HOLLY WORLD

Crouching U.S. studios, hidden Chinese market

Major film companies prepare to pounce if the world's biggest market comes out from behind Communist rules and rampant piracy.

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The Art Deco glory of the Cathay Theatre on Huaihai Zhong Road still beckons to those who love movies, a renovated bit of 1930s Americana in Shanghai that is a reminder of Hollywood's long history of building dream palaces in China. War, a communist revolution and a capitalist reawakening have roiled the country since then, and modern Shanghai's sky-piercing cityscape is more suited to Anakin Skywalker than to Clark Gable.

But this is still a movie town.

So it's no surprise that the Walt Disney Co. is also hanging out in this city of 17 million that is once again China's economic engine and its biggest film market.

In the week before Christmas, a Disney production crew was setting up on a Shanghai sound-stage to shoot the final scenes of "The Secret of the Magic Gourd." It is a modern fable about a magical fruit that bestows special powers — and the moral burdens that come with them — on a young boy.

Pure Disney.

What's unusual, however, is that the film is not just being made in China. It's being made for China. "The Secret of the Magic Gourd" is a Chinese story, shot by a Chinese director, with a Chinese cast and crew. In Chinese. For a Chinese audience. "We're not trying to make an American movie here," says Mark Zoradi, head of Buena Vista International, which distributes Disney's films worldwide. "We're making a Chinese movie."

That's a sharp creative departure for Disney, whose mouse ears have become synonymous with American cultural imperialism. Traditionally, Hollywood studios have tailored their films for showing in Los Angeles or Kansas City or Lubbock. Foreign markets were the icing on an American cake, a lucrative revenue stream for the cost of a few subtitles or some language dubbing. Then in recent years, as the cost of filming in Hollywood skyrocketed, foreign lands became the destination of choice for bargain-basement movie production — with their offer of cheap labor, financial incentives and unspoiled landscapes. But American moviegoers were still the endgame.

Now, faced with shrinking, fragmenting audiences at home, the studios are rethinking how they operate in foreign markets. And markets don't come any bigger than China: 1.3 billion people — a fifth of humanity — with more of them becoming middle class every day. Just last week, Beijing acknowledged that it has been undercounting its real level of growth. The Chinese economy, it claimed, is now bigger than that of France or Britain.
You can hear the logic being exchanged between studio executives on their BlackBerrys: All those people (a fifth of humanity!). Ready to be entertained. Open to American culture. If just a fraction of them went to the movies — once a month, say, and maybe bought a spinoff toy or video game ... well, do the math.

Every studio seems to have a China Project on the go. But, like the political class in Washington, there is no consensus in Hollywood on how to handle a country caught in the purgatory between one-party rule and go-go capitalism. About all the studios agree upon is that they need some kind of foothold. Set up a business here. Make connections. Be ready for the day it all blows open — if it ever really does.

So Warner Bros. has found a Chinese partner to build state-of-the-art multiplexes in a country with still fewer than 2,400 screens (the U.S. has more than 36,000), figuring there is an audience prepared to pay for the sensory assault of a Peter Jackson film while slouched in a comfy seat that has a handy cup holder for their Coke.

The Burbank company also created Warner China Film in 2004, a joint venture with two Chinese partners that is the first full-service studio in China to produce, finance, market and distribute films in Chinese for the Chinese market. It now has 17 employees, a spot on the lot of Beijing Film Studios and a handful of films in development. The first planned release, "The Painted Veil," starring Edward Norton and Naomi Watts in the W. Somerset Maugham story of expatriate love in 1920 China, finished shooting in November.

"We wanted to invest in local production here, but only if we could have a company," says Ellen Eliasoph, vice president of Warner China Film, describing how the studio was created just before the Chinese shut down such joint ventures. "Things change fast in China: doors open, doors close. We just got in." Sony is widely acknowledged to have been the most aggressive Hollywood player in China and the first to reap rewards as co-producer of 2000's surprising global hit "Crouching Tiger, Hidden Dragon." Since then, it has stuck to its formula of co-producing, financing and distributing Chinese films, including this year's hit "Kung Fu Hustle." But Sony's primary focus is in producing shows for the booming Chinese television market, with plans to produce about 150 hours of new domestic programming over the next two years, following a model that has worked well for the company in parts of Latin America.

Yet all the studios have discovered, too, the resilience of China's great walls that protect against foreign intruders. Perhaps the most disillusioned of the early true believers is News Corp.'s Rupert Murdoch, who in early 2004 gave a speech proclaiming that "the potential for China to become a new global center for media and entertainment is slowly becoming more real." By last September, one month after Beijing's decision to re-tighten regulatory controls on foreign media, Murdoch was publicly lamenting that News Corp.'s China business had hit a "brick wall." When it came to foreign media, he complained, China's political leadership was "quite paranoid about what gets through."

"People have been waiting for China to open up since Marco Polo," said one senior Hollywood executive, a skeptic about China's short- and medium-term potential, who did not want to be named. It is wrong, he suggests, to assume that just because the Communist Party is slowly relaxing its grip over its markets that China will someday become an open media market. "People forget," he says. "It's not just a Communist Party thing. It's a Chinese cultural thing."

The skeptics have a long list of reasons why you can't do movie business in China: the deplorable condition of Chinese movie theatres, a quota that limits foreign films to 20 a year and one of the worst revenue-sharing deals (just 13% of the ticket take) that Hollywood has negotiated anywhere. Then there are strict guidelines on content. No sex. No religion. Nothing to do with the occult. Nothing that jeopardizes public morality or portrays criminal behavior.

But perhaps the most crippling obstacle remains China's rampant piracy. The frenetic trade in pirated DVDs operates openly on Shanghai street corners, where Hollywood's blockbusters and prime-time TV shows are sold from rickety stalls and suitcases, all for less than a dollar. It leaves China with a market — or at least a legitimate market — about the size of Peru. What studio executive is going to spend time and energy banging his head against the Chinese politicians and bureaucrats for a market the size of Peru?

And yet, and yet ... that potential. What if China's for real, some wonder? What if this economic superpower-apparent does open up, gets piracy under control, becomes a cultural Goliath? Because if that
happens, what the Chinese choose to watch and how they choose to do so may dictate global trends and tastes for the next century.

**Getting past 'Mulan'**

"If China is going to get closer to the rest of the world, the children on both sides need to see and hear each other's stories," says "Magic Gourd" director and producer John Chu, who owns the movie rights to one of China's most beloved stories and brought it to Disney. He is sitting in a hotel cafe across from the Cathay Theatre, in town for the film's final days of shooting on a Shanghai sound-stage, ruminating about Hollywood's future with China.

"I want to see this very famous Chinese story appreciated by the rest of the world, and Disney knows how to do that," Chu says. "We mustn't think that everything the West does is bad. We should all be able to learn from one another, share our experiences, our dreams." Chu is running a risk. He has been entrusted — given the government's thumbs up — to make a movie out of a national treasure. "Magic Gourd" was written in 1958 and became a touchstone for generations of Chinese children (except for those raised during the 1966-76 Cultural Revolution, when the book fell out of favor over its reliance on the bourgeois imagery of magic and dreams).

Chu sewed up the movie rights from the author's family several years ago, then brought a script and storyboards for what he calls a "live-action animated film" version of "Magic Gourd" to a meeting with Disney executives in Hong Kong this year. This is the studio that in 1998 turned "Mulan," a much older Chinese fable, into a pretty-but-Americanized animated feature, complete with the invented addition of a dragon sidekick that, through the voice of Eddie Murphy, brought urban black trash-talk to ancient China.

"'Mulan' was produced at a time when China was not looked upon as a market of its own," Chu explains. "It might have been more Western than you'd like to see." But Chu says it is Disney's commercial touch he was after. "I like the children's world. You look around: Who in China is making children's films? It's all martial-arts movies or art house films. I wanted to make a general entertainment film that everybody could understand, with fun, warmth, laughter."

The Chinese government liked the idea too.

"Oh, it's very safe," Chu says, with a laugh, of the movie's content. "This is a story with a simple moral message: Don't look for the easy way. Work hard for what you want." Chu was not unknown to Disney. He founded and has run Centro Digital Pictures, Asia's foremost animation and digital effects house, since the mid-1980s. Among its credits, Centro was responsible for the lopped off arms and heads of Quentin Tarantino's "Kill Bill" films, which were made by Miramax, a Disney subsidiary.

"Magic Gourd" fits more conventional Disney branding, "We told John we were very much looking for a movie and would love it to be a family-friendly movie," recalled Buena Vista's Zoradi.

But there are many who argue, privately at least, that Disney's participation in this local production is simply an attempt to ingratiate itself with the powers in Beijing. They point to the studio's likely ulterior motives: a way to get a more sympathetic hearing on piracy issues, perhaps. Maybe to drive business to its Disney theme park in Hong Kong (a Magic Gourd Fantasy Bungee Jump?).

And they note that Disney Chief Executive Robert Iger was quoted during a visit here in September saying that Disney's plans to build a theme park in Shanghai in the next few years could ride on whether the Disney Channel gets full access to the Chinese state television networks.

Zoradi dismisses suggestions that making "Magic Gourd" is linked to any other pending Disney issues in China.

"That's not the motivation. We want to be in local co-productions all over the world." The model, Zoradi says, is "Calendar Girls," the sweet 2003 drama that Disney's Touchstone Pictures made in Britain and that was aimed primarily at the British and Irish markets. "Magic Gourd" is similarly aimed at Chinese-speaking audiences — including Taiwan, Hong Kong and Singapore, whose markets, because of higher ticket prices, are bigger than mainland China despite having just a fraction of the population.
If the movie travels more widely after that, fine. But making movies for local markets "is good for our business," Zoradi says. "It makes us a good citizen in whatever country we're in, whether that's France or China.

"There is no hidden agenda."

A tough market to crack

If Hollywood is ever going to find its way through the cultural mists and mazes of China — or get some of those 1.3 billion butts into seats for the next "Shrek" or George Clooney picture or whatever it is Spielberg decides to make — it is going to have to figure out how to get money out of people like Al Yon.


"Tell me: 'Sex and the City' — who's your favorite? Charlotte, right?" the 29-year-old doctoral student asks eagerly, leaning across his margarita in an American-themed restaurant in one of Shanghai's toniest neighborhoods. Yon talks fast, like he's pitching a concept and has only 60 seconds before the studio chief calls security. "Samantha's too open; Carrie's too professional," he riffs.


And Yon should be Hollywood's dream customer: a smart, young, urban guy in the world's fastest-growing market, with a voracious appetite for just about anything the American pop culture machine throws out. "'Desperate Housewives' — I love it," Yon says.

Problem is, Yon has never paid a dime to ogle Charlotte or snicker at the inside jokes with Jerry and Kramer. Never plans to. All that expensively produced American culture is being piped into his bedroom on the Internet, "shared" among Chinese consumers who swap digital files free. And Yon's not some geek operating on the fringe. He's the Chinese mainstream. He's not even one of those consumers who get their Hollywood fix from buying pirated DVDs for a dollar.

"Why would I pay a dollar," Yon asks, perplexed, "for something that is free?" Piracy is just one of the walls blocking Hollywood from doing big business in China. Take distribution of those blockbusters. Their box office pull is unquestioned. The Chinese were no more immune to the allure of "Titanic" than anyone in St. Louis, Mo., or St. Petersburg, Russia — it's China's top-grossing film of all time too. And, after three years of Chinese films topping the box office, this year No. 1 film will be "Harry Potter and the Goblet of Fire," joined in the top rankings by "Star Wars: Episode III Revenge of the Sith" and "Mr. & Mrs. Smith." But since 1994, when "The Fugitive" became the first American feature legally shown here on a revenue-sharing basis, the Chinese government has imposed a limit on the number of foreign films allowed into the country. Just 20 foreign features were allowed to be distributed this year, 16 of them American.

China meanwhile, made more than 200 movies last year, more than any place in the world outside of Hollywood and Bollywood. And Chinese budgets keep climbing. Chen Kaige's "The Promise" was reportedly made for $35 million (though critical early reviews have questioned whether all the money was spent on the production), responding to the challenge that if your movie is going to play in a multiplex next to "King Kong," it had better match it for looks.

But many Chinese moviegoers cannot afford the prices of a multiplex. It costs almost $10 to see "Goblet of Fire" in Shanghai. That's an expensive date in a country where $20 can be half a week's wages and for the price of the popcorn you could buy three pirated DVDs.

So, many still catch the latest release in dilapidated theatres. No need for half-price Tuesdays here. Tickets are just a few cents more than $2, though there is no guarantee the theater will be heated. On a recent night in Shanghai, a screening of "The Promise" attracted about 40 people to a theater that seats 400.
Most watched with their coats on as a couple of portable heaters clunked away at the back. The movie with its whirling kicks and flashing blades, arrows that find their mark just in time and a hero who is frequently tied up, beaten and bloodied (Chen's actors must suffer for his art), was projected onto a screen yellowed by years of exposure to cigarette smoke. It was like showing a film on the wall of an Amsterdam cafe.

No wonder Yon would just as soon watch the movies in his room. For one thing, he's part of a generation that grew up during China's one-child policy, and he finds nothing antisocial about being alone. "We grew up alone. I like to watch movies on my PC, alone in my room, where I can cry if I want to.

"I don't care about the big effects," he says with a shrug. "I just want to follow a good story." And that may be where Hollywood and China's interests may converge. China has stories to tell. Hollywood seems ever more hungry for ideas.

"With the depth of its cultural traditions, its stories, talent and locations, their film industry is an unexplored gold mine," says Warner's Eliasoph, a Sinologist by training who has spent most of her career in Asia. "Chinese people are very verbal, have vivid imaginations and a great sense of design. Now that they're underway, it is going to be easy for them to make movies that people all over the world would want to watch.

"It's the most natural thing in the world that China will have a world-class film industry." And Hollywood studios are spending what they can to make sure they have a stake in the action.

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