Chapter 3: China and the World

Section 5: China’s Domestic Information Controls, Global Media Influence, and Cyber Diplomacy

FIRST draft to Commissioners– sent July 26, 2017

Please place behind Tab L in the 2017 Annual Report Binder
Introduction

The Chinese government has significantly tightened its domestic information controls—entailing surveillance and censorship of the Internet, domestic propaganda operations known as “public opinion guidance,” and repression of journalism—in order to support government policies and prevent consensus against the government from forming in Chinese society. These information controls function as a trade barrier by, among other things, keeping U.S. companies from reaching Chinese consumers. They also deprive Chinese citizens of a fuller understanding of differing views on situations where escalating tensions may increase the likelihood of conflict, creating potentially harmful implications for U.S. national security.

Beijing has also invested heavily in expanding the overseas presence of its official news entities, distorting international reporting on China’s activities by training foreign journalists to paint Chinese policy in a positive light. Chinese propaganda regularly appears in foreign mainstream news publications—including in the United States—without clear indications of its origins, blurring the line between propaganda and news.

Chinese corporations, many with connections to the Chinese state, have gone on an investment spree in Hollywood over the last few years, raising concerns that the Chinese government may have undue influence over the U.S. film industry, an important pillar of the U.S. economy and a critical component of U.S. soft power.

Meanwhile, Beijing is promoting its concept of “Internet sovereignty,” including in international fora, to legitimize its monitoring of Chinese citizens and control of their Internet usage. In addition to China, this concept could contribute to legitimizing suppression of the freedom of expression in other countries. Beijing also advocates for a “multilateral” system of Internet governance which designates national governments as the main actors. These views sharply contrast with longstanding U.S. policy.

This section examines China’s tightening domestic information controls, including the implications for U.S. companies, the “social credit” system which will leverage vast data collection capabilities to incentivize politically correct thought and behavior, domestic propaganda, the repression of Chinese journalists domestically and expansion of Chinese government-approved journalism overseas, China’s media influence in the United States and the U.S. film industry’s access to the Chinese market, how Chinese leaders seek to use media as a soft power weapon against the United States, and Beijing’s concept of “Internet sovereignty,” including its stance on global Internet governance and norms in cyberspace. It draws from the Commission’s May 2017 hearing on China’s information controls, global media influence, and cyber warfare strategy, open source research and analysis, and consultations with outside experts.
China’s Domestic Information Controls

Increasing Domestic Censorship

The Chinese government has long maintained stringent information and media controls, but recently the Chinese Communist Party (CCP) has taken steps to tighten its grip, with the goal of resisting perceived infiltration by foreign (and especially Western) ideas, which are regarded as “cultural threats.” According to Xiao Qiang, founder and editor-in-chief of China Digital Times, an activist website that tracks Chinese censorship, the key driver behind this increase in domestic censorship is the CCP’s fear that the unrestricted flow of information could undermine its legitimacy. Professor Xiao argues that the CCP wants to “re-institutionalize and internalize” its own narrative in the minds of the Chinese people, and that this is the motivation behind strengthening Internet controls in China. To these ends, the Chinese government has invoked “Internet sovereignty”—a “slogan that calls for each state to exercise absolute control of its slice of the Web,” according to the Washington Post’s Emily Rauhala—to justify its increasing crackdown on online freedoms.

China has implemented several new rules increasing its control over online media. In February 2016, the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT)—China’s oversight organization governing film censorship—and the Ministry of Industry and Information Technology (MIIT)—the government agency responsible for regulation and development of communications technology—issued new rules preventing foreign-owned companies or their affiliates from publishing material online (including digitized material such as books, maps, and scientific materials) without obtaining approval from the Chinese government. The new rule, which allows for a very broad interpretation due to its vagueness, potentially endangers the presence of foreign companies that distribute any online content, including news sources, in China. Chinese companies’ ability to distribute foreign media is already heavily regulated. In May 2017, SAPPRFT punished Tencent—which, until recently, was China’s most valuable tech company—for “making and broadcasting political and societal news programs.

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1 Xiao Qiang, founder and editor-in-chief, China Digital Times, interview with Commission staff, March 24, 2017.
without a permit,” according to Caixin, by partially suspending Tencent’s approval to import foreign media and video games.8

In May 2017, the Chinese government also issued new regulations mandating that the top editor of any domestic online news service be a Chinese citizen and that the service “promote the formation of a positive, healthy, upright and virtuous Internet culture, and protect the national and public interest.”9 The regulations also call for stricter enforcement of often-ignored rules mandating that editorial staff at online news services be credentialed by government regulators just like staff of traditional news media.10 The Wall Street Journal reported that the new rules do not appear to apply to foreign news organizations headquartered outside China, but cooperation between Chinese news services and foreign entities requires a security review by government regulators.11

Foreign Policy reported in July 2017 that the Chinese censorship regime is now “determined to be an all-encompassing …. guardian of socialist morality, even if that comes at the expense of business innovation.”12 Several regulatory actions in May and June 2017 emphasized the shift from only censoring political media to censoring media regardless of political content, resulting in China’s media and tech companies “closing down hundreds of mobile video platforms, firing thousands of journalists, and promising to promote state media opinions,” according to the Financial Times.13 In May, the Cyberspace Administration of China (CAC), the state agency responsible for online censorship, ordered five leading news portals to stop live news broadcasts.14 In June, the CAC shut down 32 WeChat accounts focused on “celebrity news,” SAPPRT ordered Weibo and two other popular websites to stop video and audio streaming, and the China Netcasting Services Association—the government body regulating online broadcasting—banned the depiction of dozens of topics deemed vulgar or unpatriotic.15 After the CAC shut

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down the gossip blogs, the Central Committee for Discipline Inspection criticized the CAC for not pushing the Party line aggressively enough.16 The Wall Street Journal reported that a sustained campaign against celebrity gossip would be a “dramatic reorientation of China’s censorship machinery.”17 Qiao Mu, a scholar of Chinese media, assessed this indicated a return of the Mao-era Communist ideology that prefers politics and class warfare over apolitical entertainment; Victor Shih, an expert in Chinese politics at the University of California, San Diego said that more “red” content can be expected in Chinese media as a result.18 When video-streaming websites removed most foreign dramas in July, Li Yuan at the Wall Street Journal assessed it was because Beijing “wants Chinese youth to watch revolutionary-themed series and other politically inspiring fare” instead of sitcoms.19 According to Joanna Chiu of Agence France-Presse, in July the CAC ordered some of the biggest Chinese tech companies—Baidu, Sohu, Tencent, Netease, and Phoenix—to close accounts that had published “bad information,” including “misinterpreting policy directives, disseminating false information, distorting Chinese Communist Party history, plagiarizing photos, and challenging public order.”20

VPN Crackdown

In January 2017, the MIIT announced a crackdown on virtual private networks (VPNs), which are commonly used in China by both foreigners and Chinese to circumvent China’s “Great Firewall.”21 According to this announcement, locally-based VPN providers, data centers, and Internet service providers

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**FOOTNOTE:** According to Gizmodo, “VPNs, or Virtual Private Networks, allow users to securely access a private network and share data remotely through public networks. Much like a firewall protects your data on your computer, VPNs protect it online. And while a VPN is technically a WAN (Wide Area Network), the front end retains the same functionality, security, and appearance as it would on the private network.” Andrew Tarantola, “VPNs: What They Do, How They Work, and Why You’re Dumb for Not Using One,” Gizmodo, March 26, 2013. [http://gizmodo.com/5990192/vpns-what-they-do-how-they-work-and-why-youre-dumb-for-not-using-one](http://gizmodo.com/5990192/vpns-what-they-do-how-they-work-and-why-youre-dumb-for-not-using-one).

**FOOTNOTE:** The so-called “Great Firewall” comprises a number of “measures ... which censor and criminalize sensitive material on the Internet [in China].” Cheang Ming, “China’s Great Firewall Is Doubling Up on VPN Regulation,” CNBC, January 24, 2017. [http://www.cnbc.com/2017/01/24/chinas-great-firewall-is-doubling-up-on-vpn-regulation.html](http://www.cnbc.com/2017/01/24/chinas-great-firewall-is-doubling-up-on-vpn-regulation.html).
need government approval to operate. The campaign, which authorities initially planned to continue until at least March 2018, is ostensibly intended to “clean up” internet services in China, although the Chinese government insisted it would not affect multinational corporations that had official approval to use “cables or other means of cross-border connectivity.” In July 2016, the Chinese government began targeting VPN users as well, threatening to cut off the Internet access and fine anyone who uses VPNs to earn profits exceeding 5,000 yuan, or about $730.

Sophie Richardson, China director at Human Rights Watch, testified to the Commission in May 2017 that the regulatory expansion of punishments for VPN use to consumers as well as providers is especially concerning. Radio Free Asia reported in April 2017 that Chinese activists assess this local regulation is likely a pilot program for a planned nationwide implementation of VPN bans and fines.

After popular China-based VPN provider Green announced in late June that it would cease operations by July 1, Chinese Internet users began to speculate that most VPNs would soon be removed from mobile app stores. According to Bloomberg, in July 2017, the MIIT ordered state-run telecommunications providers to block access to VPNs by February 2018; MIIT denied the report. That same month, the Associated Press reported that China’s biggest telecommunications provider, China Telecom Ltd., had told corporate customers that they may only use VPNs to connect to their own headquarters abroad and that they may no longer use VPNs to link to sites outside China. The letter reportedly also stipulated that companies are required to provide the identities of all personnel who use VPNs. A purported letter addressing the customers of Hotwon, a Chinese cloud computing services company, claimed that China’s Ministry of Public Security was behind the most recent crackdown, not the MIIT, and listed several popular VPNs and

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proxy programs as targets for “clearing up.””32 Bill Bishop, creator of the popular *Sinica* newsletter, told the Commission he was “reasonably confident” the document was legitimate because it “fits with other things that are going on around VPNs.”33 He assessed that the Ministry of Public Security’s involvement “means this crackdown has much more teeth.”34 (Note to Commissioners: this will be updated as further developments are announced.)

### Censorship “Tax”

According to Margaret Roberts, assistant professor of political science at UC San Diego, the fact that the Great Firewall is porous “makes it seem like it’s not an imposition on freedom because it’s possible to circumvent,” so both the Chinese government and Chinese Internet users maintain the illusion that the censorship is not really absolute because it is possible to evade with time and money.35 Although this is true in a sense, Dr. Roberts argues the burdens imposed by censorship—including the recent VPN crackdowns—amount to a “tax” on Internet use in China that most affects those who are least capable of bearing it. Dr. Roberts testified to the Commission that Internet censorship in China is a tax because it “requir[es] people to spend more time or more money to access information.”36 Additionally, this tax is regressive because it allows “those with more capabilities to access information but largely keep[s] out those who don’t have the knowledge or resources to facilitate evasion.”37 According to Dr. Roberts, only about three to five percent of urban Chinese reported having used a VPN; most Chinese are satisfied with using Chinese websites and apps that do not require VPNs.38 She found that those most likely to evade censorship in China are the “economic and political elite” who “have higher incomes, more education, [are] younger ... have an interest in foreign information, have traveled abroad, and are much more interested in politics and international politics.”39 In addition to the tax posed on regular Internet users, Chinese informational controls function as a trade barrier by “distort[ing] the information sector, reducing the

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competitiveness of censored information, including that from American businesses,” according to Dr.
Roberts, and they even hamper the innovation of Chinese businesses.40

Dr. Roberts argues that fear of punishment is not a primary factor deterring Chinese from evading
censorship; rather, they cannot be bothered to spend the time and money.41 Emphasizing that the primary
barrier is inconvenience, Dr. Roberts testified that certain “pulls”—specific blocked services users want to
access—can alter this cost/benefit analysis and spur Chinese Internet users to “jump the Wall” when they
had not previously.42 For example, users tend to begin using VPNs in response to sudden blocks of websites
or services they had been accustomed to accessing, as was seen after China blocked Instagram in 2014 in
response to the prodemocracy “Umbrella Revolution” in Hong Kong.43 44 Dr. Roberts testified that this ban
resulted in millions of downloads of VPNs in mainland China and expanded use of blocked websites like
Twitter, Facebook, and Wikipedia.45 Increased censorship in response to crises such as the 2015 industrial
disaster in Tianjin also correlate with increased VPN use in China.46 47

Social Credit System

The Chinese government has begun implementing its so-called “social credit” system, which relies on data
accumulated by use of commercial apps and the Internet to produce assessments of Chinese citizens’
political and social trustworthiness in addition to their financial credit.48 First announced in June 2014, a
Planning Outline issued by China’s State Council claimed this system would “ensure that sincerity and

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47 FOOTNOTE: In August 2015, a massive series of explosions near Tianjin caused by improper storage of volatile industrial chemicals killed at least 165 people and caused more than $1 billion in damage, leaving a crater 20 feet deep. 49 people, including government officials and employees of the storage company involved, were jailed as a result. Merrit Kennedy, “China Jails 49 over Deadly Tianjin Warehouse Explosions,” National Public Radio, November 9, 2016. http://www.npr.org/sections/thetwo-way/2016/11/09/501441138/china-jails-49-over-deadly-tianjin-warehouse-explosions.
trustworthiness become conscious norms of action among all the people.”

The Mercator Institute for China Studies (MERICS) assessed in May 2017 that “if implemented successfully, the [social credit] system will strengthen the Chinese government’s capacity to enforce and fine-tune market regulations and industrial policies in a sophisticated manner, but the full potential impact of the system will likely not be apparent until 2020.”

According to the Wall Street Journal, this system “could be used to govern activities ranging from a person’s ability to set up a business to his or her professional promotion,” and Dr. Richardson testified to the Commission that potential consequences could also affect users’ “ability to get a passport, move around the country freely, access a VPN, or rent an apartment.”

She also added that the planned social credit system lacks privacy protections or a way to challenge or contest a negative rating. Even without the added complications of the social credit system, though, user data are already vulnerable in China. For example, in June 2017 Chinese police announced they had arrested 22 people—20 of whom worked for Apple contractors or distributors of Apple products in China—for illegally selling the personal information of Apple customers.

As of November 2016, more than three dozen local governments in China had begun to compile social and financial digital records ahead of a planned national rollout in 2020, according to the Wall Street Journal. Guangdong Province began this process in early 2015, and in April 2017 the capitals of four neighboring provinces signed an agreement to share and integrate social credit data. Dr. Richardson testified that the program is still “a work in progress” and is currently overseen by “at least a dozen different government agencies” ranging from the military to the Ministry of Education with the assistance of Chinese Internet


companies. According to MERICS, the National Credit Information Sharing Platform, an interagency collaboration, is the “backbone” of the system.

Private companies in China are cooperating with the Chinese government by “scooping up unprecedented data on people’s lives through their mobile phones and competing to develop and market surveillance systems for government use,” according to the *Wall Street Journal*. For example, in April 2017, ten companies in the bicycle-sharing industry—a sector of the Chinese tech economy that is “skyrocketing” in growth, according to the respected Internet Trends report—signed an information-sharing agreement with the National Development and Reform Commission and its think tank affiliate. A boom in the development of facial recognition technology—bolstered by the hundreds of millions of surveillance cameras in the country, estimated to reach 620 million by 2020—has proven to be a valuable new source of data for the government. According to Caixin in April 2017, of the eight credit reporting companies approved to collect and analyze user data, all of them had yet to complete the trial program and obtain a license. Wan Cunzhi, director of the People’s Bank of China’s Credit Information System Bureau, says the companies’ preparation “is far below ... regulatory standards,” suggesting a delayed official rollout. Mr. Wan argues the companies’ focus on their own “business activities” impedes sharing and therefore collaboration with the government. Due to these concerns over potential conflicts of interest, the Chinese government decided in June not to award any of these licenses in 2017.

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57 FOOTNOTE: According to MERICS, the top ten government providers of data to the National Credit Information Sharing Platform as of May 2017 were the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Agriculture, the National Health and Family Planning Commission, the Ministry of Transport, the Ministry of Housing and Urban-Rural Development, the State Food and Drug Administration, the State Supervisory Authority for Production Safety, the People’s Bank of China, and the Ministry of Finance. Mirjam Meissner, “China’s Social Credit System: A Big-Data Enabled Approach to Market Regulation with Broad Implications for Doing Business in China,” Mercator Institute for China Studies, May 24, 2017, 6. [https://www.merics.org/fileadmin/templates/download/china-monitor/merics_ChinaMonitor_39_english_web.pdf](https://www.merics.org/fileadmin/templates/download/china-monitor/merics_ChinaMonitor_39_english_web.pdf).
64 Lucy Hornby, “China Changes Tack on ‘Social Credit’ Scheme Plan,” *Financial Times*, July 4, 2017. [https://www.ft.com/content/f772a9ce-60c4-11e7-91a7-502f7ee26895](https://www.ft.com/content/f772a9ce-60c4-11e7-91a7-502f7ee26895).
According to Foreign Policy, some Chinese tech companies have begun to develop their own social credit programs, such as the popular bicycle-sharing app Mobike, which grants users a score that is raised or lowered based on their behavior; lower scores mean higher fees for use, and higher scores can result in free rides.\(^6^5\) The Financial Times assessed that “the big prize for these companies is ... data,” especially on customers’ usage habits.\(^6^6\) Alibaba, in addition to cooperating in developing the government’s social credit program, has created its own internal program, which uses an algorithm to assess the character of its 400 million users based on their purchase histories.\(^6^7\) In May 2017, Sesame Credit announced a partnership with state-run wireless carrier China Mobile and electronics recycling company Aihuishou to share user data and provide rewards for users with a minimum credit score.\(^6^8\)

**Domestic Propaganda**

The CCP employs comment spammers referred to as “50-centers” or members of the “50-cent party” due to the persistent rumor that they are paid five Chinese mao, or fifty cents, for each post they make in support of the government.\(^6^9\) These spammers manipulate online discussion of politically sensitive topics primarily to attempt to distract (rather than directly argue with) critics of the CCP.\(^7^1\) An April 2009 internal CCP memo directed Party committees and departments to “make repeated postings on [sites] containing related news or reports to guide online public opinion effectively.”\(^7^2\) A Chinese blogger who hacked a local propaganda department in 2014 revealed that there are 50-centers in “virtually every [propaganda] department,” and according to Professor Xiao, the total ranks of government-sponsored online

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\(^6^9\) **FOOTNOTE:** This rumor has not been shown to be true. The term is now used to generically refer to enthusiastic online supporters of the Chinese government, regardless of whether or not they are paid, or how much. Anonymous, translated by David Wertime, “How to Spot a State-Funded Chinese Internet Troll,” *Foreign Policy*, June 17, 2015. [http://foreignpolicy.com/2015/06/17/how-to-spot-a-state-funded-chinese-internet-troll/](http://foreignpolicy.com/2015/06/17/how-to-spot-a-state-funded-chinese-internet-troll/).


commentators exceed ten million. Some 50-centers are regular government employees that perform this task in addition to their regular duties, but many others are college students organized through the Communist Youth League or outsourced employees of online marketing companies.

A May 2016 study by professors at Harvard, Stanford, and UC San Diego shows that official 50-centers produce approximately 488 million fabricated social media posts per year, meaning that about one out of every 178 social media posts on a Chinese commercial website is “fabricated” by the Chinese government. Contrary to the popular conception of 50-centers as “ordinary citizens” hired specifically to conduct public opinion guidance, the study found that almost all of the 50-cent workers sampled were government employees. The study also found that these 50-centers “regularly distract the public and change the subject” from politically sensitive topics, tending to spam generic and supportive platitudes in response to government initiatives instead of directly or aggressively arguing with other posters. The study’s authors argue that although they cannot conclusively identify the causes of specific “bursts” of posts by 50-centers, the bursts are “consistent with a strategy of distraction” in the context of unusually sensitive or important events during which the CCP might want to be especially assiduous in its public opinion guidance. The study also assessed that the main goal of this type of official Chinese propaganda is not to inspire either patriotism or jingoism but rather to counteract posts with “collective action potential” and thus prevent any anti-CCP consensus from coalescing among the Chinese public.

Gary King, director of Harvard University’s Institute for Quantitative Social Science and the main author of the study, told the Commission that China employs both human and automated censors, and that each

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74 Xiao Qiang, Founder and Editor-in-Chief, China Digital Times, interview with Commission staff, April 18, 2017.


method has different qualities. For example, after Liu Xiaobo, the Nobel Peace Prize-winning activist, died in a Chinese prison in July 2017, pictures of him were automatically blocked in transmission on WeChat and WhatsApp, debuting a formidable new automated censorship capability. Bao Pu, a Hong Kong-based publisher of political books banned on the mainland, told the Wall Street Journal, “If you have a machine doing [the censoring], it can instantly block everything. It doesn’t matter if it’s a billion messages or 10 billion.” Dr. King assessed that the human censors—who manually delete posts after they have been made—are fallible and inefficient due to their poor choice of keywords, whereas the automated censors use keywords to prevent online posts from being made in the first place. However, Dr. King said that artificial intelligence and machine learning, which China is aggressively developing, have the potential to further refine Chinese censors’ ability to choose effective keywords (for more information on China’s development of artificial intelligence and machine learning, see Chapter 4, Section 1, “China’s Pursuit of Global Dominance in Computing, Robotics, and Biotechnology”).

It is difficult to measure the effectiveness of this type of public opinion guidance, but Dr. King and his associates used an article published by Global Times—a hawkish tabloid that is backed by the CCP but not authoritative—as an illustrative example. In response to the May 2016 study, Global Times published a piece defending the CCP’s opinion guidance programs. Dr. King and his colleagues found that 82 percent of the comments on the paper’s website “expressed an opinion [that] supported China’s system of public opinion guidance,” reflecting the fact that Global Times readers tend to be more nationalistic. However, in the much more politically diverse discussion on Weibo, China’s Twitter-like microblogging platform, 63 percent of comments disapproved of these opinion guidance techniques.

80 Gary King, director, Harvard University Institute for Quantitative Social Science, interview with Commission staff, March 31, 2017.
83 Gary King, director, Harvard University Institute for Quantitative Social Science, interview with Commission staff, March 31, 2017.
Repression of Domestic Chinese Journalism

In March 2017, Liu Qibao, head of the CCP’s Central Propaganda Department, said the media should “confidently … tell good China stories,” reflecting the general trend of tightened state control of news media. Since Chinese President and General Secretary of the CCP Xi Jinping announced in February 2016 that Chinese media “must serve the Party” and “must bear the surname ‘Party,’” the CCP has cracked down on domestic Chinese journalism to the point that “during 2016, it was difficult to discern any difference between a report from one media outlet and a report from another,” according to the International Federation of Journalists’ 2016 China Press Freedom Report. David Bandurski, editor of Hong Kong University’s China Media Project, assessed that since 2014 Chinese media have remained “virtually silent on major stories;” he added that the 2015 Tianjin industrial explosion was the only “truly notable exception to the lull in quality reporting by China’s domestic media” because “the explosions were a story of such immense scale, unfolding in a highly populated urban area, that coverage was impossible to quell entirely.”

The New York Times assessed President Xi’s “new policy remove[d] any doubt that in the view of the president and party chief, the media should be first and foremost a party mouthpiece;” a significant shift from President Xi’s predecessor Hu Jintao, who believed Chinese state media must improve its ability to be more responsive to the modern digital environment in order to effectively shape public opinion. During the Commission’s 2017 trip to Hong Kong, Willy Wo-lap Lam, adjunct professor at the Chinese University of Hong Kong, told the Commission President Xi believes insufficient Communist Party control over media was a key factor in the collapse of the Soviet Union, and assessed President Xi is determined not to make the same mistake. John Hemmings of the Henry Jackson Society, a British think tank that advocates for liberal democratic principles, assessed in July 2017 that “a centralizing of … media … functions to the [CCP] and to Xi personally” is now occurring. Relatively liberal or dissenting media organizations, such as the well-respected Caixin and especially the Southern Weekend newspapers, have been censored or

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93 Willy Wo-Lap Lam, senior fellow, Jamestown Foundation, meeting with Commission, May 19, 2017.
pressured more heavily in response to perceived disobedience since President Xi’s February 2016
directive.\textsuperscript{95} \textsuperscript{96}

Sarah Cook, senior research analyst for East Asia at the watchdog organization Freedom House, assessed
that 2016 was “a particularly bad year for non-state controlled media outlets in China.”\textsuperscript{97} Ms. Cook noted
that in addition to the shuttering of the stalwart moderate political journal \textit{Yanhuang Chunqiu} and
Consensus Net, an online forum known for neutral political discussion among intellectuals, journalists, and
officials, commercial web portals such as Tencent, Sina, and Netease were subjected to increased pressure
not to produce original, unofficial news content.\textsuperscript{98} Severe punishments meted out to professional journalists
also served as a warning to corruption investigators, some of whom ultimately changed careers out of
concern for their wellbeing.\textsuperscript{99} Many Chinese journalists, according to Dan Southerland, former executive
erator at \textit{Radio Free Asia}, are young and inexperienced and tend to move on to better jobs quickly, leaving
a dearth of older, experienced reporters.\textsuperscript{100} According to a May 2017 report from the All-China Journalists
Association, 39 percent of China’s approximately 224,000 journalists are aged 30–40 and 34 percent are
aged 40–50, and according to Mr. Southerland, more than 80 percent of “front-line” journalists in China
are aged 30 or younger.\textsuperscript{101}

The International Federation of Journalists assessed in its 2016 \textit{China Press Freedom Report} that until
2013, there were Chinese reporters willing to report on “cases of great general concern and even on some
so-called ‘sensitive’ topics such as negative stories about the leadership,” but this kind of reporting has
“gradually diminished” to the point that some journalists claimed in 2016 that they were “completely


\textsuperscript{96} \textbf{FOOTNOTE:} For example, Dr. Richardson of Human Rights Watch testified to the Commission that in \textit{Southern Weekend}'s annual editorial summarizing the major events of the past year, the 2004 edition “explicitly” criticized the CCP for limitations on “citizens and rights;” the 2008 edition “implicitly called for ‘democracy and freedom and human rights;’” the 2013 edition substituted President Xi’s slogan about the “great rejuvenation and dreams of the Chinese nation” for any mention of human rights; and the 2017 edition was “utterly devoid of any political language and focused only on, quote, ‘hopes and dreams.’” \textit{U.S.-China Economic and Security Review Commission, Hearing on China’s Information Controls, Global Media Influence, and Cyber Warfare Strategy}, oral testimony of Sophie Richardson, May 4, 2017.


Mr. Southerland testified to the Commission that these local assistants, who are instrumental to foreign journalists in their capacity as translators and in arranging interviews with witnesses, are often subjected to “intimidation sessions” in which police interrogate them about their work. Mr. Southerland testified that due to the significantly increased risks faced by Chinese reporters, most of the best investigative reporting in China over roughly the past six years has been done by foreign reporters, but the harassment that foreign reporters face has also increased. According to PEN America, a prominent literary organization that advocates for freedom of expression, foreign journalists in China face more restrictions now than at any other time in recent history. In November 2016, BBC journalists in China attempting to interview a house-arrested candidate legally running for local political office were physically impeded by plainclothes minders, apparently to the greatest extent that the minders could without being caught on camera using overt physical violence. After an interview attempt with a would-be petitioner in March 2017, plainclothes police seized the BBC crew’s cameras, smashed them, and forced members of the crew to sign confessions for “trying to conduct an ‘illegal interview,’” according to the Guardian. Mr. Southerland testified that this kind of assault of foreign journalists is “something new;” in years past, the worst a foreign journalist had to fear from the Chinese state was “just to be expelled,” but this has changed

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105 FOOTNOTE: In October 2015, five booksellers tied to Mighty Current Media, a Hong Kong publisher of political gossip books, were detained by mainland Chinese security personnel, raising concerns about the status of Hong Kong’s legal autonomy. For more information on these events and their implications, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 3, “China and Hong Kong,” in 2016 Annual Report to Congress, November 2016, 409–413.


for the worse recently.\textsuperscript{112} For example, Michael Forsythe, the lead reporter on a 2012 Bloomberg story investigating the wealth of President Xi’s family, was subjected to death threats from people “tied to Xi’s family” after the story’s publication, according to Leta Hong Fincher, a prominent China scholar and Mr. Forsythe’s spouse.\textsuperscript{113}

\textbf{China’s Global Media Influence}

\textbf{Global Development of Chinese Journalism}

While the CCP has increasingly suppressed reporting on politically sensitive stories within China, it has made a strong push to develop the overseas presence of state-approved journalists to bolster China’s international image. Mr. Southerland testified to the Commission that CCP leaders believe Western reporting has damaged China’s international image ever since the Tiananmen Massacre; he assessed that China has “worked hard since then to present itself as a peace-loving nation whose rise threatens no one.”\textsuperscript{114} China’s effort to improve its international image has in part relied on the rapid development of Chinese news services in foreign languages.\textsuperscript{115} According to Shanthi Kalathil, director of the National Endowment for Democracy’s International Forum for Democratic Studies, in the process of building up its overseas presence in news media, the Chinese government has attempted to exert this pressure primarily in three ways: “influencing foreign reporting on China; extending its presence abroad through its international broadcasting and publication arms; and influencing the structure and values of news organizations, primarily in developing countries, through funding, training and cooperation.”\textsuperscript{116}

\textit{Influencing foreign reporting on China:} According to the \textit{New York Times}, “The Chinese Communist Party’s efforts at shaping the world’s view of its country, culture and government have grown into an aggressive transnational censorship program that seeks to quash critical voices globally.”\textsuperscript{117} Mr. Southerland testified to the Commission that “China’s foreign propaganda efforts have taken on a new level

\begin{itemize}
\item \textsuperscript{113} Leta Hong Fincher (@LetaHong), “@KaiserKuo they were tied to Xi family, but did not come from central government,” October 26, 2012, 10:29 P.M. https://twitter.com/LetaHong/status/262018192728272897; Leta Hong Fincher (@LetaHong), “Now that NYT has gone public about Chinese gov’t pressure, I can admit that we got death threats after Bloomberg story on Xi Jinping,” October 26, 2012, 9:31 P.M. https://twitter.com/LetaHong/status/262003440343460225.
\end{itemize}
of assertiveness, confidence, and ambition.”

These media influence activities have been documented in several countries on China’s periphery:

- **Freedom House** reported in 2013 that local government officials in Asia, Africa, and Latin America “have taken steps to restrict or punish reporting damaging to China’s reputation …. either at the behest of Chinese representatives or to preemptively avoid tensions with a large donor and trading partner.”

- In 2015, a Chinese-language newspaper, *Baobo News*, was launched in Myanmar with the backing of SAPPRFT, the Confucius Institute, and the propaganda department of Yunnan University’s CCP Committee.

- A leaked Chinese government document from 2015, *Long-Term Plan on China-Pakistan Economic Corridor*, included plans for a Chinese-built national fiber optic network in Pakistan that will be used not only for a large surveillance system but also as a “cultural transmission carrier” to “cooperate with Chinese media in the ‘dissemination of Chinese culture,’” according to the Pakistani newspaper *Dawn*.

- During the Commission’s 2017 trip to South Korea, General Kim Hee-sang, deputy director of the South Korea Ministry of Foreign Affairs, told the Commission the South Korean government is concerned about Chinese investments in the country’s entertainment and film industry.

- An Australian Broadcasting Corporation report in June 2017 assessed the CCP wields influence in Australia by, among other things, controlling most Chinese-language media.

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121 **FOOTNOTE:** The China-Pakistan Economic Corridor (CPEC) is a $46 billion infrastructure investment plan under the One Belt, One Road umbrella. For China, the goals of CPEC are threefold: to create an alternative trade route through Pakistan and gain access to ports on the Arabian Sea; to contain Islamic terrorism and insurgency in Xinjiang, Pakistan, and Afghanistan through economic development; and to stabilize Pakistan’s economic and security environment. For Pakistan, CPEC presents an opportunity to address major infrastructure shortfalls, particularly energy shortages. U.S. China Economic and Security Review Commission, *2016 Annual Report to Congress*, November 2016, 17–18.


123 Kim Hee-sang, deputy director of South Korea Ministry of Foreign Affairs, meeting with Commission, Seoul, South Korea, May 22, 2017.

Newspapers viewed by Chinese officials as “anti-China” have been pressured to drop negative stories “through a combination of direct action, economic pressure to induce self-censorship by international media owners, indirect pressure applied via proxies such as advertisers, and cyberattacks and physical assaults,” according to Ms. Kalathil. Australia has been a major target of these operations; Ms. Kalathil testified to the Commission that local analysts in Australia have reported that “the formerly lively, independent Chinese language media space [in Australia] now hews largely to the pro-China line, in part because pro-China media groups now control much of the Chinese language media sector.” For example, Yan Xia, editor-in-chief of the independent Chinese-language Australian newspaper Vision China Times, wrote in September 2016 that a Beijing-based immigration agency felt compelled to stop placing ads in Mr. Yan’s paper as a result of harassment from Chinese immigration officials. Mr. Yan wrote that Chinese-language media in Australia are “under pressure to support President Xi Jinping and Beijing’s foreign policy,” and he fears this influence will be more easily wielded in the future as “increasing numbers of Australian politicians, Chinese community groups and Chinese media companies are becoming more reliant on commercial and political ties with China.”

In addition to exerting pressure through and on members of the Chinese community in Australia, the Chinese government has pursued more traditional forms of cooperation with Australian media. In May 2017, the U.S.-China Economic and Security Review Commission published a report titled “Hearing on China’s Information Controls, Global Media Influence, and Cyber Warfare Strategy,” written testimony of Shanthi Kalathil, May 4, 2017, 1–2. According to analysis by the Sydney Morning Herald, “Nearly 95 per cent of the Australian Chinese newspapers have been brought in by the Chinese government to some degree.” Australian National University professor Bates Gill and independent researcher Linda Jakobson cited the Australian New Express Daily—which is owned by Chau Chak Wing, a Chinese real estate tycoon and member of a CCP advisory body in Guangdong Province who praised the paper for “never hav[ing] any negative reporting [about China]”—as a particularly striking example. For a list of the major Chinese-language print publications in Australia, including their circulation numbers, see Wanning Sun, “Chinese-Language Media in Australia: Development, Challenges and Opportunities,” Australia-China Relations Institute, 2016, 67–69.


2016, six major agreements were signed between Chinese and Australian media organizations, which were “a victory for Chinese propaganda” according to John Fitzgerald, director of the Center for Social Impact Swinburne’s Program for Asia-Pacific Social Investment and Philanthropy at Swinburne University, and Wanning Sun, professor of media and communication studies at the University of Technology Sydney. Radio National, part of the Australian Broadcasting Corporation, said the agreement meant “China’s colossal PR machine [would] have a say in what news we get from China.”

Liu Qibao, head of the Central Propaganda Bureau of the CCP, personally attended the signing of the agreements, suggesting the significance of the deal for the Chinese government. Under the arrangement, the Australian company Fairfax Media will distribute the monthly *China Daily* supplement *China Watch* in the *Sydney Morning Herald*, the *Age*, and the *Australian Financial Review*, and Fairfax will have no editorial control over the content.

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**China’s Discrediting of Guo Wengui in International Media**

In March 2017, Guo Wengui, a Chinese real estate tycoon living in the United States since 2015, began to publicly criticize the effectiveness of the CCP’s anti-corruption campaign and allege high-level corruption in the CCP. Chinese state-run media called him a “criminal suspect” and launched an international publicity campaign, including releasing a videotaped confession by a former senior intelligence official accusing Mr. Guo of corruption and uploading videos to YouTube on a channel called “Truth about Guo

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134 FOOTNOTE: *China Watch* has also been distributed by newspapers in the United States. For more information, see “China’s Media Influence in the United States” below.


Wengui,” to discredit him.\textsuperscript{137} In an unbylined\textsuperscript{138} story, the \textit{South China Morning Post} called the campaign “unprecedented” and “unusually sophisticated,” and Professor Xiao Qiang testified to the Commission that he had “never seen something like this.”\textsuperscript{139} After Mr. Guo threatened to drop a “nuclear bomb” of corruption allegations involving relatives of powerful CCP officials, the Chinese government asked INTERPOL to issue a red notice\textsuperscript{140} for Mr. Guo.\textsuperscript{141} Chinese social media mentions of the story were heavily censored: FreeWeibo.com, a site that tracks censored posts on Weibo, listed Mr. Guo as the top censored subject in the week prior to April 20.\textsuperscript{142} Mr. Guo’s Facebook and Twitter accounts were briefly suspended, raising concerns of pressure by Chinese officials.\textsuperscript{143} GreatFire, an anticensorship activism organization, claimed the Chinese government had targeted Mr. Guo’s Twitter account with a direct denial of service\textsuperscript{144} (DDoS) attack.\textsuperscript{145}

\begin{footnotesize}
\begin{itemize}
  \item According to National Public Radio, a byline—the line at the top of an article naming the author—is an important part of transparency, and “transparency fosters accountability.” An article that lacks a byline also arguably lacks accountability. For example, when the \textit{South China Morning Post} published an interview with a detained Chinese legal assistant, David Bandurski noted the lack of a byline and said that questionable details of the article, including the refusal by the paper’s senior staff to clarify how they arranged an interview with a detained person, raised “very serious questions about the newspaper’s commitment to editorial independence.” Sara Goo, “Guidance for Bylines on NPR.org,” National Public Radio, March 1, 2017. http://ethics.npr.org/category/g-transparency/; David Bandurski, “The Mea Culpa Machine,” China Media Project, July 15, 2016. https://medium.com/china-media-project/the-mea-culpa-machine-a40a12f65f98.
  \item According to INTERPOL, a red notice is “a request to locate and provisionally arrest an individual pending extradition. It is issued … at the request of a member country or an international tribunal based on a valid national arrest warrant. It is not an international arrest warrant. INTERPOL cannot compel any member country to arrest an individual who is the subject of a Red Notice. Each member country decides for itself what legal value to give a Red Notice within their borders.” INTERPOL, “What Is the Purpose of an INTERPOL Red Notice?” 2017. https://www.interpol.int/INTERPOL-expertise/Notices/Red-Notices.
\end{itemize}
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In April 2017, Voice of America’s (VOA) Chinese-language service conducted a live interview with Mr. Guo in which he made new allegations of corruption involving powerful Party officials, claiming “If [Chinese officials] weren’t so corrupt, they wouldn’t be scared” of him. According to VOA’s Mandarin Service Chief, Sasha Gong, Mr. Guo explained during a pre-interview that he paid for “office rentals, private jets, surveillance systems, personnel and many other expenses” for Chinese security services personnel in exchange for their help in “dealing with his business rivals.” Although the interview was advertised beforehand as scheduled to run for three hours, VOA cut off the interview early after Mr. Guo made new corruption allegations, citing a prior agreement to only air one hour of it. According to Ms. Gong, the Chinese Foreign Ministry complained to VOA’s Beijing correspondent that the interview would “disturb” China’s upcoming 19th Party Congress in November 2017, and the Ministry threatened to “respond seriously” if the interview proceeded. Ms. Gong refused to cancel the interview but said VOA’s upper management ordered that it run for “no longer than 15 minutes,” although the plug was ultimately not pulled until one hour and 19 minutes in, after which Ms. Gong and four colleagues were suspended without pay. Mr. Guo claimed afterward that the interview had been sabotaged by a Chinese state-affiliated “liaison person” within VOA. Ms. Gong wrote in the Wall Street Journal that she was “not aware of another instance in the 75-year history of [VOA] in which a foreign government has attempted to intervene with such force in the network’s broadcast decisions.” In June, the Washington Free Beacon reported that Congress was preparing to ask the U.S. State Department Inspector General to investigate whether or not VOA was pressured by Beijing, and Secretary of State Rex Tillerson said that he would support such an investigation if it was deemed necessary. The Chinese government began

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Distancing themselves somewhat from the often terse and humorless voice of official propaganda, Chinese official and semi-official media have experimented with relatively flashy and snappy publications that are more approachable for foreign audiences; in most cases, it is not immediately apparent that this material is Chinese state-backed propaganda. For example, \emph{Foreign Policy} described the new English-language website Sixth Tone—an affiliate of Party-controlled \emph{The Paper}—as “Vox … acquired by the Chinese Communist Party.”\footnote{Sarah Cook, “Independent Journalism in China Struggles to Survive,” \emph{Diplomat}, December 21, 2016. http://thediplomat.com/2016/12/independent-journalism-in-china-struggles-to-survive/.} The \emph{Washington Post} and \emph{New York Times} have also featured inserts from the
Chinese official media outlet *China Daily* without clearly marking them as Chinese propaganda, and state-run China Central Television (CCTV) hired many experienced U.S. reporters to run its Washington bureau.\(^{162}\) CCTV International was rebranded as China Global Television Network (CGTN) at the end of 2016 and now oversees all new foreign language channels and digital content.\(^{163}\)

**Influencing the structure and values of news organizations:** Although China’s news influence operations have encountered obstacles in developed countries like Australia, they have found more success in developing countries.\(^{164}\) A 2013 report by Ms. Cook notes that China has granted media development aid to developing countries,\(^{165}\) training journalists in those countries so they are unlikely to report on negative stories about China.\(^{166}\) According to Ms. Kalathil, China has provided extensive assistance to countries in Latin America, Central and East Asia, and Africa in developing their communications and media sectors.\(^{167}\) It has primarily done so by providing “financial resources, infrastructure and equipment, study tours in China, and training;” however, unlike most traditional media development assistance, “China does not support the typical normative goals of this kind of assistance: freedom of expression, editorial independence, technologically neutral protocols, and developing the professional and investigatory capacity of local journalists.”\(^{168}\)

Chinese media—particularly in Africa, according to Mr. Southerland—have received the approval of host governments by “present[ing] African developments in a favorable light while countering what some African governments regard as mostly negative news reports carried by Western media,” such as discussion of famine, disease, and corruption.\(^{169}\) At the same time, Emeka Umejei, a doctoral candidate at the

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University of the Witwatersrand in Johannesburg, argues that “China media organizations based in Africa make sure that content provided by their African employees doesn’t offend Chinese interests on the continent. Story ideas proposed by African journalists have to be approved or rejected by Beijing.” The resulting mutual positive coverage between Chinese media in Africa and African media reporting on China serves the purposes of both the Chinese and African governments.

Journalists in some African countries have long been harassed, intimidated, and jailed by repressive governments, and China’s involvement in the development of African news media has reportedly emboldened these repressive tendencies. Anne Nelson, adjunct associate professor of international and public affairs at Columbia University, assessed in 2013 that as a result of “China’s integrated approach to media investment ... African leaders are assured that they can practice censorship with impunity.” Mr. Southerland testified to the Commission in May 2017 that some African academics and human rights advocates now worry that “China’s media links and African government connections are encouraging some African leaders to feel that they can control, harass, and repress African journalists with impunity.”

China’s Media Influence in the United States

According to Ms. Cook, CCP overseas influence campaigns, including in the United States, primarily target overseas Chinese and non-Chinese foreigners “to promote a positive view of China and the CCP regime; second, to encourage U.S.-China investment; and third, to suppress voices that present the Chinese government negatively.” As in Australia, an important part of this strategy in the United States, according to Ms. Cook, is “insinuating state-media content into mainstream media or other existing dissemination channels.” This propaganda campaign in the United States has increasingly targeted English-language
media with both regular inserts of *China Watch* into newspapers and an entire English-language edition of *China Daily*, the launch of CGTN, and more prominent deals such as Xinhua’s leasing of a 60-foot LED sign in Times Square.176 The Chinese government also pursues “friendly” relationships with private media owners and reporters to incentivize them to portray China positively without explicit direction; for example, according to a Reuters report, the messaging of independently-produced content broadcast by G&G, a California studio partnering with CRI, “matches that of Chinese state propaganda.”177

Chinese state-run media and CCP-friendly private networks such as Phoenix178 have a virtual monopoly in Chinese-language U.S. cable television, distorting the information available to the Chinese-speaking community in the United States. According to Ms. Cook, CCTV News is available in 90 million U.S. households, and Phoenix TV and CTI, a pro-China network based in Taiwan, are each available in 70 million U.S. households.179 However, ETTV—a Taiwanese station that Ms. Cook described in her testimony as pro-independence—reaches just 12 million households, and New York-Based New Tang Dynasty TV (NTDTV), which is known for reporting on human rights, reaches just six million.180 Ms. Cook testified to the Commission that NTDTV’s website “significantly outranks” those of both Xinhua and CCTV in popularity.181 182 This suggests that if NTDTV—and other independent Chinese-language cable networks—were more widely available in the United States, they would be more popular than CCTV, as well, reducing Chinese state-run media’s dominance.

### U.S. Access to the Chinese Film Market

China is now a major target audience for U.S. film studios. As Jack Ledwith, senior vice president of international distribution at Universal Pictures, succinctly put it at the 2016 Chinese American Film Festival...
in Los Angeles, “China is very important to us.”183 According to the Wall Street Journal, “Hollywood has become so entangled with China that the movie industry can’t run without it,” since Chinese ticket sales continue to increase rapidly while U.S. sales remain flat.184 From 2011 to 2015, the Chinese entertainment industry grew at a rate of about 17 percent per year to an estimated total of about $180 billion, according to analysis by the Wharton School of the University of Pennsylvania.185 In 2016, China’s total film ticket sales were about $6.6 billion, more than half of the U.S. total of $11.4 billion.186 In contrast to previous rapid growth, Chinese film industry analysis company Entgroup assessed that China’s domestic film ticket sales only increased 2.4 percent in 2016—compared with 49 percent in 2015—and only 3.7 percent in the first half of 2017.187 In spite of anemic growth, the Chinese market still has a significant impact on Hollywood movies. For example, although the June 2017 film The Mummy’s domestic debut was poor, according to Hollywood trade publication Variety it had a “significantly greater” opening in China, earning $52 million.188 See Appendix 1 for a list of major investments and acquisitions in Hollywood by Chinese companies since 2012.

U.S.-China tensions over exports of U.S. films to China have persisted since at least 2007, when the United States brought a case to the World Trade Organization accusing China of unfairly restricting these exports.189 China maintains a film import quota, ostensibly limited to 34 U.S. films each year.190 However, according to Patrick Frater, Asia bureau chief of Variety, this number is “a minimum, not a maximum, and Chinese officials [often apply] a degree of flexibility;” Mr. Frater reported that in 2016 China allowed in 40 revenue-sharing films plus additional films on a flat-fee basis “to counter an unexpected downturn at the [Chinese] box office.”191 The 34-film agreement expired in February 2017, but the guidelines will remain

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in place until a new one is made.\textsuperscript{192} Li Ruigang, head of China Media Capital, speculated in January 2017 that the quota might be increased to 50–70.\textsuperscript{193} U.S. film studios have adopted various methods to circumvent these limits, such as making films in joint ventures with Chinese companies, but each method presents different challenges.\textsuperscript{194} \textsuperscript{195} According to Bloomberg, “The number of boxes that foreign studios have to check to qualify as a Chinese co-production may seem onerous, but the payoff can be huge.”\textsuperscript{196} China issued a record 89 permits in 2016, 11 percent more than in 2015, according to \textit{China Film Insider}.\textsuperscript{197} According to Miao Xiaotian, president of China Film Co-Production Co.—the largest producer and distributor of films in China—in order to qualify as a co-production, a movie must be jointly financed by Chinese and foreign studios, have Chinese actors cast in at least a third of the leading roles, and have a sufficient amount of “Chinese elements.”\textsuperscript{198} However, the vagueness of Chinese requirements is often troubling for U.S. filmmakers attempting to manage these co-productions.\textsuperscript{199} In a high-profile case, U.S. studio Legendary Entertainment formed Legendary East in 2011, based in Hong Kong, with “Chinese management and international investors,” according to \textit{Variety}, in order to have “a fully funded studio operating from China.”\textsuperscript{200} In 2013, Legendary East formed a


partnership with China Film Co. and announced an agreement to produce multiple films over a three-year period “designed for the Chinese and global markets.”

**China’s Ideological Conflict with the United States and Its Influence over Hollywood**

Mareike Ohlberg, a research associate at MERICS, argues that the CCP under President Xi “considers itself to be involved in an ideological confrontation with ‘the West’” and primarily the United States. Ms. Ohlberg assesses that top Party leaders “are fearful that a lack of a widely shared Chinese ideology at home could lead to cadre and elite defection, resulting in a collapse similar to the fate of the Soviet Union.” To strengthen China’s “voice” and defend against what the Party perceives as the outsized influence of U.S. soft power, China has adopted new tactics to increase its own soft power. According to Ms. Kalathil, China’s soft power promotion previously focused on “the transmission of Chinese culture to the outside world,” but more recently the Chinese government has shifted to “committing to support Chinese investment in global entertainment.” According to the *New York Times*’ Mr. Forsythe, a CCP Central Committee communiqué in 2011 cited an “urgency for China to strengthen its cultural soft power and global cultural influence.” Ms. Kalathil wrote in March 2017 that this strategy has relied on a kind of “market-based judo” by “us[ing] the soft power strength of the United States for its own purposes.”

Recently, Congress has raised concerns over Chinese acquisitions of U.S. assets in the film industry and the implications for the kinds of movies Hollywood will be able to produce and screen as a result. In September 2016, 16 Members of Congress cosigned a letter to Gene L. Dodaro, Comptroller General of the Government Accountability Office (GAO), expressing concern over the activities of Dalian Wanda Group, a Chinese conglomerate that acquired U.S. film studio Legendary Entertainment in January 2016, and AMC Theaters, one of the largest cinema chains in the United States, in 2012. The congressional letter requested that GAO produce a report assessing whether the authority of the Committee on Foreign Investment in the United States (CFIUS) had “effectively kept pace with the growing scope of foreign

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acquisitions in strategically important sectors in the [United States]” and cited the lack of updates to CFIUS’s authority since its inception “despite a rapidly changing foreign investment climate ... and new state-owned or –controlled companies that are structured as independent entities but are largely directed by foreign governments.”

The letter also cited the Commission’s 2012 Annual Report, which recommended modifications to CFIUS’ mandate in response to the concerns described above. In October 2016, GAO agreed to review CFIUS’ authority. In November 2016, then Senate Majority Leader Chuck Schumer sent a letter to then Treasury Secretary Jack Lew and then U.S. Trade Representative Michael Froman calling for reviews of CFIUS’s mandate and added scrutiny on Dalian Wanda’s acquisitions. Senator Schumer wrote of his concern that “these acquisitions reflect the strategic goals of China’s government” and promised that “the new Congress in 2017 will work on legislation to further expand CFIUS oversight authority.”

Dalian Wanda’s chairman Wang Jianlin—one of the richest men in China—has said Wanda sets aside $5–10 billion each year for overseas investment. Zhang Lihua, a professor at Tsinghua University, connected Mr. Wang’s push to develop China’s “cultural industry” to the 2011 Central Committee communiqué, and Mr. Forsythe argued “it’s pretty clear” Mr. Wang is trying to help expand “China’s cultural influence and cultural soft power around the world,” though Mr. Wang has insisted Wanda’s sole motive is profit. Li Ruigang, chairman of China Media Capital, argued in January 2017 that “China is using its market size to influence Hollywood’s way of thinking and how they make films,” but he later downplayed the “flood” of

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Chinese investment in Hollywood, calling it more of a “trickle.” Wanda-owned AMC purchased Carmike Cinemas in 2016, making Dalian Wanda the owner of the largest theater chain in the United States with “easily more than 600 theaters,” according to the Los Angeles Times. Ms. Cook testified to the Commission that there has been at least one case in which AMC screened a “Chinese propaganda film,” which she assessed would probably not have occurred had AMC not been under Chinese ownership. She also testified it is possible Chinese-owned U.S. theater chains might not screen films of which the Chinese government disapproves, though Chinese officials would never confirm the reasons a particular film might not have been screened; however, she added she had not heard of any complaints about this happening.

Primarily as a result of more stringent Chinese capital controls, some prospective Chinese acquisitions of U.S. media assets have either fallen through or been held up by regulators. In December 2016, Chinese government agencies warned against “irrational” outbound investments in some sectors, including cinemas and entertainment, which financial newspaper Caixin assessed was intended to stem capital outflows and stabilize the yuan; rising debt is also a concern. Mr. Frater of Variety argued, “Unconventional dealings such as off-balance-sheet borrowing or building up stakes in American movie producers … are a no-go under the straitlaced regime of Chinese President Xi Jinping.” Mr. Wang of Dalian Wanda Group told the Financial Times in May 2017 that he intended to shift his investment focus to domestic Chinese ventures in response to the tighter capital controls.

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Across the board, outbound Chinese investments have slowed. According to CNBC, “at least a dozen” cross-border U.S.-Chinese tech, media, and entertainment deals dried up from November 2016 to April 2017. Most notably, this has included the prospective $1 billion deal for Dalian Wanda Group to acquire Dick Clark Productions—which runs both the Golden Globe and American Music Award ceremonies—and a prospective $1 billion, three-year deal between Huahua Media, Shanghai Film Group, and Paramount Pictures. The New York Times reported in July 2017 that Chinese government regulators had forbidden large state-owned banks from lending to debt-laden Dalian Wanda Group to finance its overseas investments, and Variety reported that Wanda was being punished for breaching capital control regulations. AMC Entertainment tried in July to publicly distance itself from Wanda’s debt problems.

To capitalize on the growing Chinese film audience, “major studios have sought to appease Chinese censors in exchange for a foothold in China’s extremely limited release market,” according to Ms. Kalathil. In order to be approved for release in China, all films must receive permission from SAPPRFT. According to Ying Zhu, professor of media culture at the College of Staten Island at the City University of New York, “[Hollywood] films critical of the Chinese government will be absolutely taboo” and will not be able to get financing. For example, Richard Gere, who has publicly criticized Beijing’s treatment of Tibetans, told Hollywood Reporter in April 2017, “There are definitely movies that I can’t be in because the Chinese will

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say, ‘Not with him,’” and that he “recently had an episode where someone said they could not finance a film with me because it would upset the Chinese.”

Mr. Southerland wrote on Radio Free Asia’s website that Hollywood industry leaders have “curtailed their creative freedom in deference to China” and that this self-censorship “can work through casting decisions, the elimination of content viewed in Beijing as ‘sensitive,’ and the insertion of content, images, or story lines considered ‘positive’ by the Chinese side.”

U.S. film studios hoping to secure a China release for their products must keep in mind the need to portray China positively. For example, *Time* pointed out that the 2014 film *Transformers 4*—which grossed $320 million in China—depicted beleaguered Hong Kong policemen insisting on calling the central government in Beijing for help. Similarly, the 2013 film *Gravity* appealed to Chinese audiences by portraying China’s space program in a positive light: a stranded astronaut saves herself by utilizing a fictional state-of-the-art Chinese space station and lands on Earth in a Chinese space capsule. According to leaked correspondence from Sony’s president of worldwide distribution Rory Bruer regarding the 2013 film *Captain Phillips*, the film was not approved for release in China because it showed “the big military machine of the U.S. saving one U.S. citizen. China would never do the same and in no way would want to promote this idea.”

### Beijing’s Concept of “Internet Sovereignty”

In order to legitimize its monitoring and control of Chinese citizens’ Internet usage, Beijing advocates for a concept widely referred to as “Internet sovereignty.” This concept entails that a government has the right to monitor and control the networks in its territory and the content that Internet users there access and transmit in any way it chooses. China’s *National Cyberspace Security Strategy*, which was approved by

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235 This concept is also referred to as “cyber sovereignty” or “cyberspace sovereignty.”


the CCP’s Central Leading Group for Cyberspace Affairs headed by President Xi, states that “national sovereignty has expanded and extended to cyberspace. Internet sovereignty has become an important part of national sovereignty.” This document also states that countries should “respect each country’s right to independently choose its development path, cyber regulation model, and Internet public policy….” It adds that “each country has the right, according to its national situation and learning from international experience, to establish laws and regulations related to cyberspace, to take necessary measures according to law, and regulate the country’s information networks and cyber activities in its territory….”

Beijing’s Stance on Governance and Norms in Cyberspace

To Beijing, Internet sovereignty also means that national governments should be the dominant actors in making the rules of the Internet, what Beijing calls a “multilateral” system of global Internet governance. According to this view, other actors, such as the private sector and civil society, should have a diminished role. Beijing’s position contrasts with the “multistakeholder” model advocated for by the United States, the European Union and others. In the multistakeholder model, governmental, industry, academic, and other non-state organizations have an equal role in the management of the Internet. Based on this model, the Internet Corporation for Assigned Names and Numbers (ICANN) oversees the Internet Assigned Numbers Authority, the body responsible for globally assigning root zone domains (including .com, .org,
Beijing, however, has pushed for the UN’s International Telecommunications Union to have a greater role in Internet governance.\(^{247}\) Beijing promotes its concepts of Internet sovereignty and multilateral Internet governance in international fora, including the World Internet Conference—an annual summit the Chinese government established and first hosted in 2014.\(^ {248}\) At the 2015 World Internet Conference, President Xi delivered the keynote speech in which he laid out his “four principles” and “five proposals” regarding the Internet, which included “respecting cyber sovereignty” among the principles and “building an Internet governance system, advancing fairness and justice” among the proposals.\(^ {249}\) Another of his proposals was to “establish sound order.”\(^ {250}\) In what *China Daily* described as an assertion of the need to balance freedom and order, President Xi said, “Freedom is the end of order, and order the guarantee of freedom.”\(^ {251}\)

The Internet as a Global Commons

A commons can be defined as a “resource shared by a group of people.”\(^ {252}\) According to the UN Environment Program’s Law Division, the global commons “refers to resource domains or areas that lie outside of the political reach of any one nation state.”\(^ {253}\) In her testimony to the Commission, Professor Chris C. Demchak, RADM Grace M. Hopper Professor of Cybersecurity at the U.S. Naval War College, explained that the concept of the Internet as a global commons originated in the 1990’s.\(^ {254}\) Regarding the Internet’s development, she writes, “In the early 1990’s after almost three decades of development built in and for universities by public funding, cyberspace emerged for public and commercial use as the ‘Internet’.

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It was already embedded with the ideology of a public good thereby meant to be free and benignly useful.”

However, Professor Demchak argues that the Internet is not a commons. She states that the Internet is “man-made, -owned, -maintained, -updated, and -monitored” and consists of infrastructure located in sovereign territory. She adds that information technology firms comply with local laws wherever they operate, which contrasts with the idea of the Internet being beyond government regulation.

Other experts have described the Internet as a “pseudo commons.” In an article published in 2010, James A. Lewis, Senior Vice President of the Center for Strategic and International Studies, wrote, “Cyberspace is a ‘pseudo commons,’ more like a condominium or a shopping mall. It is a shared global infrastructure.”

Although U.S. government statements do not describe the Internet as a commons, the most recent U.S. international cyberspace policy document, the 2011 “International Cyberspace Strategy”, supports an “open” Internet and the “free flow of information.” Furthermore, President Donald Trump’s executive order on cybersecurity issued in May 2017 states that “It is the policy of the executive branch to promote an open, interoperable, reliable, and secure internet...”

In its participation in international negotiations on global Internet governance, norms in cyberspace, and cybersecurity, Beijing seeks to ensure continued control of networks and information in China and to reduce the risk of actions by other nation-states that are not in its interest. In 2013 Beijing agreed that international law and the UN charter apply to cyberspace by signing on to a report produced by the UN Group of Governmental Experts on Developments in the Field of Information and Telecommunications in the Context of International Security on norms governing the actions of nation-states in cyberspace, despite

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opposing such commitments for most of the negotiations. However, fearing that international law will be used by other countries against China, Beijing is unwilling to agree on specific applications of international law to cyberspace. Dr. Lewis, in his testimony to the Commission, said, “In particular, the Chinese are opposed to anything that would appear to legitimize U.S. attack or U.S. retaliation upon them, and I’ve heard this directly from senior Chinese diplomats. [They argue] We do not agree with the Law of Countermeasures or the application of the laws of armed conflict because it would legitimatize your attack, your retaliation.” In his written testimony, he explained that countermeasures are “retaliatory actions that do not involve the use of force, such as sanctions or indictments.”

China-Russia Cooperation on Cyberspace

The Chinese and Russian governments take similar stances on cybersecurity, norms in cyberspace, and Internet governance and partner in their efforts in these areas, but deep cooperation appears to be limited by a lack of mutual trust and respect. Since 2011, Beijing and Moscow have promoted an International Code of Conduct for Information Security, which asserts, among other things, that “policy authority for Internet-related public issues is the sovereign right of states.” Also, in 2015, the two governments reached an agreement on “cooperation in ensuring international information security.” Included in the agreement is the statement that “Each party shall have an equal right to protection of information resources of their state against misuse and unauthorized intervention, including by cyber attacks on them.”


Russian cybersecurity firm Kaspersky Lab reported that China-origin cyber intrusions against Russian defense firms had occurred in the first half of 2016, and Chinese cybersecurity firm Qihoo 360 reported in February 2017 that a cyber threat group associated with the Russian intelligence apparatus was active on networks in China. Adam Segal of the Council on Foreign Relations writes that the agreement “does not seem to cover, or at least prevent, espionage.”

Dr. Lewis described the China-Russia cyber diplomacy partnership as “a marriage of convenience, not love” and said “I have not seen evidence that Russia and China have cooperated in cyber activities the way we would cooperate with our NATO allies or with Australia or Japan.” Nigel Inkster, director of Future Conflict and Cyber Security at the International Institute for Strategic Studies, writes, “While China and Russia share important aims in cyber governance and security, levels of strategic trust between them remain far below that which has facilitated the Five Eyes intelligence alliance (between Australia, Canada, New Zealand, the UK, and the U.S.).”

**Implications for the United States**

China’s domestic censorship regime, in addition to suppressing Chinese civil society and violating the privacy of Internet users in China, functions as a trade barrier and materially harms the interests of U.S. companies operating in China. These companies already face an unfair business environment, and the information controls are an additional tax on their operations.

China’s global media influence strategy is designed to undermine U.S. soft power by inducing self-censorship in Hollywood. Although Chinese acquisitions of U.S. media companies have tapered off recently due to restrictions in China’s capital controls, the influence already gained through purchasing or investing in these U.S. assets is alarming. Manipulation of U.S. news coverage of China’s activities through paid inserts of state-sponsored content into widely read and otherwise reputable publications also risks

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undermining U.S. policy by portraying China’s troubling actions, such as territorial expansion in the South China Sea, as justified.\textsuperscript{278}

There are several primary tools currently available in the U.S. regulatory framework to curtail China’s influence on U.S. media.\textsuperscript{279} The Foreign Agents Registration Act (FARA, which is intended to counter foreign propaganda in the United States),\textsuperscript{280} CFIUS, and the Federal Communications Commission may all have important roles to play. For example, according to Ms. Cook’s testimony, based on its current mandate, “It would appear that [FARA] can encompass foreign state-owned media operating in the United States.”\textsuperscript{281} However, the Project on Government Oversight and the U.S. Department of Justice found that “compliance with [FARA] is unacceptably low, and it’s rarely enforced.”\textsuperscript{282}

In addition to justifying its control of information within China, Beijing’s concept of Internet sovereignty provides an example and support for other repressive governments and may contribute to legitimizing the suppression of the freedom of expression in other countries. Furthermore, Professor Demchak writes:

\begin{quote}
China has provided an alternate model of success to the one advanced by the western countries, a strong voice against western domination in international institutions, and alternative sources of technology and capital more suited to the desires for surveillance and interception of leaders with authoritarian tendencies. With Chinese support, they have the option of operating more aggressively on their internal Internet, confident of relatively strong similarly-inclined allies outside the western dominated institutions and norms.\textsuperscript{283}
\end{quote}

These developments pose challenges to U.S. values and the U.S policy of support for an open Internet.

\textsuperscript{280} \textbf{FOOTNOTE:} The Foreign Agents Registration Act of 1938 “requires persons acting as agents of foreign principals in a political or quasi-political capacity to make periodic public disclosure of their relationship with the foreign principal, as well as activities, receipts and disbursements in support of those activities.” U.S. Department of Justice, “FARA: Foreign Agents Registration Act.” \url{https://www.fara.gov/}.
Conclusions

- China’s current information controls, including the government’s new social credit initiative, represent a significant escalation in censorship, surveillance, and invasion of privacy by the authorities.

- The Chinese state’s repression of journalists has expanded to target foreign reporters and their local Chinese staff. It is now much more difficult for journalists to investigate politically sensitive stories.

- The investment activities of large, CCP-linked Chinese corporations in the U.S. media industry risks undermining the independence of film studios by forcing them to consider self-censorship in order to gain access to the Chinese market.

- China’s overseas influence operations using diplomats and the Chinese diaspora to pressure foreign media have become much more assertive. In some cases, even without direct pressure by PRC entities, Western media companies now self-censor out of deference to Chinese sensitivity.

- Beijing is promoting its concept of “Internet sovereignty” to justify restrictions on freedom of expression in China. These policies act as trade barriers to U.S. companies through both censorship and restrictions on cross-border data transfers, and they are fundamental points of disagreement between Washington and Beijing.

- In its participation in international negotiations on global Internet governance, norms in cyberspace, and cybersecurity Beijing seeks to ensure continued control of networks and information in China and to reduce the risk of actions that are not in its interest by other nation-states. Fearing that international law will be used by other countries against China, Beijing is unwilling to agree on specific applications of international law to cyberspace.
## Appendix 1: Major Investments and Acquisitions in Hollywood by Chinese Companies since 2012

**Note to Commissioners:** This table is a work in progress and will be updated as necessary.

<table>
<thead>
<tr>
<th>Date</th>
<th>Company Name</th>
<th>Deal Type</th>
<th>Chinese Investor(s)</th>
<th>Value (US $)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 2012</td>
<td>Oriental DreamWorks (DreamWorks Animation)</td>
<td>Joint venture</td>
<td>China Media Capital (CMC), Shanghai Media Group (SMG), and Shanghai Alliance Investment (SAIL)</td>
<td>330 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>May 2012</td>
<td>AMC Entertainment</td>
<td>Acquisition</td>
<td>Dalian Wanda Group (DWG)</td>
<td>2.6 billion</td>
<td>Finalized</td>
</tr>
<tr>
<td>Aug. 2012</td>
<td>DreamWorks Animation</td>
<td>Co-production, investment</td>
<td>CMC, SMG, and SAIL</td>
<td>350 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>Mar. 2014</td>
<td>Walt Disney Studios</td>
<td>Co-production</td>
<td>SMG</td>
<td>Undisclosed</td>
<td>Finalized</td>
</tr>
<tr>
<td>Mar. 2014</td>
<td>Studio 8</td>
<td>Investment</td>
<td>Huayi Brothers Media</td>
<td>150 million</td>
<td>Canceled</td>
</tr>
<tr>
<td>Mar. 2014</td>
<td>STX Entertainment (TPG Capital)</td>
<td>Joint venture</td>
<td>Hony Capital</td>
<td>1 billion</td>
<td>Finalized</td>
</tr>
<tr>
<td>Jun. 2014</td>
<td>Studio 8</td>
<td>Investment</td>
<td>Fosun International</td>
<td>200 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>Nov. 2014</td>
<td>Walt Disney Studios</td>
<td>Co-production</td>
<td>SMG</td>
<td>Undisclosed</td>
<td>Finalized</td>
</tr>
<tr>
<td>Mar. 2015</td>
<td>Lionsgate</td>
<td>Co-production</td>
<td>Hunan TV, Leomus Pictures</td>
<td>375 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>Mar. 2015</td>
<td>STX Entertainment</td>
<td>Co-production</td>
<td>Huayi Brothers Media</td>
<td>1 billion</td>
<td>Finalized</td>
</tr>
<tr>
<td>Apr. 2015</td>
<td>Dick Cook Studios</td>
<td>Joint venture</td>
<td>CITIC Group</td>
<td>150 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>May 2015</td>
<td>Symbolic Exchange</td>
<td>Co-production</td>
<td>Meridian Entertainment</td>
<td>Undisclosed</td>
<td>Finalized</td>
</tr>
<tr>
<td>Jun. 2015</td>
<td>Paramount Pictures</td>
<td>Co-production</td>
<td>Alibaba Pictures</td>
<td>Undisclosed</td>
<td>Finalized</td>
</tr>
<tr>
<td>Sep. 2015</td>
<td>Legendary Entertainment</td>
<td>Co-production</td>
<td>Tencent Pictures</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<tr>
<td>Sep. 2015</td>
<td>Flagship Entertainment (Warner Bros.)</td>
<td>Joint venture</td>
<td>CMC, Television Broadcasts Limited</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<tr>
<td>Nov. 2015</td>
<td>TSG Entertainment Finance (20th Century Fox)</td>
<td>Co-production</td>
<td>Bona Film Group</td>
<td>235 million</td>
<td>Finalized</td>
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<td>Jan. 2016</td>
<td>Legendary Entertainment</td>
<td>Acquisition</td>
<td>DWG</td>
<td>3.5 billion</td>
<td>Finalized</td>
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<td>Jan. 2016</td>
<td>Universal Pictures</td>
<td>Co-production</td>
<td>Perfect World</td>
<td>500 million</td>
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<td>Date</td>
<td>Company</td>
<td>Type</td>
<td>Partner(s)</td>
<td>Amount</td>
<td>Status</td>
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<td>Imagine Entertainment</td>
<td>Investment</td>
<td>CMC</td>
<td>100 million</td>
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<tr>
<td>Mar. 2016</td>
<td>Anthem and Song (Russo Brothers)</td>
<td>Joint venture</td>
<td>United Entertainment Partners, HDQH Fund</td>
<td>200-300 million</td>
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<tr>
<td>Apr. 2016</td>
<td>Skydance Media</td>
<td>Co-production</td>
<td>Alibaba Pictures</td>
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<td>Dick Cook Studios</td>
<td>Co-production</td>
<td>Film Carnival</td>
<td>500 million</td>
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<td>Co-production</td>
<td>Alibaba Pictures</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<td>Jun. 2016</td>
<td>IM Global</td>
<td>Acquisition</td>
<td>Tang Media Partners</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<tr>
<td>Jun. 2016</td>
<td>IM Global</td>
<td>Co-production</td>
<td>Tencent Pictures</td>
<td>100 million</td>
<td>Finalized</td>
</tr>
<tr>
<td>Jul. 2016</td>
<td>Paramount Pictures</td>
<td>Acquisition</td>
<td>DWG</td>
<td>5 billion</td>
<td>Canceled</td>
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<tr>
<td>Jul. 2016</td>
<td>FremantleMedia North America</td>
<td>Co-production</td>
<td>Meridian Entertainment</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<tr>
<td>Aug. 2016</td>
<td>STX Entertainment</td>
<td>Investment</td>
<td>Tencent Pictures, PCCW</td>
<td>700 million</td>
<td>Finalized</td>
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<td>Sep. 2016</td>
<td>David S. Goyer</td>
<td>Co-production</td>
<td>Tencent Pictures</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<td>Sep. 2016</td>
<td>Sony Pictures</td>
<td>Co-production</td>
<td>DWG</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<td>Oct. 2016</td>
<td>Amblin Entertainment</td>
<td>Investment, co-production</td>
<td>Alibaba Pictures Group</td>
<td>Undisclosed</td>
<td>Finalized</td>
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<td>Nov. 2016</td>
<td>Carmike Cinemas</td>
<td>Acquisition</td>
<td>AMC Entertainment (DWG)</td>
<td>1.2 billion</td>
<td>Finalized</td>
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<td>“Late” 2016</td>
<td>MGM</td>
<td>Acquisition</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td>Canceled</td>
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<td>Jan. 2017</td>
<td>Paramount Pictures</td>
<td>Co-production</td>
<td>Shanghai Film Group, Huahua Media</td>
<td>1 billion</td>
<td>In progress</td>
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<td>Jan. 2017</td>
<td>Voltage Pictures</td>
<td>Acquisition</td>
<td>Anhui Xinke New Materials</td>
<td>345 million</td>
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<td>Dick Clark Productions</td>
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<td>DWG</td>
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<td>Finalized</td>
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<td>Apr. 2017</td>
<td>Tom DeSanto</td>
<td>Co-production</td>
<td>CITIC Guoan</td>
<td>120 million</td>
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<td>Creative Artists Agency</td>
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<td>Perfect World Entertainment</td>
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<td>Weying Technology</td>
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