

Will Hollywood Get Caught in Trump's China Trade War Crossfire?

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Insiders say Beijing isn't likely to risk impacting its booming box office in retaliation against tariffs, but the aggressive U.S. stance could further delay stalled film-quota negotiations.

As President Trump escalates what could become a damaging and protracted trade war with China, many in the U.S. movie business are beginning to wonder whether Hollywood might soon get drawn into the fray.

The U.S. studios are indeed vulnerable to disturbances in U.S.-China relations. Hollywood's biggest films now make a substantial share of their revenue in China, such as Universal's *Jurassic World: Fallen Kingdom*, which has earned nearly 25 percent of its \$1.069 billion in global ticket sales there. And with the *Middle Kingdom's* box office continuing to boom — theatrical revenue in China was up 16 percent in the first half of 2018 — that importance can only increase, with the country expected to surpass North America as the world's biggest theatrical movie market sometime in the next few years.

Yet, so far at least, film analysts in the U.S. and Beijing have remained fairly sanguine about the trans-Pacific trade spat.

Peter Schloss, CEO at CastleHill Partners, a Beijing-based merchant bank focused on the media and entertainment industries, points out that Beijing has been very specific with its retaliatory tariffs, mostly singling out industries in states that voted for Trump. "If you want to send a message of economic pain to Trump, you don't go after Hollywood; you go after farmers in Iowa and factory workers in Pennsylvania," he says.

In short: Beijing officials are just as aware as studio execs in Burbank that hurting left-leaning Hollywood is more likely to delight America's current tweeter-in-chief.

China also remains somewhat reliant on big-budget U.S. films to keep its cinemas filled year-round, a form of mutual interdependence that should supply some measure of insulation — at least for now. Any steep reduction, or outright suspension, of U.S. film imports could easily push China's annual box office growth into the red while also hurting local distributors and exhibitors, many of which are still aggressively expanding. "China going after Hollywood in these early stages seems very unlikely, simply because it has more costs than benefits," says Stanley Rosen, a USC professor who specializes in the Chinese film industry.

But Trump's threat on Wednesday to add additional levies on \$200 billion in Chinese goods could change the equation, because it will force Beijing to reach beyond its limited "good options" for retaliation. China imported \$130 billion of U.S. goods last year, less than a third of the value of U.S. imports from China. That means Beijing won't be able to match Trump's tariffs tit-for-tat, and may have to look for other "qualitative measures" to hit back. The Wall Street Journal, citing unnamed Chinese officials, said Beijing was considering holding up licenses for U.S. companies, delaying approvals of mergers and increasing border inspections of U.S. goods.

Among the hundreds of products listed under Trump's \$200 billion tariff proposal, one in particular has caught the eye of industry watchers on both sides of the Pacific: "motion-picture film of a width of 35 mm or more, exposed and developed, whether or not incorporating sound track." Whether or not this actually constitutes a levy on the import of Chinese movies into the U.S. is somewhat unclear (for example, the description appears vague on whether it applies to digital film recordings, the medium in which the vast majority of contemporary Chinese movies are brought into the U.S.). But if it does, the Trump administration would seem to be inviting China to fire back at one of the few industries where the U.S. side commands a sizable trade surplus over China. The Chinese industry's highest-grossing film in North America last year was *Wolf Warrior 2* with \$2.7 million in sale; Hollywood's biggest movie in China, meanwhile, was Universal's *The Fate of the Furious* with \$392.8 million.

Trump's list of additional tariffs is now subject to a two-month public comment period. Meanwhile, China's Commerce Ministry said in a statement Wednesday: "To protect the core interests of the nation and its people, China's government is, as in the past, forced to retaliate."

Cautions Rosen: "If Trump actually goes ahead with tariffs on \$500 billion of Chinese goods, as he has threatened, everything, including Hollywood, will be on the line."

Some U.S. analysts have suggested that Hollywood could also be hurt if China restricts its domestic entertainment firms from investing into U.S. films and media companies. Those closest to the market are less fazed by this contingency, however, knowing that Beijing mostly turned off that tap well over a year ago. Concerned over rising domestic debt levels, capital flight and a pattern of risky investment, Beijing brought the prior China-Hollywood dealmaking frenzy to a halt in the early months of 2017 (Hunan TV's 2015 slate investment of \$375 million at Lionsgate has mostly run its course, as has Huayi Brothers Media's 18-picture co-financing deal at STX — sources close to both companies told THR prior to the trade war that the investments were unlikely to be re-upped). In the interim, the Hollywood majors, as they have done so many times before, have pivoted back towards familiar sources of financing (the big banks), while kicking the tires on new opportunities (Saudi Arabia).

But under current conditions, U.S. studios shouldn't be hoping for any movement on the long-stalled renegotiation of China's notorious film import quota. The former trade framework, which expired in early 2017, covered everything from how many U.S. movies China would accept into its cinemas to when and how the titles could be released to how much revenue foreign studios could ultimately take home. The U.S. side had been hoping to win Beijing's consent to bring more titles into their market, while also extracting a greater share of ticket revenue (the studios currently take home just 25 percent of sales in China, while the international norm is 40-50 percent), among other liberties.

Sources tell THR that Hollywood's push for more favorable terms had made little headway before the trade war, though, partly because the Trump administration hadn't advanced the issue as a priority, and also due to China's media regulator undergoing a major restructuring, which has left several key negotiating posts unfilled. In the meantime, both sides have stuck to the old, expired agreement.

Trump's tactics can hardly be expected to help matters anytime soon. Two years ago, many Hollywood execs were optimistic that their position in the world's soon-to-be-biggest movie market was about to strengthen — now they're more likely to prefer to keep their heads down.

Says Rosen, "Don't expect China to suddenly offer Hollywood new benefits while all of this is going on."