**U.S. Responses to China's Influence Operations**

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Chairman Yoho, and distinguished members of the U.S. House of Representatives Foreign Affairs Committee Subcommittee on Asia and the Pacific, it is an honor to be here to discuss Chinese influence operations in the United States. I would first also like to take a moment to thank the US Congress for creating the conditions that have allowed me to testify here today. As a Greek-American educated in US public universities in Michigan and California, I would not have been able to learn Chinese or conduct research about China without funding from Title VI, the Fulbright US student program, the East-West Center, and the Woodrow Wilson Center, where I am currently in residence. Particularly in an era of increased Chinese influence in the United States, there is a crucial bipartisan national security need to fully fund the study of China by American scholars.

I will keep my remarks brief, focusing on three key topics:

1. The current environment of Chinese influence on the US media industries
2. The challenges of deterring Chinese influence on the US media industries
3. Recommendations

## 1. The current environment of Chinese influence on the US media industries

The United States' USD 13.3 billion positive trade surplus for the motion picture industry demonstrates the popularity of American films around the world. US citizens, permanent residents, and funding and talent from around the world have been instrumental in making Hollywood the global cultural juggernaut it is today. Indeed, Chinese talent in Hollywood has inspired box office blockbusters from *Crouching Tiger, Hidden Dragon* (Ang Lee, 2001) to many well-loved Jackie Chan films.

And yet, the regulatory landscapes of the Chinese and US media industries differ starkly. As Mike Ellis, Chairman of the Motion Picture Association, said in his address to the 2016 US-China Film Summit in Los Angeles, the US "market functions according to free market principles…in China according to a unique set of standards and guidelines." Ellis' comments elide the national-interest driven, highly centralized regulation of media content by Chinese government officials. More to the point, Chinese President Xi Jinping has explicitly asserted the importance of expanding the favorable representation of China around the world through the media industries.

Media industry oversight in China is only becoming tighter. On March 13, 2018, Patrick Frater reported in *Variety* that China's major state media regulator, formerly known as the State Administration of Press, Publication, Radio, Film, and Television (SAPPRFT), will be elevated to Cabinet-level oversight in the Chinese government. This reorganization of media regulation in China underscores the role that media plays in China's national-level political objectives.

US films face uncertainty in China's market. China and the United States are currently renegotiating the US-China Film Agreement, which expired in February 2017. The film agreement is most notable for its stated 34-film quota of revenue-sharing import films, which limits the number of foreign films that can be distributed in the market. Quota films must also pass Chinese censorship (formerly administered through SAPPRFT) after they are completed if they want to access the world's largest market.

One strategy US studios use to minimize market access risk is to participate in official Sino-US film co-productions. Film co-productions in the United States are based upon equity sharing. By contrast, in China, co-produced films must receive approval from the state-owned China Film Co-Production Corporation 1) before establishing the project; 2) during production; 3) after completion of the film. In return for allowing regulators to shape content, films that are successfully released as film co-productions both circumvent the film quota and receive a higher percentage of distribution revenue in the box office. Between the film quota and the co-production process, Chinese regulators have significant oversight over the production of films beyond the Chinese domestic market.

Another strategy that studios and other content producers use is to anticipate what Chinese regulators do and do not want to see, and tailor content accordingly. Ted Sarandos, the Chief Content Officer of Netflix, discussed distributing what he called "airplane cuts," or censored content, as a regulatory strategy for entering the Chinese market during a speech at the 2016 Consumer Electronics Show. Mike Ellis, the Chairman of the Motion Picture Association, based in Hong Kong, urged an audience of film producers at the 2016 US-China Film Summit in Los Angeles to be "aware of the sectors that you can do and those you need to avoid." One television executive at the 2015 US-China Film and Television Industry Expo in Los Angeles stated that their firm makes "China-compliant" content in order to reduce time to distribution for TV series with Chinese market aspirations. While these industry leaders rightly note that content has been tailored to local markets for a long time, the key piece that these industry discussions elide is that they are discussing not just cuts to media for specific markets after it is produced, but the process of conceptualizing and producing content for simultaneous distribution in global markets.

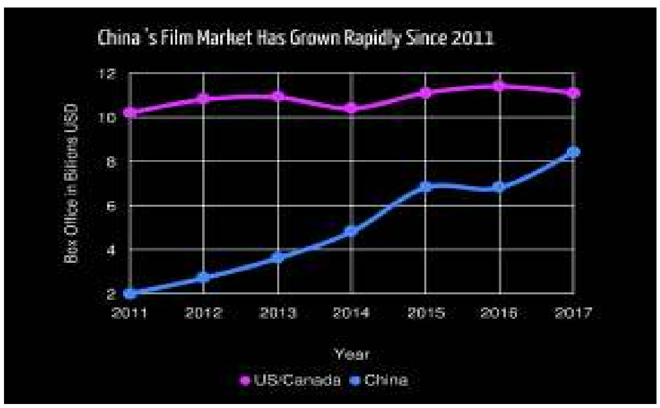
At the same time that firms in the United States are facing a highly restrictive market entry environment in China, Chinese firms have a relatively free hand to invest in the United States. Chinese firms have acquired US studios and theatrical distribution infrastructure, established multi-film deals and funded individual films. Only in the case of Dalian Wanda's spate of acquisitions in 2016 was there pushback against Chinese investment. In principle, Chinese investment in Hollywood is just another feature of a highly globalized media system. In practice, it occurs against the backdrop of an environment in which US firms have no reciprocal access to the Chinese market.

China's domestic media content control policies are under its domestic sovereignty. However, the United States Trade Representative stated in January 2018 that China is not meeting its World Trade Organization commitments with regard to its audiovisual market. The limitations China is placing on accessibility to its market create additional incentives for US firms to hew closely to Chinese content standards when they produce American films. China's domestic media policies, then, influence the behavior of US commercial firms.

## 2. The challenges of deterring Chinese influence on the US media industries

It is important to address trade issues such as WTO compliance and the renegotiation of China's film quota with the Chinese government during regular meetings. However, the political role of media in China makes it difficult to make headway in negotiations with the Chinese government. For this reason, it is perhaps even more important to address what happens in the United States and with US companies. Hollywood studios and other US-based global content producers are keenly aware of the rapid growth of the Chinese market. Indeed, they are dependent upon it for the continuous market growth expected of publicly traded companies.

**Figure 1: Size of North American vs. Chinese Film Distribution Market Since 2011**




China already sells more movie tickets than the United States. Most estimates suggest that the Chinese film market will become the largest in the world within the next two years. Key Hollywood blockbusters are taking in more revenue in China than in the United States.

**Figure 2: Selected 2017 Hollywood Blockbuster Box Office in the United States and China**

For the streaming market, China has more Internet users than the entire population of Europe. Thus, the key policy challenges that Congress faces are not merely related to Chinese government policies, but to the responses of US corporations to these policies.

The US film industry has gone out of its way to collaborate with Chinese regulators. In 2017, the head of the China Co-Production Corporation, a special organization authorized by the State Administration of Press, Publication, Radio, Film and Television, spoke to industry leaders at both the Asia Society US-China Film Summit and the US-China Film and Television Industry Expo (UCFTI) in Los Angeles about what type of content would be best suited to the Chinese market. In 2016, the Deputy Director of the State Administration of Press, Publication, Radio, Film, and Television addressed leaders at the UCFTI. In 2013, the General Manager of SAPPRFT spoke to the summit. All of these talks were given at the invitation of the conference organizers, who aimed to expand opportunities to access China's market.

As the actions of Hollywood leaders and industry forum organizers demonstrate, studios value the financial upside of collaborating with Chinese partners much more than they are concerned about the downside of having their work shaped by Chinese regulators. The interests of Hollywood studios in maximizing their profits have long aligned with the interests of the US government in expanding Hollywood's cultural influence around the world. The growth of China's media market challenges this paradigm. When the United States is no longer the most important media market in the world, US leaders will have to decide what is more central – financial growth or cultural influence.

## 3. Recommendations

I am proud to be the author of the book *Hollywood Made in China* (University of California Press, 2017), which formed the basis for many of the recommendations and the research that I share with you today. The book represents the culmination of five years of fieldwork in China and Los Angeles, including one year funded by a US student Fulbright grant. Below are six recommendations to limit Chinese influence on the US media industries:

- Prohibit Chinese government media regulators from lobbying US industry leaders at events hosted in the United States.
- Require financial reporting of state-backed media production investment in the US for any country the United States Trade Representative (USTR) deems non-compliant with its WTO obligations for the audiovisual industry.
- Consider a non-binding resolution urging US media producers to resist further censorship by foreign governments for the purposes of market entry.
- Continue progress on the expansion of CFIUS in media investment to include individual film productions, film slates, and partial acquisitions, but only with increased funding and increased expertise to ensure that the Committee is able to systematically review deals with the appropriate experts.
- Prohibit state-owned media investment in the US by any country deemed by the United States Trade Representative to be non-compliant with WTO obligations for the audiovisual industry.

- Block US IPOs by any media firms from countries that the USTR deems to be not in compliance with WTO audiovisual market obligations.

Implementing some or all of these recommendations will create a more difficult investment environment for state-backed Chinese firms seeking to influence Hollywood studios. They will have the effect of 1) making it more difficult for Chinese regulators and Chinese state-backed enterprises to operate in the US media industries; and 2) making it more inconvenient for Hollywood studios to make films shaped by Chinese regulators or backed by Chinese state-owned or state-influenced entities.

There is every indication that the influence of the Chinese state on the US media industries will continue to grow as the Chinese commercial market becomes a bigger, more lucrative target for Hollywood. Recent changes in the media regulatory apparatus in China also suggest that regulation of the Chinese commercial media market will tighten, further limiting the foreign content that will receive approval in China. However, it is of the utmost importance to remember that much of Hollywood's relationship with regulators in Beijing is a deliberately cultivated market entry strategy designed to access the world's largest media market.

In conclusion,

1. The market pressures on publicly traded US media conglomerates are driving them to allow Chinese regulators greater oversight over the media products they produce.

2. There are clear cultural and economic incentives to continue collaborations between non-state-owned Chinese firms and US media firms.

3. The United States media industries still have a higher global profile in production than the Chinese film industry and a wide range of potential capital investment from outside of China.

I would like to reiterate my gratitude to the US Congress for its historical bipartisan support for the study of China, and for giving me this opportunity to share my work. I look forward to taking your questions.