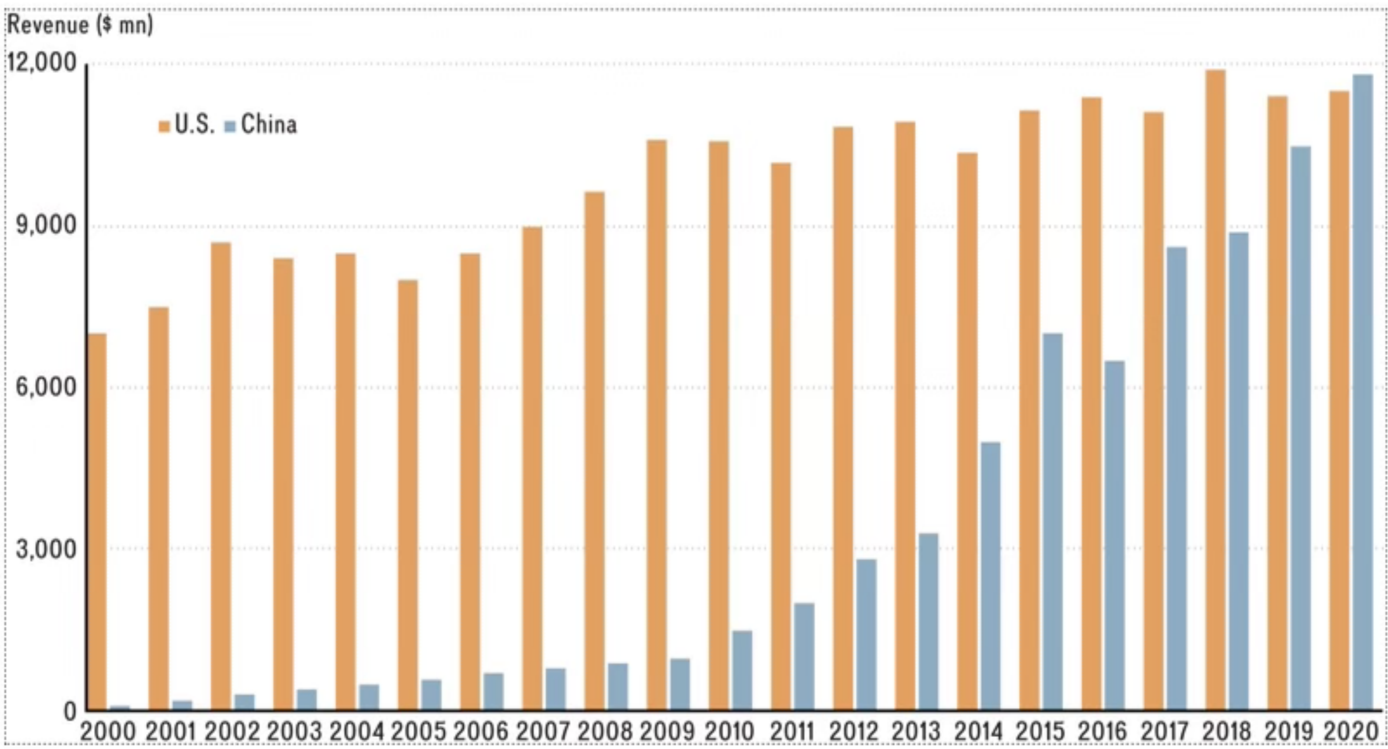
China: Now the Largest Movie Market

That the economics of the movie industry have fundamentally changed is further bolstered by the fact that in 2018 China became the second-largest contributor to Hollywood's top line, comprising close to $9 billion in annual revenues. China's overall box office revenues tripled between 2013 and 2018. China is poised to exceed the United States in terms of total box-office sales by 2020, making it the largest movie market globally. China has already exceeded the United States in terms of the number of movie screens in the country. However, growth in movie attendance is not as profitable in China as traditional releases in the United States. Film distributors typically earn 50 to 55 percent of box-office revenues in the United States. The average in many other countries is closer to 40 percent (the rest goes to the cinema owner). But in China, a typical Hollywood film distributor gets only 15 percent of the box-office ticket revenue. **Exhibit MC10.3** depicts overall box office revenues for the United States and China.

EXHIBIT MC10.3 Box Office Revenue in the United States and China, 2000–2020



Source: Author's depiction data from IHS Markit (with projections for 2019 and 2020).

Given China's importance as a movie market, it is no wonder that Hollywood executives are willing to do what they can to enter that market, which is difficult, given the Chinese government's stringent screening regulations. Only a select few Hollywood movies actually make it into China's theaters. As of 2018, the number of foreign movie imports allowed per year was 41. During national holidays, the state-backed distributor China Film Group restricts most Chinese theaters to Chinese films, further impacting revenue for Hollywood studios.