A NEW MODEL FOR GLOBALIZATION IN THE FILM INDUSTRY

Lessons from Sino-US Film Co-productions

Wenyan Yin
Seoul School of Integrated Sciences and Technologies
wenyanyin2012@gmail.com

Abstract

International co-productions have become a dominant practice in the film industry. Within this emerging trend, China has become a major participant and is using it as an important method to enter the global market. Despite the enhanced globalization of the film industry, many preceding studies consider it as a national industry and investigate it from this context. Therefore, this paper uses the concept of the global value chain in order to understand more effectively the fragmentation of the film value chain. This framework helps examine how filmmakers denationalize the film value chain by collaborating with foreign partners on a global scale. This paper further conducts a case study of the Sino-US co-produced movie, *The Great Wall*. It was China's most expensive movie to date, and is frequently cited as the new model for producing a "true" international co-production. This paper finds that with various tools of internationalization, international co-productions can help the Chinese side increase its involvement in all processes, and can lead to the reduction of the national identity in films. Such a process helps attract a more global audience. In addition, this paper provides useful guidelines for policy makers to respond effectively to the increasing globalization in the cultural industries.

Keywords

China; Hollywood; global value chain; international co-productions; *The Great Wall*

About the Author

Wenyan Yin is currently a visiting professor in Seoul School of Integrated Sciences and Technologies (aSSIST), and a lecturer in the Graduate School of International Studies at Seoul National University. She has published a number of articles including those in the journals indexed by SSCI and SCOPUS. Her interest areas of research include national competitiveness, global value chain, foreign direct investment, international business strategy, and cross-cultural management. She has worked at the Institute for Industrial Policy Studies as a researcher for the annual report of the IPS National Competitiveness Research for three years. She has also conducted many research projects related to the competitiveness of firms and governments.

International co-productions have become an important part in the development of film industries around the world (Morawetz et al. 422). Since the early 1990s, there has been an increasing trend among film production companies to pursue this kind of business strategy (Baltruschat 5). Today, China stands as one of the most active participants in international co-productions, establishing official agreements with around twenty economies around the world. The Chinese government approved 89 co-productions in 2016, with a growth rate of 11 percent compared to the previous year; this is also the highest level in Chinese history (Ceng). Although Hong Kong is the top partner for China in terms of the number of international co-productions,[1] films co-produced with the United States (or Hollywood in particular) has captured the lion's share of the Chinese film market.

Zhou has identified clearly the different roles of Hong Kong and the United States in China's film co-productions by stating that "co-productions with Hong Kong have promoted the development of domestic film for the past ten years; the co-productions with the United States will support us for fifty years in the future" (54). Therefore, the sustainable development of Sino-US film co-productions should play an important role not only in developing China's film industry but also in expanding its market from domestic to international scope.

The existing studies on international film co-productions mainly focus on the motivations or advantages of co-productions, through which all collaborating parties are able to gain benefits to some extent. Previous studies have identified various types of motivations from different perspectives – firms or governments. However, the four elements of Porter's "diamond model," which is used for evaluating competitiveness, can be an effective way to sum up their arguments. International co-productions suggest that film production is increasingly taking place across countries instead of within a strict national context. In spite of the increasing globalization driven by international co-productions, many studies still identify it as a *national* film industry or a *national* culture (Hill and Kawashima 669). Moreover, few preceding studies investigate *how* these advantages from international co-productions are able to achieve success with *which* tools of internationalization.

So far, most of the previous studies on Sino-US film co-productions (e.g., Owczarski; Peng) have focused on the changing relationship between the Hollywood studios and China's film market. Although there has been significant development in China's film industry, most of Sino-US film co-productions are still led by US filmmakers that seek to exploit the growing Chinese market. Therefore, most of these studies emphasize Hollywood's strategy in entering China's market by using co-productions, whereas few have investigated the efforts of Chinese filmmakers to enter the US market through co-productions.

To fill this gap in the literature on international co-productions between China and the United States, this study introduces an integrated approach (Moon and Yin; Yin) to the global value chain (GVC) in order to analyze the film industry from an international context. It will show how filmmakers denationalize film value chains by integrating different modes (or organizational governance) so that they can attract a wider audience from around the world. Moreover, to understand more clearly the recent shifting paradigm in Sino-US film co-production, this study applies the integrated GVC framework to a recent Sino-US co-produced film, *The Great Wall*, which analysts often cite as a test model for a film, making the shift from a so-called "fake" co-production to a "true" one between China and the United States.

This paper identifies that the higher degree of involvement from the Chinese side in terms of investment, lead actors, and contents as required by Chinese regulators, does not necessarily mean sacrificing the level of internationalization; they are more complements than substitutes. The increased involvement in the higher value activities is necessary to enhance competitiveness, whereas the high level of internationalization helps reduce the national identity and thus attracts a more global audience.

This paper is organized as follows. Section 2 reviews the existing literature on the drivers of international film co-productions and the evolution of Sino-US film co-productions. Section 3 introduces the analytical tool of this paper, an integrated approach to the global value chain, by analyzing the globalization of the film industry through international co-productions. The following Section 4 analyzes the recent Sino-US co-produced film, *The Great Wall*, to compare and contrast its internationalization strategy with other Sino-US co-productions. Lastly, the contributions of this paper and its implications will be provided for the future of China's international film co-productions.

LITERATURE REVIEW

International co-productions have been taking place for around a century in the film industry, but it has recently experienced a boom in popularity around the world (Lorenzen 353; Morawetz et al. 426). In particular, it is used to create products that can serve the global market. Co-productions are usually governed by official treaties established between countries for the joint creation of film programs (Baltruschat 2). Small countries (e.g., Canada) and some European countries (e.g., France) are very active in securing official treaties for the development of their national film industries. Although the United States has no international co-production agreements, it often collaborates with other countries through unofficial agreements known as co-ventures (Baltruschat 2).

Previous studies have approached the motivations or drivers of international co-productions from different perspectives by both firms and host countries. With regard to host countries, the existing studies primarily investigate the responsive activities among emerging countries that aim to develop their indigenous film industries.

Morawetz et al. have highlighted that the high industry uncertainty makes finance a key issue in the film industry. In this sense, co-productions become an essential strategy to solve financial problems and to increase budgets by combining various sources of money from the public and private sectors. They particularly stressed that institutional (legislative) change has opened up more opportunities in the film industry for financing through co-productions. For example, the introduction of tax incentives by European governments has encouraged private investments into the film business.

Lorenzen has acknowledged that international co-productions help firms gain access to the global talent and resources. Moreover, through co-producing big-budget films with local producers, firms can ultimately distribute films in both home and host countries, and even expand to other larger global markets. Lorenzen has also argued that the disintegration of the production processes has propelled leading firms to specialize in certain activities (e.g., planning and financing) in the value chain, while outsourcing others to external specialized suppliers. Therefore, many of the globally competitive film producers tend to act as the system coordinators. This shifting trend provides more opportunities for firms from emerging countries to join the leading ones' value chain.

Rosnan et al. have suggested that US filmmakers, for example, shift their production locations to Canada and Mexico in order to take advantage of cheap labor and attractive incentives provided by the host countries. Further studies have also made similar arguments for cost reduction (e.g., Coe; Wasko, *How Hollywood Works*; Scott; Flew). Furthermore, Rosnan et al. identified that the host country is eager to attract foreign film projects because they can benefit from the knowledge transfer and other externalities associated with foreign operations, thereby developing its film industry toward a higher international standard. Moreover, the article highlighted the successful experiences of Malaysia where its emerging film industry was able to contribute to the balanced development of its economy between manufacturing and service industries.

In addition, Braester has mentioned that due to the global success of many US blockbusters that have used computer-generated imagery (CGI) and other digital technology, it raises the urgency for China to catch up with Hollywood by collaborating with its producers (51). Other recent studies (e.g., Owczarski; Peng) have showed how Sino-US co-productions can benefit both parties. Davis and Kaye have also highlighted the benefits of international co-productions brought to Canada by collaborating with US film producers, such as by providing shooting locations, related labor forces, and other services.

Each of these studies has contributed to understanding the drivers of international film co-production, but their explanations have differed due to their contrasting perspectives; in fact, some factors even overlap among these studies. In order to provide a more comprehensive analysis based on these studies, this paper uses Porter's "diamond model" to combine them into a more systematic way. One of the strengths of the diamond model is that it incorporates all the important factors of national competitiveness in one framework. Therefore, it is able to capture all the relevant factors from the exiting studies (Moon, *The Strategy for Korea's Economic Success* 97). The diamond model was first introduced to analyze the sources of national competitiveness. However, because of its usefulness in organizing the main issues in a comprehensive and systematic way, it has been widely applied to various fields including the cultural industries (e.g., Parc and Moon; Parc et al.) and at different units of analysis (i.e., firm, industry, and country) (Cho and Moon). The four types of drivers for international co-productions are labeled using the concept of the four factors of the diamond model (i.e., factor conditions; demand conditions; related and supporting industries; and firm strategy, structure, and rivalry) (see Table 1).

Table 1. Four types of drivers for international co-productions

Types	Description	Studies
Cost reduction and efficiency enhancement	• Cheap labor • Finance • Attractive location • Access to the global talents and resources	Coe; Flew; Lorenzen; Rosnan, Ismail, and Daud; Scott; Wasko, *How Hollywood Works*
Market expansion and localization facilitation	• Greater market access	Lorenzen

Diversification and synergy-creation	• Risk diversification • Disintegration of production processes • Legislative change (e.g., tax incentives) • Diversification of economic activities	Lorenzen; Morawetz et al.; Rosnan, Ismail, and Daud
Catch-up and strategic goal-orientation	• Avoiding regulation • Learning and catch-up of the industry leaders	Braester; Davis and Kaye; Owczarski; Peng; Rosnan, Ismail, and Daud

Although previous studies on international co-productions have provided useful findings, none has covered all four perspectives shown in Table 1. Moreover, the studies previously mentioned mainly focus on the motivations or benefits of international co-productions, instead of explaining *how* to create these advantages through *which* tools of internationalization. Different types of tools for internationalization provide different contributions to value creation across firms' entire value chain (Yin). In reality, multinational corporations (MNCs) are integrating various entry modes in order to maximize the advantages from different types of internalization tools (Erkus-Öztürk and Terhorst 224; UNCTAD 142), thereby being more flexible and agile to adapt to external changes. In this respect, this paper applies the integrated approach to GVCs (Moon and Yin; Yin), which explains how MNCs are able to create higher value by incorporating various types of internationalization methods. It further seeks to investigate the process of value creation in the field of international film co-productions.

METHODOLOGY: THE GLOBAL VALUE CHAIN

1. Definition

International film co-productions imply that the value chain activities of filmmakers take place across different countries and involve joint efforts among partners from those countries (Morawetz et al. 422). This is thus consistent with the concept of GVC[2] that is an extension to Porter's "value chain" concept. First, Porter's concept emphasizes that a firm's value chain activities are all located in one country (or home country), whereas GVC extends the location of these activities from a domestic to an international scope. Second, Porter's approach highlights how a single firm implements the value chain activities. In contrast, GVC stresses the collaboration among all relevant parties, thereby extending the mode of value creation from intra-firm to inter-firm collaboration. The following section introduces the integrated approach to GVC (Moon and Yin; Yin) and explains how to apply it effectively to international film co-productions.

2. An Integrated Approach to GVC

There have been three main modes of value creation along the value chain, including trade, foreign direct investment (FDI), and non-equity mode (NEM). According to the recent statistics from the United Nations Conference on Trade and Development (UNCTAD), 80 percent of global trade is linked to the international production networks of MNCs. This is driven by either FDI or contract-based collaboration (135).[3] This implies that trade flows should no longer be considered as arm's length transactions among independent parties, but rather they should be examined together with the investment from MNCs and NEM activities. Despite a significant degree of complementarity among these different modes of value creation, the three approaches—namely trade, FDI, and NEM—to the GVC governance modes have been conducted separately, without an attempt to integrate them into one systematic framework. The reason for this is that they have often regarded the relationship among the three general entry modes as being substituting rather than complementing each other.

Yin illustrates the limitations of these three approaches to GVC and explains the legitimacy and necessity for combining the three approaches in order to capture better the entire picture of MNCs' GVC strategy. This analysis is based upon the following three perspectives.

First, GVC studies using a trade approach tend to focus on the growing trade in intermediate goods, and they further seek to figure out the value-added for each process of production. However, the trade approach cannot explain how these values are created and by whom, because it mainly concerns the international transfer of final goods and services. In this respect, FDI and NEM approaches can complement the limitations of the trade approach. Specifically, the FDI approach is more concerned with firms' value maximization through the internal organizational network across the world; yet the NEM approach looks at the inter-organizational cooperative network for value creation in the global scope.

Second, the trade approach mainly investigates the international production network, and thus focuses on the upstream activities in the value chain. On the other hand, the FDI approach encompasses all of the value chain activities, but is concerned primarily with the value creation in manufacturing industries. In this respect, the NEM approach can complement both the trade and FDI approaches by incorporating all value activities in both the manufacturing and service industries.

Third, the unit of analysis for the trade approach is country; patterns for trade and production are determined by the national comparative advantage (e.g., labor force and natural resources), which is less sensitive to changes in the external environmental. On the other hand, the unit of analysis for the FDI and NEM approaches is the firm. A firm's internal sources as well as its strategic position in the market determine its competitiveness. The difference between the FDI and NEM approaches is that the former emphasizes a single firm's influences on its competitive advantage, whereas the latter stresses the influences of firm network or value chain on its competitive advantage.

Therefore, as each of the three approaches only stresses a part of the entire picture of the GVC strategy, integrating them all together will help contribute to a more comprehensive understanding. Based on the understanding of this integrated approach to GVC, the following shows how it can explain the enhanced value creation through international co-productions in the film industry.

3. Integrated Approach to GVC for the Film Industry

The nature of today's film industry induces filmmakers to be more actively committed to globalization. Feature films tend to have high development costs, and thus require a large market size in order to make a profit (Eliashberg et al. 642; Lorenzen 350). In this regard, smaller countries are more likely to pursue a globalization strategy for the development of their film industry. Even larger countries such as the United States are interested in the global market to ensure more sustainable development because of the saturation of their home markets and slower domestic growth rate.

On the other hand, consumer tastes for films are fairly unpredictable due to differences in national culture, which increase the risks and costs of entering foreign markets. In such a situation, it is necessary and beneficial for firms to maximize the advantages of different types of internalization for higher value creation, while avoiding the disadvantages. The following shows how industry leaders such as Hollywood studios can synergistically combine all of the three methods of internationalization to maximize their profits when going abroad.

3.1. Trade Approach

Export is the simplest and least risky way for competitive films (such as Hollywood blockbusters) to enter foreign markets. However, film industries are often highly regulated by strict import policies, and exporters will only receive a small share of the box office revenue. Although exports can provide opportunities for small film-producing countries, the reality is that over the last decade only a very few countries have been able to join the export markets (Lorenzen 351). For example, China adjusted the maximum number of imported films to thirty-four films, the majority of which are Hollywood productions.

Moreover, the maximum portion of revenues earned by exporters is 25 percent for revenue sharing method (*fenzhangpian*), and even lower for other methods of imported foreign films such as buy-out films (*maiduanpian* or *pipian*). Therefore, MNCs aiming to maximize their profits will also seek other options to enter foreign film markets. For example, through film co-productions with Chinese filmmakers, Hollywood studios can increase their portion of revenues by up to more than 40 percent compared to 25 percent through exports. This is why Hollywood studios are actively promoting Sino-US co-productions to circumvent restrictions and maximize profits, in spite of the fact that Hollywood films already dominate the imported films under the revenue sharing method.

3.2. FDI Approach

The fact that US film companies enjoy the export advantages compared to other film-producing countries can be attributed to the large amount of FDI by the US firms in the fields of marketing and distribution, which help facilitate the exports in the global film market (Lorenzen 351). The investment in the global distribution of feature films has often been highlighted by preceding studies on the film industry (e.g., Aksoy and Robins; Daniels et al.; Miller; Wasko, "Show Me the Money"). In addition, based on transaction cost economics, high industry uncertainty increases the degree of market failure and costs of doing business in the host countries. Thus firms prefer building or joining networks to purely market-based transactions (e.g., exports) (Maskell and Lorenzen 993; Moon, "Foreign Direct Investment" 149).

Joint networks can be categorized into two types: equity and non-equity mode. The former requires a certain level of equity investment for network parties, such as a joint venture; while the latter does not. Instead it uses a loose collaborative relationship, such as a strategic alliance. The former belongs to the FDI approach, whereas the latter is related to the NEM approach. In order to exert control over distribution and dominate the market, some firms look to acquire local companies.

3.3. NEM Approach

Davis and Kaye assert that outsourcing has become an important structural feature of Hollywood-based transnational media companies (59). The emergence of new channels and technologies (e.g., satellite TV, DVD, and the Internet) for distribution and exhibition drive filmmakers to specialize in production, and then outsource other activities to third-party firms. Moreover, even the film production process becomes more dispersed geographically and organizationally in order to reduce costs, improve quality, and seek creative factors (e.g., expert skills). Through this outsourcing, incumbents such as the Hollywood studios can reduce costs, increase flexibility, enter new markets, and transfer risks to other players (Aksoy and Robins 1; Schatz). These days, Hollywood filmmakers outsource not only the simple and low value-added activities, but also some high value-added activities such as postproduction services, for both low-budget films and some blockbusters (Davis and Kaye 61).

Latecomers that join the leading firms' GVC through co-productions are able to learn the international best practices, enter export markets, and eventually catch up and establish themselves as leaders (Davis and Kaye 58). In order to attract leading filmmakers' production for location shooting and other cooperative opportunities, latecomer countries often provide a series of incentives, such as the production tax. The Chinese government has recently encouraged international film co-productions as a way to enhance the competitiveness of its film industry and expand to the global market. It hopes that this will improve its soft power and influences in the world (Braester 55; Owczarski 499). In contrast to many previous studies that focus on the US firms' global strategy for Sino-US co-productions, this study aims to analyze the global strategy of Chinese filmmakers in the context of co-production between China and the United States.

CASE STUDY: SINO-US CO-PRODUCED FILM, *THE GREAT WALL*

1. The Status of Sino-Foreign Co-productions

China has achieved global competitiveness in many manufacturing industries, but its film industry—one of the most important service industries—is quite weak compared to other countries, particularly the United States (Peng 296). Until the 1970s, China's film industry served as a propaganda apparatus for the government instead of a cultural industry. Since the 1980s, the government has conducted a series of structural reforms by adopting a commercialization model to increase its attractiveness and satisfy the growing sophistication among the domestic audience. In this regard, international co-productions have been an essential strategy for China to develop its film industry, with which it aims to enhance the country's soft power capability (Su 317).

According to Chinese official statistics, international co-productions in China increased from 16 in 2002 to 89 in 2016 (Ceng). Moreover, the majority of China's exported films are internationally co-produced films (China Economic News). This suggests that co-productions are the critical way to enter the international market. Out of the 89 co-productions in 2016, those co-produced with Hong Kong amounted to 54 films. Although the number of Sino-US co-produced films is still modest, the influences of US films are significant. Therefore, Chinese filmmakers are eager to collaborate with the Hollywood studios, as they are the leading players in the global film market, with superior production technologies, distribution systems, and marketing channels. These resources are needed and important for Chinese film producers.

Based on an analysis by Peng, this paper divides the history of Sino-US co-productions into three stages (298-300). In the first stage during the 1980s and 1990s, China only assisted its US partner firms with equipment, apparatus, shooting sites, and production related services, without participating in creative activity or financial investment. The second stage was from the early 2000s to 2012. As China joined the World Trade Organization in 2001, its government opened up further and deepened the reform of its cultural industries, thereby creating opportunities for more private companies to enter the film industry. At the same time, it encouraged further collaboration between Chinese and US firms. During the 2000s, the Chinese side has been more involved in financial investment and talent. However, co-produced films were mainly funded by the US side and produced by Chinese companies with more focus on the domestic market. Therefore, films produced for this market show little international influences. In contrast, co-produced films that are successful in the overseas market were usually led by US firms and assisted by their Chinese counterparts.

The signing of the Sino-US Memorandum of Understanding (MOU) in 2012 led to a new stage in Sino-US co-productions. The softening of Chinese policy and the fast-growing film industry greatly encouraged US filmmakers' investment in China, by establishing more subsidiaries there in order to facilitate co-productions. On the other hand, Chinese filmmakers are more eager to enter the global market and enhance their international influences through collaboration with US firms. *The Great Wall*, a recently released co-produced film between China and the United States, is a good example in this regard. The following section will analyze the case of *The Great Wall* using the integrated approach to GVC and provide useful implications for the future of Sino-US co-productions.

2. Application of the Integrated GVC Approach to *The Great Wall*

With a budget of around $150 million, *The Great Wall* is the most expensive Sino-US co-produced film ever made. Notably, it is the first case involving Chinese firms in collaboration with US firms and international personalities, targeting a global audience and featuring mostly English dialogue (more than 80 percent). In previous Sino-US co-produced films, the Chinese role was more limited. The template for many successful Hollywood blockbusters in China was simply to include Chinese elements into the existing US-produced films. Peng labeled such co-produced films as "fake co-productions" (300) because they do not meet the requirements of what the Chinese government classifies as "real co-productions."[4] Such authentic co-productions should organically have a mix of local and foreign actors as well as extensive collaborative support from investment, planning, and pre- and post-productions. From this perspective, the director of *The Great Wall*, Zhang Yimou, hoped his film could be a model for future co-productions between China and the United States, which would then help the United States further penetrate the Chinese film market, while at the same time help China fulfill its ambition to produce a globally successful film.

The following investigates the degree of internationalization of *The Great Wall*, in terms of both the nationality of involved parties and the internationalization tools of each value chain activity. Because of the unique characteristics of the film industry compared to other manufacturing industries, this paper utilizes the modified value chain framework (Lee 104-105) to analyze how each value chain activity was denationalized with internationalization tools. Table 2 shows the summary of this GVC analysis in terms of the seven value activities.[5] As highlighted in the shaded cells of Table 2, the three value activities are dispersed around the world, and the majority of these activities are performed using at least two types of internationalization tools.

Table 2. The analysis of *The Great Wall* using the integrated GVC approach

Value chain activities	Nationality of parties	Internationalization tools (trade, FDI, NEM)
Primary Activities		
Production	China, US	FDI, NEM
Distribution	Global	Trade, NEM
Exhibition	Global	FDI, NEM
Ancillary	-	-
Support Activities		
Administration & Strategy	US (China-owned firm)	FDI
Casting & Crew Management	Global	FDI, NEM
Contents & Technology Management	China, US	FDI, NEM
Network & Marketing Management	China, US	FDI, NEM

2.1. Primary Activities

Production. The famous Chinese director Zhang Yimou was in charge of the film while Legendary Entertainment (US-based and China-owned) was responsible for the production in collaboration with three other firms: Universal Pictures (the United States), Le Vision Pictures (China), and the state-owned China Film Group (China). It is important to note here that the Hollywood-based production company, Legendary Entertainment, was acquired by China's property and entertainment giant Dalian Wanda in 2016. Throughout the film's production, the shooting took place entirely in China. As they were unable to film on the real Great Wall, the production team had to build two walls in Wanda's Qingdao studio.[6] In terms of its style, *The Great Wall* is very similar to a Hollywood blockbuster. Except for the director and several main Chinese actors/actress, most components of this movie—from screenplay, photography, music, editing, fine arts, and special effects—are "imported items," which were produced by the Hollywood team.

Distribution & Exhibition. Legendary Entertainment teamed up with Universal Pictures (the United States), China Film Group, and Le Vision Pictures for the film's global distribution. The film's first release was in China, followed by North

America, Europe, and other regions thereafter. The release in China was handled by China Film Group, Le Vision Pictures, and Wanda's Wenzhou Distribution, while Universal Pictures as the second largest investor was in charge of the distribution across the rest of the world. Moreover, Wanda is the world's largest theater operator due to its active merger and acquisition activities in recent years, such as the acquisition of American AMC Entertainment. This related infrastructure facilitated the greater accessibility of Chinese films in the US market.

2.2 *Support Activities*

Administration & Strategy. Given that *The Great Wall* was produced as a blockbuster-style film, the Chinese side decided to follow the Hollywood filmmaking approach to help them produce a more popular production for the global market. The Chinese and Hollywood approaches to producing films are different. The director of the Chinese style stands at the center of all aspects of film production and has high authority, but in Hollywood, blockbusters in particular, each process should be designed and implemented carefully by various divisions that are in charge of the different aspects of the films. This shows that the directors in the Hollywood system is not as powerful as in the Chinese production system. Regardless, *The Great Wall's* director Zhang accepted this Hollywood style and completed the film within this business framework.

Casting & Crew Management. Among the five lead actors, three are from Hollywood while the other two are from Hong Kong and Mainland China. There are also seven other important Chinese cast members, so it is one of the largest Chinese casts ever assembled for a China-Hollywood co-production. Moreover, a huge number of crew members (about 1,000 people) were employed, with the help of more than 100 translators on the set to handle communication.

Contents & Technology Management. The CEO of Legendary Entertainment, Thomas Tull, first developed the idea for the film when he once flew over the Great Wall of China. Although there are other iconic Chinese items that appear in the film, in order to attract a global audience, the film sought to create an international film with a story that can be understood easily by anyone. To this end, the movie's main language is English, and the leading technology and skill providers are from Hollywood, such as Industrial Light & Magic and Weta Workshop. Furthermore, two-time Oscar winner John Myhre was the production designer while Mayes Rubeo, who had worked on *Avatar*, was the primary costume designer.

Network & Marketing Management. Legendary Entertainment has developed a long-term strategic partnership with China Film Group, which provided local support for shooting locations, equipment, props, and other elements. On the other hand, as Zhang Yimou was the artistic director at Le Vision Pictures, the company was able to help provide actors and network resources. Moreover, an unprecedented promotional campaign supported the film upon its release in the market. Legendary Entertainment spent hundreds of millions of dollars on promotion and advertising worldwide, and its partner Universal Pictures, being in charge of distribution outside China, also spent huge capital on promotion and advertisement.

3. Discussion and Implications

The existing academic articles and media reports that analyzed *The Great Wall* have commonly emphasized that it is the first case of a "true" Sino-US co-produced film. They have highlighted the fact that it is different from other co-productions in terms of the degree of Chinese involvement and the scale of production, distribution, and exhibition. However, few studies have shown how this has been organized in the international context. China has been proud of its long and superior cultural history, and the Chinese government has also been making strong efforts to export its culture to the Western world. That explains why it has required that China-foreign co-productions involve more Chinese elements in terms of investment, lead actors, and content.

The ideal method to reach the global market is to adopt what the Chinese government considers as the "made in China, export to the world" approach. This is also consistent with what producers from Hollywood have employed so far ("made in the United States, export to the world"). However, this approach requires superior competitiveness in film production, such as what Hollywood studios enjoy. Hence, directly accessing the overseas market through export (or trade) of films is not workable for Chinese filmmakers at the early stage.

In this sense, Chinese firms have been actively pursuing collaboration with competitive foreign firms such as Hollywood studios to produce globally attractive films (the NEM approach). *The Great Wall* also follows this trend for its global distribution and screening. However, along with extensive collaboration among external parties including US companies, the uniqueness of *The Great Wall* is the high involvement of the Chinese side in almost all of its value chain activities. Much of this can be attributed to Wanda's significant FDI efforts by acquiring Hollywood producers and movie theaters in recent years. The production process was mainly organized and coordinated by the US-based and China-owned company, Legendary Entertainment, which was also acquired by Wanda in 2016.

Moreover, compared to other successful Sino-US co-produced films, the number of theaters that screened *The Great Wall* was much larger than those of other co-produced films. For example, the Chinese co-produced film *Crouching Tiger, Hidden Dragon* (co-produced by Hong Kong, Taiwan, and the United States) recorded the highest box office success during its opening weekend in the US market, yet only six US theaters actually screened the film. By contrast, around 2,000 US theaters showed *The Great Wall*, a level that is almost equivalent to mainstream Hollywood films. This is possible because of Legendary Entertainment's cooperation with Universal Pictures and the efforts of Wanda's investment in the US by acquiring North America's AMC Entertainment, which operates the world's largest chain of theaters.

This implies that the higher degree of involvement from Chinese elements in co-produced films does not necessarily result in a lower degree of internationalization. *The Great Wall* has demonstrated that Chinese involvement and internationalization are complementary. Compared to previous Sino-US co-productions, the degree of globalization for all value chain activities of this film has improved. For example, in addition to the main target markets of the United States and China, the distributors also released the film in many European, Asian, and Latin American countries.

Going back to the fundamental question on the types of international co-production in the context of Sino-US co-productions, Figure 1 shows the differences in a systematic and simple way. It displays the four patterns of global strategy of Chinese international film co-productions, based on the two dimensions: creation of core value activities and ownership of core value activities. The core value activities refer to the key activities in the value chain—usually high value-added activities—that determine the film's competitiveness. Regulators in China usually believe that they should create and own the featured Chinese elements (Type 1). *The Great Wall* fits with the Type 2 strategy, because the film possessed some core activities (e.g., core production facilities outside of China) by acquiring a few US-based competitive filmmakers and theaters that were initially developed by US resources. By contrast, the preceding Hollywood-led Sino-US co-productions link with the Type 4 strategy, where the US side has created and owned the core value activities and their Chinese counterparts play a less important role of facilitating the production. Type 3 strategy has not yet appeared, as foreign investors are prohibited to set up wholly owned enterprises (e.g., film producers, distributors, and cinemas) in China's film industry according to Chinese regulations. Both Type 1 and Type 3 strategies require Chinese filmmakers' strong ownership advantage in film production.

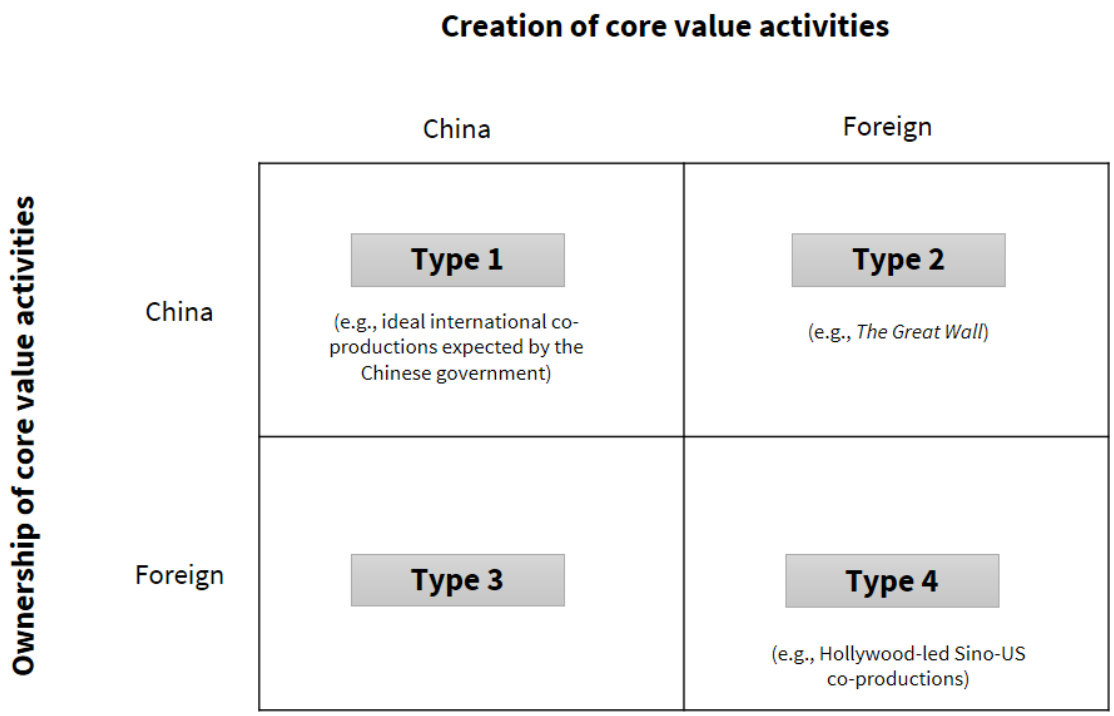

Fig. 1. Types of Sino-US Co-productions

Therefore, the artificial restrictions, seeking to satisfy the requirements for international co-productions, can be counterproductive, because they do not consider the development level of Chinese filmmakers and the commercial needs of the consumers. Such a narrow focus toward co-produced films will negatively affect their success in the market. Co-produced films are more likely to achieve success when Chinese and foreign elements engage in creating a complimentary synergy instead of a physical combination based on a certain ratio. Although it is more desirable for the Chinese side to be involved in more, higher value added activities, this can be difficult for latecomers at the early stage. That is why among the Sino-foreign co-produced films, many so-called "fake" co-productions with less or even a superficial involvement of Chinese elements have been more successful in the market, whereas very few "true" co-produced films including *The Great Wall* succeed.

As *The Great Wall* has failed in realizing its goal of expected box office success, many have questioned whether China should continue its co-productions with the United States. Undoubtedly, there is no other alternative to enter the major league of the film industry without collaboration with the leaders. The failure of *The Great Wall* is not because of the internationalization, but because of the lack of the synergistic combination of the international sources to create higher value. To achieve success, the components of the international resources do not always have to be the best in the world. For example, Zhang Yimou is the most famous director in China, but he is more effective when directing artistic films, not commercial ones. Legendary Entertainment has been more successful as a financier of other firms' movies, than as a developer and producer of its own productions. Furthermore, the film has faced questions and criticism of "whitewashing" Chinese culture because of its choice of Matt Damon as its main actor (BBC).

CONCLUSION

Increasingly, globalization and technology development have disrupted the value chain in the film industry, creating more disintegration in the business than before. However, this trend provides more opportunities for firms from different industries to participate in the film production process. It has also helped promote growth in the integration of cultural and economic activities on a global scale. In spite of the increasing globalization of the film industry, many preceding studies still consider the film industry as a national industry and thus tend to examine the response of firms and governments from the domestic rather than the international perspective. In this respect, this paper introduces the integrated GVC approach to analyzing the disintegration of MNCs' value chain activities across the world in the film industry. The integrated approach to GVC, combining the three tools of internationalization (i.e., trade, FDI, and NEM), aims to analyze how MNCs internationalize their value chain activities in order to exploit more the resources from a global scope. The integrated framework is meaningful in that MNCs seldom pursue one single mode for their entire value chain. It is more common and more effective to combine various governance modes, which can better exploit the advantages of each type of internationalization and more flexibly respond to environmental changes.

By applying the integrated GVC approach to the film industry, this study shows that not only industry leaders such as Hollywood but also latecomers such as Chinese filmmakers are employing various strategies in order to maximize their profits when going abroad. Although Hollywood studios have dominated the global film export markets, because of the strict regulations and various restrictions on foreign films in their host countries, they are increasingly pursuing co-productions in order to further exploit these fast-growing markets, such as in China. These co-productions and exports are often accompanied with investment in the host countries. On the other hand, Chinese filmmakers are also actively joining international co-productions in order to enhance the global influences of their films and gain access to foreign markets. Although *The Great Wall* was not successful in terms of the box office revenue, it is still a very meaningful example considering the significant increase in the involvement across almost every value chain activity and the unprecedented degree of internationalization, by incorporating all the three types of governance modes: trade, FDI, and NEM.

By analyzing the Sino-US co-productions in the international context using the integrated GVC framework, this study further distinguished the creation and ownership of core value activities and suggested four types of Sino-US co-productions. For the latecomers, it is usually more effective to own the key resources by acquiring (i.e., FDI approach) or accessing (e.g., NEM approach) international resources, thereby saving time and costs of developing all value activities by themselves. The Chinese government, however, has tended to develop its indigenous film industry through various protectionist methods and restrictions from foreign competition. In other words, the Chinese government prefers the creation and ownership of core value activities in and by China. However, this strategy is highly constrained by the current capability of Chinese filmmakers.

More importantly, the commercial value delivered to the customers usually determines the success of films in the market. Such commercial value is more affected by how much synergies are created through combining the domestic and international resources. In fact, as has been demonstrated, "real" Sino-US co-productions that satisfy the requirements by Chinese regulators usually fail in the market. Therefore, instead of requiring and quantifying a certain degree of Chinese elements in co-productions, the policies should be designed more in a way to enhance the global competitiveness of the Chinese films, often through co-productions with foreign partners, rather than just to maintain or increase the Chinese cultural and business content.

In addition, this paper showed different patterns of internationalization process for latecomers in the film industry, where exports of films (i.e., final goods) are in fact more difficult than FDI and NEM approaches, as explained in the Chinese case. This is because of the unique feature of the film industry that consumer tastes are highly unpredictable and divergent among countries. In the manufacturing industries where goods are relatively more standardized, latecomers usually start their internationalization through a trade approach that requires fewer resources and involves fewer risks. The generalization of this finding leaves it open for further study by incorporating more cases other than those of Chinese filmmakers.

Notes

1. About 70 percent of China's co-productions have been with Hong Kong, while the United States only accounted for 8.6 percent between 2002 and 2012 (Peng 296).
2. The global value chain (GVC) has become a global phenomenon, this is evident in its explosive growth in terms of speed, scale, depth, and breadth of global interactions, thereby being an important driver of globalization over the past few decades (Elms and Low 1; OECD).
3. For example, the huge exports of Apple's iPhone from China is driven by its contract with Foxconn that is responsible for operations in the value chain. Similarly, the majority of the exports of electronic goods from Vietnam is attributed to Samsung Electronics' FDI in Vietnam (Moon and Yin).
4. According to *China-International Film Co-Production Handbook 2017*, a co-production film is defined as "a film shot by a China-based film producer and a foreign producer that features joint investments (including funding, labor and materials, joint filming, and joint sharing of both benefits and risks). Such films are subject to preferential policies that are typically applied to domestic Chinese films within Chinese marketplace" (MPA 2).
5. Ancillary activities refer to linkage and spillover effects to other industries and products, such as games, merchandise, theme parks, and TV series. Since the focus of this paper is the film industry by analyzing the process and value creation through different transactional modes, the analysis on ancillary activities are excluded.
6. Dalian Wanda Group spent billions of dollars to build soundstages and state-of-the-art production facilities in the seaside city of Qingdao to attract thirty foreign film productions. *The Great Wall* was perhaps the most famous production in the Qingdao studio so far.

Works Cited

Aksoy, Asu, and Kevin Robins. "Hollywood for the Twenty-first Century: Global Competition for Critical Mass in Image Markets." *Cambridge Journal of Economics*, vol. 16, no. 1, 1992, pp. 1–22.

Baltruschat, Doris. "Globalization and International TV and Film Co-productions: In Search of New Narratives." *MIT*, 2002, https://cmsw.mit.edu/mit2/Abstracts/DorisBaltruschat.pdf.

BBC. "The Great Wall: Is Matt Damon "Whitewashing" or Good Business?" *BBC News*, 29 July 2016, https://www.bbc.com/news/world-asia-36921328.

Braester, Yomi. "The Spectral Return of Cinema: Globalization and Cinephilia in Contemporary Chinese Film." *Cinema Journal*, vol. 55, no. 1, 2015, pp. 29–51.

Ceng, Xingyi. "The Current Status and Future of Film Co-productions between China Mainland and Hong Kong." [in Chinese]. *China Daily*, 29 June 2017, http://cn.chinadaily.com.cn/2017-06/29/content_29936332.htm.

China Economic News. "Chinese Industry's "Going Abroad" Strategy Should Stimulate Vitality of Market Players." [in Chinese] *China Economic News*, 25 June 2015, http://www.cet.com.cn/wzsy/gysd/1573230.shtml.

Cho, Dong S. and Hwy-Chang Moon. *From Adam Smith to Michael Porter: Evolution of Competitiveness Theory*. Extended edition. World Scientific, 2013.

Coe, Neil M. "A Hybrid Agglomeration? The Development of a Satellite-Marshallian Industrial District in Vancouver's Film Industry." *Urban Studies*, vol. 38, no. 10, 2001, pp. 1753–1775.

Daniels, Bill, David Leedy, and Steven D. Sills. *Movie Money: Understanding Hollywood's (Creative) Accounting Practices.* Silman-James Press, 1998.

Davis, Charles, and Janice Kaye. "International Film and Television Production Outsourcing and the Development of Indigenous Capabilities: The Case of Canada." *Locating Migrating Media*, edited by Greg Elmer, Charles Davis, Janine Marchessault, and John McCullough, Rowman and Littlefield, 2010, pp. 57–78.

Eliashberg, Jehoshua, Anita Elberse, and Mark Leenders. "The Motion Picture Industry: Critical Issues in Practice, Current Research and New Research Directions." *Marketing Science*, vol. 25, no. 6, 2006, pp. 638–661.

Elms, Deborah K., and Patrick Low. *Global Value Chains in a Changing World*. World Trade Organization (WTO), 2013.

Erkus-Öztürk, Hilal and Pieter Terhorst. "Variety of Modes of Governance of a Global Value Chain: The Case of Tourism from Holland to Turkey." *Tourism Geographies*, vol. 12, no. 2, 2010, pp. 217–245.

Flew, Terry. *Understanding Global Media*. Palgrave Macmillan, 2007.

Hill, John, and Nobuko Kawashima. "Introduction: Film Policy in a Globalized Culture Economy." *International Journal of Cultural Policy*, vol. 22, no. 5, 2016, pp. 667–672.

Lee, Yeon W. *The Strategy for Sustainable Competitiveness: Theoretical extension and application to global conglomerates in cultural industries*. Ph.D. dissertation, Seoul National University, 2018.

Lorenzen, Mark. "Internationalization vs. Globalization of Film Industry." *Industry and Innovation*, vol.14, no. 4, 2007, pp. 349–357.

Maskell, Peter, and Mark Lorenzen. "The Cluster as Market Organization." *Urban Studies*, vol. 41, nos. 5/6, 2004, pp. 991–1009.

Miller, Toby, Nitin Govil, John McMurria, Richard Maxwell, and Ting Wang. *Global Hollywood*. BFI Publishing, 2001.

Moon, Hwy-Chang. *Foreign Direct Investment: A Global Perspective*. World Scientific, 2016.

---. *The Strategy for Korea's Economic Success*. Oxford UP, 2016.

Moon, Hwy-Chang, and Wenyan Yin. *Korea's Strategy for Attracting Foreign Direct Investment in Response to the New US Government*. [in Korean]. KOTRA, 2017.

Morawetz, Norbert, Jane Hardy, Colin Haslam, and Keith Randle. "Finance, Policy and Industrial Dynamics: The Rise of Coproductions in the Film Industry." *Industry and Innovation*, vol. 14, no. 4, 2007, pp. 421–443.

Motion Picture Association (MPA). *China-International Co-Production Handbook. Motion Picture Association*, 2017, https://mpa-i.org/wp-content/uploads/2017/11/2017-China-Co-Production-Handbook.pdf.

Organisation for Economic Co-operation and Development (OECD). *OECD Science, Technology and Innovation Outlook 2016*. OECD Publishing, 2016.

Owczarski, Kimbery. "A Very Significant Chinese Component: Securing the Success of Transformers: Age of Extinction in China." *The Journal of Popular Culture*, vol. 50, no. 3, 2017, pp. 490–513.

Peng, Weiying. "Sino-US Film Coproduction: A Global Media Primer." *Global Media and China*, vol. 1, no. 4, 2016, pp. 295–311.

Porter, Michael E. *Competitive Advantage: Creating and Sustaining Superior Performance*. Free Press, 1985.

---. *Competitive Advantage of Nations*. Free Press, 1990.

Parc, Jimmyn, and Hwy-Chang Moon. "Korean Dramas and Films: Key Factors for Their International Competitiveness." *Asian Journal of Social Science*, vol. 41, no. 2, 2013, pp. 126–149.

Parc, Jimmyn, Patrick Messerlin, and Hwy-Chang Moon. "The Secret to the Success of K-pop: The Benefits of Well-Balanced Copyrights." *Corporate Espionage, Geopolitics, and Diplomacy Issues in International Business*, edited by Bryan Christiansen and Fatmanur Kasarci, IGI Global, 2016, pp. 130–148.

Rosnan, Herwina, Mohd Nazari Ismail, and Norzaidi Mohd Daud. "The Globalization of Film Business and Its Effect on the Malaysian Film Industry." *Business Strategy Series*, vol. 11, no. 5, 2010, pp. 325–332.

Schatz, Thomas. "The Studio System and Conglomerate Hollywood." *The Contemporary Hollywood Film Industry*, edited by Paul McDonald and Janet Wasko, Blackwell Publishing, 2008, pp. 13–42.

Scott, Allen J. *On Hollywood: The Place, the Industry*. Princeton UP, 2005.

Su, Wendy. "New Strategies of China's Film Industry as Soft Power." *Global Media and Communication*, vol. 6, no. 3, 2010, pp. 317–322.

The Great Wall. Directed by Zhang Yimou, performances by Matt Damon, Jing Tian, Pedro Pascal, Willem Dafoe, and Andy Lau. Legendary Entertainment, Universal Pictures, Le Vision Pictures, and China Film Group, 2016.

UNCTAD. *World Investment Report 2013*. UNCTAD, 2013.

Wasko, Janet. *How Hollywood Works*. Sage, 2003.

---. "Show Me the Money: Challenging Hollywood Economics." *Toward a Political Economy of Culture*, edited by A. Calabrese and C. Sparks, Rowman and Littlefield, 2004, pp. 23–47.

Yin, Wenyan. *Global Value Chains (GVCs): Theoretical Integration, Extension, and Empirical Analysis*. Ph.D. dissertation, Seoul National University, 2017.

Zhou, Tiedong. "The Global Strategy of Hollywood-China Film Coproduction." *Film Art*, vol. 5, 2012, pp. 5–11.

