

## Film Markets in China, Japan and Korea

### UC Berkeley Presentation at the “Inner Asian Cultural Flows” Panel at the Conference entitled “Catching the Wave: Connecting East Asia through Soft Power”

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This presentation is a bit of a stretch for me since most of the work I've been doing in the area of film markets has focused on China and also Hollywood's global strategies. Where I've dealt with Japan it's primarily been in terms of Hollywood remakes of Japanese films. However, I've written about the Korean model in terms of how Korea has been able to compete successfully in its domestic market with Hollywood and what China can learn from Korea's success (I've contrasted Korea's success to Taiwan's lack of success, at least in terms of box office results). And the Chinese press and film journals have reported extensively on the Korean film industry; the “Korean wave” (*hanliu* in Chinese or *hallyu* in Korean) reached China years ago. I used to collect books and magazines on Korean culture in China [**Show examples**] but I stopped doing that since there were so many of them. Of course

Korean, Japanese, Thai (you name it) films are widely available in China through pirated DVDs [**SHOW EXAMPLES**]. In fact, it's a bit hard to get good statistical data on the penetration of foreign films in places like China and Korea since so much is now downloaded for free. In China, college students laugh at me for spending \$1U.S. on a DVD when they can download it for free. In Korea, I'm told, it now takes about five minutes to download a Hollywood film. In September this year thirteen film-related organizations, led by prominent Korean film directors, declared the launch of a campaign against illegal film downloads.

Since time is short let me focus on making some basic points. There are several important issues I won't get to because of time. One is the nature of the Chinese film market, the one I've studied the most. It's a very different market than Korea and Japan, in part because only 20 revenue-sharing foreign films are allowed in under WTO guidelines (the number used to be ten, when China began importing such films in 1994). The large majority are Hollywood blockbusters. But, as I've mentioned, foreign films are

widely available through DVDs and downloading. And some foreign films have come in under a “flat fee” policy, with no revenue sharing. Chinese language films took in 55 percent of the market in 2006, dominated by martial arts films, although the situation is complicated by a number of factors. I welcome questions on the China market since those are probably the only ones I might be able to answer.

Another important issue I have to skip over is the marketing strategy of Chinese blockbuster films such as Chen Kaige’s “*The Promise*” {*Wu ji*} or Tsui Hark’s “*Seven Swords*” {*Qi Jian*} or Zhang Yimou’s “*House of Flying Daggers*” {*Shimian maifu*}, which have a multinational cast of Asian stars to enable to film to (hopefully) succeed in all East Asian markets, but this strategy seems to have become far less successful. Later, I’ll talk about the changing Japanese market, which has become far less hospitable for Korean films and film stars.

With those brief asides on the Chinese film market let me talk most about the Korean and Japanese markets as I understand

them, particularly in a global context. First, and most fundamental in talking about film markets, the United States and Hollywood have been dominant if one looks beyond domestic markets to international penetration. This could be demonstrated in a variety of ways. For example, if you look at Global Box Office Revenues, the U.S. domestic market has generally taken in around 46%. If you add Canada, North America has taken in 49% [**SLIDE 1**]. These figures are from 2004 so it's important to note that the global box office outside North America has been increasing since then and no Hollywood blockbuster film can be made without taking into consideration the overseas market, particularly the world's second largest film market, Japan. For the first four months of 2007, North America's take was down to 38.4%, but the Hollywood studios readjusted their strategy to account for this change. You can also see from Slide 1 that the Chinese market was growing at a faster rate than any other market in terms of box office revenues, and the market has continued to grow, going from the \$US181 million in 2004 to \$US340 million in 2006. For the

biggest of the blockbusters, commonly called “tentpole films,” as much as 70 percent of their box office comes from outside the United States. The Asian market is becoming more and more important.

Second, in terms of protection of domestic markets, East Asian countries have done very well, following the U.S. and India which control about 95 percent of their domestic markets. Slide 2, which looks at 2006, shows that South Korea at over 60 percent and China and Japan at over 50 percent come in third, fourth and fifth, ahead of France. Hong Kong comes in at No. 8 on this list, although Taiwan would be near the bottom (**Slide 2**).

Third, looking more specifically at individual East Asian domestic markets, if we turn to South Korea we see that in 2004, 2005 and 2006, local films and Hollywood films made up around 95 percent of the market [**Slides 3, 4 and 5**]. Films from Japan made up about 2 percent and films from China took up about 1.5 percent of the market. If I had time I would mention the long debate over the screen quota system in South Korea and its recent

reduction from 146 days down to 73 days, announced in January 2006 in preparation for the Free Trade Agreement with the U.S., which was finally concluded on April 1, 2007 and signed on June 30, 2007.

While imports into Korea are dominated by Hollywood films, as they are in virtually every other market except India, we see a very different pattern when we look at Korean film **exports**. Here we see what had been until recently the overwhelming importance of the Japanese market, and the decreasing importance of the American market, as Hollywood studios and production companies have opted more and more for remakes of Korean and Japanese films over importing the originals. As Slide 6 shows, Japan was the recipient of about 45 percent of Korean exports in 2003, going up to 69.3 percent in 2004, and 79.4 percent in 2005. At the same time, the United States went from 14.5 percent in 2003 down to 4.0 percent in 2004 and down further to 2.7 percent in 2005 [**Slide 6**]. If you look at the export of Korean films by region you can see that in 2005 exports to Asia made up 87 percent of total exports, which

was a 46 percent increase over 2004 while exports to North America dropped over 30 percent [**Slide 7**].

However, you'll notice that the tables only go through 2005 and also provide a cautionary tale for anyone preparing Power Point slides too early. Things can change quickly in film markets and 2006 and 2007 have not been good years. Korean films suffered a 68 percent drop in international sales in 2006, from \$76 million in 2005 down to \$24.5 million in 2006. The main reason was the precipitous decline in the Japanese market, with sales to Japan dropping from \$60.3 million in 2005 down to \$10.4 million in 2006. While Japan is still easily at the top, Thailand is now the second largest overseas market for Korean films. Moreover, 2007 has so far been even worse. Export sales dropped 57 percent in the first half of 2007, with Japan buying only \$2.2 million worth of Korean films. At the same time, U.S. films have held steady in Japan. There has been a slackening of interest in Korean pop culture.

As I mentioned, what Hollywood has been doing, particularly with Japanese films ranging from horror films such as “*Ringu*” {The Ring} and “*Ju-On*” {The Grudge} to romantic dramas such as “*Shall We Dance*,” is to remake them and market them around the world. These Hollywood remakes have all done better in Japan than the originals did. Hollywood is now beginning to do the same thing with Korean films such as “*My Sassy Girl*” – which has now been finished, but with a cast of virtual unknowns – “*Old Boy*,” and “*The Host*”. And of course everyone is familiar with Martin Scorsese’s “*The Departed*,” last year’s Academy Award winner based on the Hong Kong hit “*Infernal Affairs*” [“*Wu Jian Dao*”], although the American remake made far less money in Hong Kong than the original version.

I’ve already mentioned the “Korean wave” and there’s no question about the impact of Korean film on the Chinese industry. Let me give just two quick examples. The leading commercial Chinese filmmaker, Feng Xiaogang, was so impressed with the special effects in the Korean film “*Taegukgi* [Taijiqui piao yang in

Chinese], that he hired the technical crew from that film for his own new film about the Chinese Civil War called “*Assembly*” [*Jijiehao*], which is currently in post-production and is due to be released in December 2007. Also, South Korean exhibitors have opened multiplex theaters in both Beijing and Shanghai which are state-of-the-art, and “*The Host*” did very well in China.

If we turn to the Japanese market, the first striking thing you notice is that the Japanese export a lot of games, but import more than they export in most other cultural areas, including film [**Slide 8**]. The second thing you notice is that, despite the relatively large number of Korean films shown in the Japanese market, Hollywood films still dominate among non-Japanese films, although the number of Korean films had been increasing up through 2005, as Slide 9 shows [**Slide 9**]. American films have made up 41 to 46 percent of the Japanese market, although the number of Korean films shown there went from 14 in 2003 to 29 in 2004 and 61 in 2005. However, as I’ve suggested, things have taken a downturn recently. In the first six months of 2007, only 13 Korean films

played in Japan. In 2006, not one Korean film cleared the one billion yen hurdle (\$8.5 million), considered the mark of a commercial hit. Indeed, Korean film exports overall have dropped to the 2002 level after reaching a high in 2005.

So we can say that there is an “Inter-Asian market” in film that was getting stronger until the bumps in 2006 and 2007, and there are still some positive signs that I haven’t talked about, but it’s the domestic films which have done very well in their home markets in East Asia, and Hollywood films continue to be the most successful imports. I would also note that Hollywood studios and production companies have been focusing on making local language films as yet another way to penetrate these markets, as with films such as “*Crazy Stone*” [*Fengkuang de shitou*] in China.