Association (CHNCIA): The CHNCIA covers the full range of cultural activities in China, from live performance to animation, gaming, film and TV. The [CHNCIA's website](#) provides an overview of cultural exchanges and international agreements.
- ▶ China Gaming Industry Association (CGIA): Part of the China Software Industry Association
- ▶ Beijing Documentary Development Association (BDDA):
 - Comprised of 57 privately owned enterprises whose market value represents about half of China's documentary market
 - Most member companies have experience with international co-productions

According to Mr. Gao Xiaomeng, Chairman and VP of China's SDT Media and also of the Beijing Documentary Development Association, “Working with the BDDA is the most effective and efficient way for international producers to enter China's documentary market.”²⁹

OFFICES/PERSONNEL IN CANADA

The following are Canada-based associations that facilitate business and trade between companies in Canada and China:

- ▶ Canada China Business Council (CCBC)
- ▶ Canada China Chamber of Commerce (CCCC)
- ▶ China Canada Business Association (CCBA)
- ▶ Canada China Bilateral Co-operation Association (CCBCA)
- ▶ Hong Kong-Canada Business Association (HKCBA)

FOOTNOTES

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3. via Statista, “Value of the global entertainment and media market from 2011 to 2010”
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28. Speaking on panel at the 2017 HotDocs conference, May 2017, Toronto
29. 2017 HotDocs Conference, Micro-Meeting, Focus on Beijing, Co-Producing with China

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