

# ***Entry Barriers and SWOT Analysis of Hollywood Movies Entering the Chinese Market***

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**Abstract:** The objective of this investigation is to examine Hollywood movies that are exported to the Chinese movie market and to evaluate the prevailing state of the international film industry. This paper focuses on both explicit and implicit entry barriers into the Chinese movie market while utilizing a SWOT analysis to provide a comprehensive assessment. The analysis of entry barriers can be broadly divided into two parts, namely explicit and implicit barrier analysis. Explicit barriers include the Chinese quota system for foreign films and various censorship regulations levied by SAPRFT. These barriers directly impact the entry of Hollywood movies into the Chinese market. Otherwise, after Hollywood movies are screened in China, various implicit barriers come into play. These include disparities in marketing strategies, differences in Chinese culture, and delays in movie releases, which impact a movie's success in the Chinese market. Furthermore, the impact of the COVID-19 pandemic on the entire film industry is discussed, along with other external factors that may impact international film import and export. These analyses provide valuable insights for stakeholders involved in international film distribution.

**Keywords:** Hollywood movie, US-China relation, entry barriers, SWOT analysis

## **1. Introduction**

The film market is a significant import and export market for both the United States and China. With the rise of the Chinese economy, the country's vast potential consumer base has become an essential part of the global commercial market, which has become one of the largest in the world in recent years. According to data, China became the world's second-largest film market with a revenue of \$9.2 billion in 2019, second only to the United States' \$11.4 billion. In 2020, Chinese box office revenue reached \$3.13 billion, surpassing America's \$2.28 billion, making China the world's largest film market<sup>1</sup>.

Hollywood movie are one of America's most successful represent in film export, which are increasingly focusing on the Chinese market in recent years. Some Hollywood movies achieve

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<sup>1</sup> The data source retrieved from: <https://www.scmp.com/business>.

higher box office success in China than in their home country. For example, the co-produced film “Pacific Rim Uprising” was successful in China, with revenue of \$65 million<sup>2</sup>. Additionally, the Transformers movie franchise has also been successful in China. In 2014, “Transformers: Age of Extinction” was only the 7th highest-grossing movie in the United States, but it was the highest-grossing movie in China that year.

Notably, it is imperative to recognize that the Chinese film market is not fully liberalized, as evidenced by the analysis of both explicit and implicit barriers to entry. Clear examples of explicit barriers include the Chinese quota system and the strict censorship regulations for films. Implicit barriers, on the other hand, manifest in various forms, such as disparities in marketing strategies, cultural differences, and strategic timing of film releases in the Chinese market.

Furthermore, the COVID-19 pandemic has significantly impacted the entire movie industry. The COVID-19 pandemic has further disrupted the financial situation of these two industries and reshaped their market structure [1] and exogenous shock factors will be discussed.

In general, penetrating foreign markets entails encountering diverse hurdles that require careful analysis and strategic resolution. This paper aims to conduct a comprehensive analysis of entry barriers, as well as a SWOT analysis, for Hollywood movies seeking entry into the Chinese market. Through multifaceted perspectives, this study aims to examine the barriers, opportunities, and challenges that Hollywood enterprises must consider when entering the Chinese market. This research topic provides a distinctive contribution to the literature on the international film market.

## **2. Background of China's Film Market**

### **2.1. Hollywood and China Film Market**

Film studios are prominent companies involved in the production and distribution of films, known for releasing a considerable volume of movies each year and consistently capturing a significant portion of box office revenue in their respective markets. In North America and the international movie market, major studios often are referred to as the “Big Five”<sup>3</sup>. The five major studios- Universal Pictures, Paramount Pictures, Warner Bros. Pictures, Walt Disney Pictures, and Columbia Pictures- take up over 80% of the market share in the US and Canada. For the international movie market, these major studios also are in a dominant position where the top 30 highest-grossing films internationally are all directly associated with these five major studios [2]. All of these are proof of the dominant position of these five companies both internationally and domestically. Originating in Hollywood, USA, the big five studios have been creating movies for audiences all over the world to enjoy including Chinese audiences.

### **2.2. Five Eras of Chinese Imported Foreign Movies**

Ever since the reform and opening policy in China in 1978, Hollywood movies are gradually introduced to the Chinese market. As the first officially imported foreign Hollywood film named *One Flew Over the Cuckoo's Nest* was introduced to China, Chinese people were able to enjoy the movie magic brought by those Hollywood movies. There are four important eras of Chinese imported movies. The first era can be seen as “The Reform and Opening-Up Era (1978-1990s)”, even though in this period, limited imports of foreign films were allowed with Hollywood films being a prominent part of the selection. The second era can be seen as the “Expansion and Market Opening eras (1994 to 2004)”. In this era, the Chinese movie market gradually grew with more imported films shown to the public including some Hollywood blockbusters. Also, in this era, the

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<sup>2</sup> The data source retrieved from: <https://www.latimes.com/>.

<sup>3</sup> There used to be Big Six until the Acquisition of 21st Century Fox by Disney was completed in 2019.

Chinese movie quota system was built for 10 revenue-sharing films to be released in China, which means the Chinese government's control over imported movies became systematic. The third era was after the signing of the WTO agreement, China further liberate its market and increased its quota to 20 revenue-sharing films. The final era can be seen as the market boom for the Chinese film industry from 2009 to now on with the most screen numbers, becoming the second-largest movie market. Hollywood movies also gained a lot of recognition during this period in China. Hollywood Movies such as Titanic and Avatar are popular among Chinese people. However, it is important to note that Hollywood is faced with a lot of challenges in the Chinese movie market. Besides the regulation from the authority, the challenges in the movie market itself are quite serious. With a more mature film production industry in China than before, China's movie-making capabilities are improving and can meet the needs of the growing Chinese audience [3]. In short, Hollywood movies are faced with both opportunities and challenges in such a lucrative market.

### **3. Entry Barriers**

#### **3.1. Explicit Barriers**

##### **3.1.1 Quota System in China**

The Quota system was first established in 1995 as the first revenue-sharing film *The Fugitive* was released in China after The State Administration of Press, Publication, Radio, Film, and Television (SAPRFT) approved to release of 10 revenue-sharing movies per year and to import the movies that "Basically reflect the achievements of the world's civilization and express the achievements of contemporary cinema". The 85% of attendance rate for the movie *The Fugitive* showcased the popularity of Hollywood movies in China. Even though WTO constantly urges China to liberate its movie market as promised in 2001 to create a free market for movies around the world to compete freely, even though Hollywood movie companies constantly negotiate with the Chinese government in the hope of getting a more transparent system and raising box office share from current 25%, China seems to satisfy with the status quo. China imposed the quota system in order to help protect domestic movies from excessive blockbusters in Hollywood. As pointed out in the "China Film Development Plan for the 14th Five-Year Plan, the annual box office share of domestic films shall not be less than 55%"<sup>4</sup>. Imposing a quota on revenue-sharing imported movies is one way to achieve the goal.

##### **3.1.2 Censorship from SAPRFT**

The censorship from SAPRFT is another barrier that Hollywood movie companies must face when entering the Chinese movie market. The whole process of censoring the film is both demanding and time-consuming. Due to the lack of transparency in the system Hollywood companies and the public do not know about the process. The bureaucracy in this system is quite serious [4]. The content restriction is strictly controlled by SAPRFT. Although there is no specific guideline for which content to censor due to lack of transparency, there are some elements that are forbidden in Chinese movie screens including but not limited to political content about The Chinese Communist Party (CCP) religious content, violence and sensitivity, and sexual content. Stanley Rosen, a Political Science Professor at the University of Southern California, claimed "There's kind of contradictory impulses. On the one hand, China wants to be the best at everything. They want to succeed. On the other hand, they want to promote what the leader is promoting; Chinese propaganda or socialist core values", which accurately reflects the dilemma Hollywood movie

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<sup>4</sup> The data source retrieved from: <http://gbdsj.gd.gov.cn/>.

companies are in. The censorship process and whether the movie can go on the screen sometimes depends on the US-China relationship.

### **3.2. Implicit Barriers**

#### **3.2.1 Marketing Strategies**

Despite the systematic factors, different marketing strategies can also pose as a latent barrier to the sales of movies. Previous studies have shown that altering social media posts related to the content of a movie can influence customers' purchase intention. Furthermore, marketing that emphasizes the attributes of a movie, as well as promotional materials related to movie merchandise, can influence consumer willingness to buy through peripheral pathways [5]. To be more specific, varying marketing combinations have differing levels of attraction for consumers, with some marketing strategies with lower promotional intensity resulting in a decrease in consumer attraction.

#### **3.2.2 Cultural Difference**

Besides the marketing strategies, the cultural differences between China and the United States are notable in terms of their preference for collectivism and individualism, respectively. This cultural difference has been well-reflected in Hollywood and Chinese films, resulting in different forms of "heroism" between the two cultures [6]. For instance, comparing the heroism portrayed in the Hollywood film "Die Hard" and the Chinese film "Assembly", the hero in the former is portrayed as prioritizing the safety of his family while risking his life to save them, highlighting the strong individualistic values of American culture. In contrast, the "hero" in the Chinese film "Assembly" chooses to uphold the greater good of the country when faced with conflicts between national and family interests, reflecting the collectivist values at the core of the hero's national orientation [7].

Fundamentally, the historical and cultural backgrounds of China and the West vastly differ, resulting in different reference points and perspectives when watching films. Cross-cultural films may lead to negative viewing experiences for audiences, such as a lack of understanding of the plot or the inability to relate to the film's cultural context, which requires Hollywood film companies to consider cultural differences more carefully when entering the Chinese market.

#### **3.2.3 The Delay in Release Dates**

The release date has been identified as a hidden trade barrier through experimentation as China controls the release dates of foreign films in order to limit their exposure. According to the data, even with the use of film import quotas to restrict the number of foreign films, half of the films are delayed by four weeks or more after their US release date. For example, in 2014, the Chinese government delayed some releases of films originally scheduled for November until 2015, without providing any explanation. The primary reason for the delay was to help protect local Chinese films from the threat of American films. Such delays prevent Hollywood from maximizing global excitement [8], making them a hidden barrier to the import of Hollywood films.

### **3.3. External Barriers**

The COVID-19 pandemic and the resulting lockdowns have had significant effects on the film industry in China, affecting the market structure, and changing viewing preferences and types. Research shows that high-emotion appeal genres such as drama and romance are more susceptible to the impact of the COVID-19 pandemic than low-emotion appeal genres such as horror and science fiction [1].

During the pandemic, the closure of cinemas, the need to maintain safe social distancing leading to empty seats, and the rise of streaming platforms have all contributed to dismal box-office results for theatrically-released films. Following a widespread shutdown that began in January 2020, Hollywood has also experienced severe repercussions [9]. The outbreak of this pandemic has caused an exogenous shock to the global film industry, resulting in a loss of \$5 billion [10]. The impact was not limited to the Chinese film industry alone.

## **4. SWOT Analysis**

### **4.1. Strengths**

#### **4.1.1 Ability to Create the Blockbuster Films**

For Hollywood, the strength that makes it the most profitable movie industry in the world with received earnings of up to \$11.32 billion before the pandemic in 2019 is its ability to create movies that people around the world can resonate with<sup>5</sup>. With studios like Disney, Paramount, Sony, Universal, and Warner Bros, Hollywood can produce an average of 600 well-made films per year before the pandemic<sup>6</sup>. It is also true for the Hollywood movie in the Chinese movie market, even though restrictions in the Chinese movie market, imported movies counted for an average of 40% of the Chinese box office before the pandemic<sup>7</sup>. The stunning visual effect, and the incredible ability to tell the story, are strengths Hollywood movies have against Chinese domestic movies when competing in the same market. The huge talent pool around the world gathers in Hollywood to write appealing stories. The mature studio system makes sure that a great idea can be made into reality. Advanced filmmaking technologies enable filmmakers to create magic on screen. The environment without much government intervention facilitates that the movie workers can create the movie however they want to suit the global market. These are the strengths that Hollywood had against Chinese films when competing in the Chinese market. In short, one of the strengths Hollywood movies have in the Chinese movie market is its ability to produce well-made movies that resonate with Chinese audiences.

#### **4.1.2 Ability to Make and Promote a Beloved Brand in China**

In recent years, the most of top grossing imported films in China are movie franchises. In 2022 alone, due to restrictions from the Chinese government, there are only 4 movies that are in the top 25 grossing films in China and 3 of them are movie franchises (Jurassic Park, Avatar, and Minion)<sup>8</sup>. Before the pandemic, the situation is more obvious. In 2019, out of 8 movies that made it into the top 25 grossing films in China, 6 of them were from movie franchises. The reasons why Chinese people love franchise movie is the same as the people around the world. First, they feel a connection with the movie characters they make a bond with and are willing to pay to see their face in the cinema. They see the characters in movies as a part of their family. The brand effect does not just stay in theaters but outside of theaters like dolls or theme parks. Marvel Studio is a great example of this. First, Marvel Studio creates several movies full of different types of superheroes including Ironman, Captain America and Thor, and so on. These movies alone make tons of money in the Chinese movie market. Different people can pick their favorite superheroes from the Marvel Superhero list and make a bond with them. Then, by promoting the IP by interviewing the cast and interacting with the audience, Marvel makes the character more lovable. By constantly advertising

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<sup>5</sup> The data source retrieved from: <https://www.newvisiontheatres.com>.

<sup>6</sup> The data source retrieved from: [https://www.boxofficemojo.com/?ref=bo\\_nb\\_hm\\_mojologo](https://www.boxofficemojo.com/?ref=bo_nb_hm_mojologo).

<sup>7</sup> The data source retrieved from: <https://cn.chinadaily.com.cn>.

<sup>8</sup> The data source retrieved from: <https://www.endata.com.cn>.



in bus stations, video platforms, and many places, Marvel strengthens the impression people have of these characters. By doing all these, the audience in China is willing to pay to see the movies, buy the movie merchandise, and even spend tons of time investigating the easter eggs hidden in the movies. Thus, by utilizing these techniques, Marvel can make every movie they release a phenomenon for Chinese fans. Especially in 2019 when Avengers Endgame was released in China, Marvel makes the event bigger than some festivals, heating a new midnight milestone worth RMB 189M (\$28.2M)<sup>9</sup> on Tuesday. This is just among so many brands Hollywood made that are popular in China, which sufficiently shows its power in brand against Chinese movie IP.

#### 4.2. Weaknesses

When competing with Chinese domestic films in the Chinese movie market, Hollywood movies can encounter several obstacles that hinder their movie revenue in China. As mentioned, there are 3 ways for an imported movie introduced in China-Revenue Sharing/imported quota, buyout movies, and Co-Production Revenue Share Hybrid. Most Hollywood studios will choose the method of revenue sharing even though they receive only 25% of the box office. The reason most studios choose this is quite straightforward-money. As the second-largest movie market before the pandemic and the largest box office in 2020 and 2021, the Chinese movie market is lucrative to Hollywood studios no matter the cost. Unfortunately, the import quota is strictly restricted to 34 movies [11].

#### 4.3. Opportunities

There could be win-win situation by cooperating with local enterprises. Hollywood movie companies could achieve a win-win situation and expand their market presence in China by partnering with local Chinese enterprises. For example, in 2016, Taopiaopiao, a subsidiary of the Alibaba Group, partnered with Universal Pictures to jointly release and promote movies, with the aim of developing the Chinese movie market. The partnership resulted in notable success, including the release of "The Fate of the Furious" in China, which earned over \$54 million in box office revenue in its opening week<sup>10</sup>. In addition, other Hollywood movie giants have also collaborated with Chinese enterprises, such as Warner Bros. and its Chinese partner Flagship Entertainment, in a five-year partnership to develop and release social entertainment content. These cooperation cases demonstrate that Hollywood film enterprises recognize the importance of the Chinese market and are willing to collaborate with Chinese enterprises to expand their market presence. Such collaborations can strengthen mutually beneficial relationships between both parties and contribute to the development of the Chinese and global movie market.

#### 4.4. Threats

Intellectual property rights infringement becomes a risk when Hollywood movies enter the Chinese market. Although China continues to make efforts to protect these rights, some unresolved issues remain. The Motion Picture Association of America claimed that nearly 90% of Hollywood films sold in China are pirated [12]. The Chinese market has been under scrutiny in the past due to unauthorized piracy, and although the Chinese government has taken measures to strengthen intellectual property protection, including enacting laws and regulations and strengthening law enforcement efforts, some forms of infringement are difficult to avoid, such as piracy of movies

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<sup>9</sup> The data source retrieved from: <https://deadline.com>.

<sup>10</sup> The data source retrieved from: <https://economicinema.com>.

offered through illegal downloads or online streaming services. These types of piracy have thrived in the digital age, causing increasing losses to copyright owners.

## 5. Conclusion

In conclusion, Hollywood movies, with their strong ability to make content and promote themselves in China compared to Chinese domestic films, were able to make lots of money in the Chinese movie market in the past. However, the Chinese movie market changed dramatically in the past few years with the rise of the popularity of Chinese domestic films and the restriction such as quota and censorship systems. Hollywood movie companies must take action specifically aimed at the Chinese market in order to maximize their profit. What we have discussed above can be seen as our humble analysis of the situation Hollywood movie companies are in, which can be used in reference to Hollywood movie companies when dealing with the problems in Chinese movie market. Please note that there are many aspects that have not been discussed due to our limitations such as the suggestions for Hollywood companies to deal with the weakness and threat. If there is anything that needs to be corrected, please kindly express it. Furthermore, as the pandemic has significantly impacted the movie industry and altered consumer behavior regarding film consumption, it may be worthwhile to conduct a specific analysis of content perspective for further investigation.

## Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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