Business Models and Cultural Negotiations between Chinese and Japanese Enterprises and Organizations: A Study Based on the IP Licensing Process of the Japanese Animation Industry

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Abstract. The Japanese animation industry has developed for a long time. It is one of the most mature animation markets. Globalization serves as a new and inexhaustible driving force for the Japanese animation industry. China as an active responder to globalization, has already become the largest consumer of the products of Japanese animation. However, there are some differences between the business models and cultures in Chinese and Japanese enterprises and organizations in trading and negotiating on IP licensing. In the early days, the Japanese animation industry generally adopted a single-investor financing model, which means where the investor bore all profits and losses. Since the 1990s, the Japanese animation industry has gradually formed and adopted a multi-member collaborative model centered around a "production committee" to invest and produce animation products, in which the members of the "production committee" co-invest, share risks, and achieve mutual benefits and win-win. The variation in business models is intricately linked to the different market economy environment at the time. With the development of globalization, as investors and copyright owners of animation works and products, the multi-member "production committee" plays a significant role in the overseas licensing operations of Japanese animation IPs, which requires professional teams or enterprises with cross-cultural experience necessitating coordination by.

Keywords: Animation Copyright; IP Licensing; Business Models; Production Committee.

1. Organization of the Text The “Production Committee” in Japanese Animation and the Historical Economic Environment in Which It Emerged

Before the 1990s, the Japanese animation industry predominantly operated under a model where small and medium-sized animation production companies would presell rights to investors. This setup, separating production and sales, positioned the production companies as responsible for creating the animation works, while the investors focused on the commercial development and exploitation of these works. Over time, this business model evolved such that production companies found themselves relegated to the mere role of content providers, with no or little stake in the profits generated from the animations and their derivative products once the works hit the market. Essentially, this arrangement turned the dynamic and synergistic cooperation between investment companies and production companies into an employer-employee relationship, rather than one of mutual benefit and cooperation. The reasons this model became prevalent were largely due to the market conditions of the time. Production companies, typically smaller in scale and capital-deficient, contrasted with the well-capitalized investors, who were better equipped to shoulder the risks.

In the late 1980s to early 1990s, Japan's economy overheated, leading to a bubble. This bubble burst in the early 1990s, plunging Japan into a prolonged recession. From 1990 to 1999, Japan's GDP grew by only 12.1%, which was equivalent to the level of growth achieved in a single year during its previous high-speed growth periods. This era included three consecutive years of zero economic growth from 1992 to 1994. Despite a brief recovery in 1995 and 1996, the economy regressed once again due to the impacts of the Asian financial crisis and misguided policies by the Hashimoto government, such as raising consumption taxes and attempts at fiscal reconstruction.[1] Amidst this challenging economic backdrop, Japanese animation production companies remained
small and capital-deficient. However, they recognized the critical importance of copyrights in the animation industry, meanwhile, the investment companies becoming more cautious and risk-averse. In response to the market environment, aimed at covering high production costs and fostering diverse revenue streams, a new model for the animation industry emerged: the "production committee" model. This model is a collaborative framework for investment and production that involves participation from multiple stakeholders. It aims to integrate resources from different sectors to expand the industry chain, operating as a loosely organized entity governed by contracts and agreements rather than legal statutes.[2] As such, production committees typically do not possess corporate bodies, functioning instead through mutual contracts among members to form a community of shared interests.[3] Members of a "production committee" are typically large enterprises from various sectors within the animation industry chain, such as television networks, disc manufacturers, publishers, animation studios, advertising agencies, and game companies. These members collaborate to form a "production committee" for a specific project, where they invest in the animation's production, marketing, and the commercialization of related merchandise. This collaborative approach allows them to share both the risks and benefits, including shared copyrights and the resulting revenues. This model emerged as a strategic response to economic challenges, aiming to save on taxes and reduce costs, especially during economic downturns. It effectively replaced the previously prevalent movie fund investment model, which no longer suited the changing times.[4]

In the "production committee" model prevalent in the Japanese animation industry, members are granted the collective rights to own and decide on the sale of copyrights. This model excellently integrates resources from all segments of the industry chain, including production, distribution, broadcasting, advertising, sales, and derivatives. By doing so, it enables the industry to unite and effectively respond to economic crises, optimizing the entire business operation within its market. However, this model faces challenges when extending to international collaborations and copyright sales due to the differences in IP licensing models and business cultures between Japan and overseas markets. The collective ownership of copyrights often complicates the licensing process in foreign markets.

In the 21st century, the "production committee" model has attracted participation from entities beyond the traditional animation industry, including non-industry corporations, institutions, and individual investors. For example, "Steamboy", an animated film by Katsuhiro Otomo with a budget of 2.4 billion yen, was produced by a committee consisting of nine companies, including an animation channel company, Sony Pictures Entertainment, Bandai, Dentsu, TBS, Sunrise, Toho, Imagica, and Culture Publishers. This exemplifies how the model has expanded to encompass a wider array of participants, enhancing its capacity for resource integration and industry collaboration. Katsuhiro Otomo's "Steamboy", an animated film with a production budget of 2.4 billion yen. The animation channel company took a lead role and united a diverse group of stakeholders, including Sony Pictures Entertainment, Bandai, Dentsu, TBS, Sunrise, Toho, Imagica, and Culture Publishers in this project, culminating in a collaborative effort among nine different entities.[5]

2. An Overview of the Overseas Market for the Japanese Animation Industry with a Focus on the Chinese Market

The "Japan Animation Industry Report 2017" presents an analysis based on a survey of overseas copyright licensing data for the year 2016, conducted among 19 production companies that are members of the Association of Japanese Animations, as well as major non-member subcontractors. The report found that Japan secured a total of 6,639 contracts for overseas animation copyright licensing, representing a significant increase of approximately 52.8% from the 4,345 contracts recorded in 2015. These contracts were spread across 221 countries and regions. In the breakdown of these contracts by region, Asia led with a total of 2,290 contracts, making it the highest-ranking
market. Specifically, the top ten markets in Asia for the number of contracts were as follows: Mainland China with 335, South Korea with 308, Taiwan with 230, Hong Kong with 142, Thailand with 139, Macau with 107, Vietnam with 84, Singapore with 83, Malaysia with 81, and Indonesia with 75. This data illustrates that Mainland China was the leading market with 335 contracts in 2016, marking a shift from 2015 when the United States, which ranked fourth with 288 contracts in 2016, was the top recipient of Japanese animation copyright licenses. The survey categorizes the contracts into six main types of content licensing: streaming, broadcasting, merchandising, DVD/home video, releasing, and others.

The sales revenue from Japanese animation exports experienced substantial growth in 2016, escalating from 34.9 billion yen in 2015 to 45.9 billion yen. This marked increase not only exceeded the figures during the DVD bubble period of 2005 to 2006 (31.3 billion yen in 2005 and 31.2 billion yen in 2006) but also set a new precedent in the industry's overseas revenue achievements. The driving forces behind this growth extend beyond the successful licensing and sales of both new and existing TV broadcasts. Notably, the international box office success of films such as "Your Name" and "In This Corner of the World" played a significant role. Additionally, the investments in production and network fees by Chinese streaming services, along with payments made by global streaming platforms like Amazon for the rights to stream new releases, likely contributed significantly to the revenue increase.[6] Drawing on these revenue figures, the "Japan Animation Industry Report 2017" calculated the scale of Japanese animation market abroad in 2016 to be 767.6 billion yen, achieving a historic peak.

However, despite the rapid growth in income from overseas sales and licensing fees of Japanese animations in recent years, due to the heavy reliance on foreign agencies for copyright introduction, Japanese companies are continuously contemplating how to directly incorporate the contributions of overseas fans into their revenues. They are considering changes in their business models to avoid becoming mere content manufacturers without control over distribution channels, ensuring they remain proactive and advantageous in business cooperation negotiations. Meanwhile, the "Japan Animation Industry Report 2017" believes that whether the continued aggressive buying strategies of Chinese distribution operators resembling a bubble economy, the production of subsequent works that meet the new value required by the overseas film market (animations for youth and dramas for adults), and flexibility of new collaborations with Chinese companies and global distribution platforms can sustain this growth will be key.[6] It's evident that the Chinese market and the globalization of media platforms have a significant impact on the overseas market for the Japanese animation industry.

Historically, Japanese anime works were produced primarily for the domestic market in Japan. Over time, as the industry matured, in search of new revenue growth opportunities and driven by the demand from overseas markets, Japanese anime works gradually shifted its focus towards global audiences. The business models adopted by Japanese animation companies for producing content for the overseas market can broadly be categorized into four types:

1. Re-editing and Re-creating for Overseas Markets: This approach involves re-editing and re-creating versions of anime that have already been distributed within Japan, tailoring them for the overseas market, a practice that flourished in the 1980s and 1990s, with "Voltron" being a notable example.

2. Outsourcing Based on Overseas Demand: This approach takes into account factors such as the production capabilities of Japanese companies and the exchange rate of the Japanese yen, overseas companies, based on the demands of foreign markets, directly commission Japanese companies to outsource production. This model was prominent from the 1970s to the 1990s, with works like "Gargoyles" being a notable example.

3. Collaboration with Global Streaming Service Providers: In this model, Japanese and global streaming service providers co-invest in projects intended for worldwide digital distribution, targeting both Japanese and global markets, with production handled by Japanese anime companies.
This approach began to rise and develop after 2015, with "Knights of Sidonia" serving as a representative work.

(4) China-Led Initiatives: Emerging post-2015, this model is characterized by Chinese enterprises financing projects, which are then produced by Japanese studios for distribution primarily on digital platforms, targeting consumers in both China and Japan. Examples include "Centaur no Nayami" and "Resonant Heart", the latter of which has been popular in Japan, receiving investment from iQIYI, which is a well-known streaming service provider and distribution platform in China. In response to this success and with the aim of further developing the IP of “Resonant Heart”, a historically first international animation "production committee" was formed by enterprises from both China and Japan to share risks and achieve mutual benefits. Previously, "production committees" focused exclusively on the Japanese domestic market. The formation of an international committee tailored for foreign markets signifies a significant shift, positioning this model as an exemplar for future collaborations between China and international markets, including those in Europe and America.


When bringing Japanese anime into the Chinese market, Chinese companies face strategic choices on how to engage with Japanese production committees. Some choose to directly contract with Japanese production committees, while others prefer to engage through intermediary agencies with multinational and cross-cultural expertise. These intermediaries then negotiate contracts with the Japanese production committees on behalf of the Chinese firms. The selection of these pathways is influenced by several factors: the level of mutual understanding and trust, the ability of each party to manage risks, their familiarity with relevant policies and legal regulations, and their capabilities regarding payment speed and reliability.

Third-party agencies, typically large corporations with operations in both China and Japan, play a crucial role. They are well-versed in the policies, legal frameworks, and market conditions of both countries. These agencies not only facilitate cooperation between Chinese companies and Japanese creators but also provide financial guarantees. They mitigate economic risks by setting up tripartite agreements that safeguard against potential financial failures, such as a party's inability to fulfill financial obligations or operational duties due to bankruptcy.

In the realm of IP acquisition, Japanese companies typically prefer a profit-sharing model, while Chinese companies have historically favored outright purchasing the full rights to an IP. The Japanese approach to IP licensing centers on sustainable development, aiming to broaden the reach and impact of their works. This strategy considers the Chinese side's capital strength, distribution channels, and operational advantages in various platforms, prioritizing long-term engagement over immediate financial returns.

Contrastingly, the prevalent business model in China is heavily capital-oriented, emphasizing extreme efficiency and maximizing profits. This approach seeks to dominate the industry following the buyout of copyrights, exemplified by major players like Meituan in the services sector, Tencent in social media, Baidu in search, and Alibaba in e-commerce, while smaller firms focus on niche markets within specific verticals. As China's demand and influence grows within the global market for Japanese animations, adjustments have been made in collaborative practices with Japanese partners. Some projects, which were initially pending financing for animation and subsequent development into IPs via a "production committee", are now spearheaded by Chinese companies. This shift signifies a change from the traditional Japanese animation production framework, which relied on production committees, to a model dominated by Chinese operational and cooperation strategies.
In current Sino-Japanese collaborations, the traditional animation production committee model is sometimes replaced by mainstream Chinese operational methods, or both nations begin to jointly establish new production committees. These new committees aim for a cooperative and mutually beneficial relationship, sharing risks and ensuring financial return, thereby altering the conventional workflow of the Japanese animation industry.

In Japan, the predominant operational model for animation projects is known as the "production committee" system. This model originated in the 1990s following the economic crisis triggered by the bursting of Japan's economic bubble, a time marked by an overheated economy. It was developed as a conservative business strategy aimed at spreading investment risks and diversifying revenue streams. Over time, this model has evolved and now comprises a well-established set of industry practices within its native market. Furthermore, traditional Japanese employment practices such as "lifetime employment" and "seniority-based wage systems" are also seen as conservative, particularly in the current social context.

Contrasting this, China's animation and its derivative industries are experiencing a surge in growth and prosperity. The sector is witnessing a significant influx of capital, with intense competition to acquire popular animation IPs both domestically and internationally. The Chinese government also provides substantial support to the animation industry, including policy backing, direct subsidies, stringent measures against piracy, and initiatives to increase the enrollment of students in animation-related fields.

4. Conclusion

The economic development stage of a market significantly influences the conservative or aggressive nature of its mainstream business models. Business models that emerge in specific market conditions are tailored to maximize profitability and minimize risks during a particular period, aiming for effective risk management and equitable benefit acquisition. Once established, these models and the accompanying industry systems often operate sustainably within their original markets and are difficult to change. However, the introduction of external forces can create friction with the existing business models and industry logic.

The market, economic, and policy environments of China and Japan are distinctly different, leading to substantial differences in their operational models. As the largest market for Japanese animation outside of Japan, China sees frequent and large-scale collaborations. These collaborations require professional teams and companies with cross-cultural expertise to facilitate smooth integration of capital and content, and seamless adaptation of models and systems, ultimately fostering positive interactions and mutual benefits between the two sides.

References