

**NEW TRANSITION OF DIGITAL MUSIC COPYRIGHT**

**PROTECTION IN CHINA:**

**A CASE STUDY OF JAY CHOU'S MODEL**

**DU LEI**

**DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF  
MUSIC & PERFORMING ARTS**

**CULTURAL CENTRE  
UNIVERSITY OF MALAYA  
KUALA LUMPUR**

**2017**

UNIVERSITI MALAYA

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Registration/Matric No: RGI 120009

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Title of Project Paper/Research Report/Dissertation/Thesis ("this Work"):

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IN CHINA:

A CASE STUDY OF JAY CHOU'S MODEL

Field of Study:

Musicology

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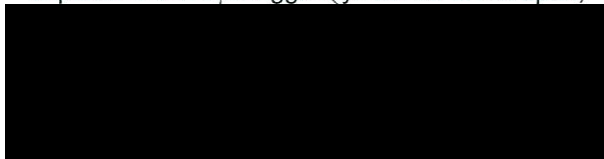
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## ABSTRACT

Jay Chou is one of the most well-known pop singers not only in China but also among the overseas Chinese communities. He created a digital album - *Aiyo Bu Cuo* known as Jay Chou's Model was released in 2014. Digital album requires payment for downloading the copyrighted music through authorized websites. Unlike physical CDs, the music of the digital album was stored in digital format and transmitted through the Internet. In this research, Jay Chou's model that published in 2014 will be studied.

On the basis of the digital album Jay Chou's model, this research will analyze the changes in digital music market in China, regarding the protection measures, business model and the improvement in the future.

Firstly, Chapter 1 will present an overview of the digital music and related issues about copyright by focusing on the definition and issues related to the digital music industry, music copyright and digital music copyright in China. Chapter 2 will present literatures of history of Chinese digital copyright and development of Chinese music industry, Digital Millennium Copyright Act, revenue model in worldwide applied into business model of digital music. Chapter 3 will present methodology of this research.

Secondly, Chapter 4 will analyze evolution of digital music industry in China 2009-2014, chain reaction and influence of Jay Chou's model, business model and SWOT of digital music in China.

Thirdly, based on the market status, it will take consideration the protection measures with data chart analysis, discuss the operation of digital album model and put forward some suggestions in Chapter 5.

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## **ABSTRAK**

Jay Chou adalah salah seorang penyanyi pop yang paling popular bukan sahaja di China malah juga di kalangan masyarakat Cina di luar negara. Beliau mencipta album digital - Aiyo Bu Cuo pada tahun 2014 yang kemudiannya menjadi model Jay Chou. Album Digital memerlukan bayaran untuk memuat turun muzik yang dilindungi hak cipta melalui laman web. Tidak seperti CD fizikal, muzik album digital itu disimpan dalam format digital dan dihantar melalui Internet. Dalam kajian ini, model Jay Chou yang diterbitkan pada tahun 2014 akan diteliti kedalam bentuk penulisan akademik.

Berdasarkan model album digital Jay Chou ini, penulis akan menganalisis perubahan dalam pasaran muzik digital di China, mengenai langkah-langkah perlindungan, model perniagaan dan penambahbaikan pada masa yang akan datang.

Bab 1 akan membentangkan gambaran keseluruhan muzik digital dan isu-isu yang berkaitan hak cipta dengan memberi tumpuan kepada definisi dan isu-isu yang berkaitan dengan industri muzik digital, hak cipta muzik dan hak cipta muzik digital di China. Bab 2 akan mengutarakan sejarah hak cipta digital Cina dan pembangunan industri muzik Cina, Akta Hak Cipta Milenium Digital, model pendapatan di seluruh dunia digunakan ke dalam model perniagaan muzik digital. Manakala Bab 3 akan membentangkan Metodologi kajian.

Bab 4 akan menganalisis evolusi industri muzik digital di China 2009-2014, serta tindak balas dan pengaruh model, perniagaan Jay Chou dan SWOT muzik digital di China.

Berdasarkan status pasaran, ia akan mengambil kira langkah-langkah perlindungan dengan analisis carta data, membincangkan operasi model album digital dan mengemukakan beberapa cadangan dalam Bab 5.

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## **ACKNOWLEDGEMENTS**

I would like to express my deepest gratitude and appreciation to everyone who helped and supported this research dissertation.

I am extremely thankful to my supervisor Dr. Mohd. Nasir Hashim for his guidance, advises, suggestions, supervision and support of this study. His enlightenments, and suggestions with humor and kindness have helped me to complete this research. I am very appreciated to have a good supervisor like him.

I am sincerely thankful to Li Xintian who have checked, edited the grammar and words in this dissertation.

I am thankful to Dr. Chiu Ming Ying, Dr. Loo Fung Ying and Dr. Yap Jin Hin for their suggestions, advice and help during my research period.

Finally, I will express thanks to my parents and all of my friends who have helped and supported me to complete this research.



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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background**

With the development of technology, Rebecca Mackinnon (2012) was called to action:

“Our freedom in the Internet age depends on whether we defend our rights on digital platforms and networks in the same way that people fight for their rights and accountable governance in physical communities and nations. It is time to stop thinking of ourselves as passive “users” of technology and instead act like citizens of the Internet - as netizens - and take ownership and responsibility for our digital future.” The transmission of musical compositions is constantly changing. In the year 2002, a search engine called *Baidu* launched free mp3 music service, allowing users to download music from the Internet without charges. The development of digital music allows users to download the latest music more with convenience while elevating the salience of copyright protection for digital music works. “Since the intellectual property protection of China in the early stages of development, legal protections of music copyright are still weak currently” (Wang, 2013). In recent years, digital album as a new pay-mode to download music online was emerged. It has become a new genre of the music industry. Therefore, to facilitate the development of the music industry, a well-established business model for digital music and improved protective measures for digital music market are needed.

### **1.1.1 Digital Music Industry.**

Since the 1990s, significant changes have reshaped the music industry in China with the extensive application of information technology (IT) in the industry. Music industry is gradually merging with IT, telecommunications, Internet and other media industries, leading to the industrial revolution in traditional music industry (Mao, & Zhuang, 2007). Record companies and others music culture communication companies are endeavoring to establish themselves as a digital music company, set up their own music websites and cooperate with the new media. As a result, traditional music industry service model is gradually being replaced by the digital music industry. In 2005, the value of digital music market was greater than that of the traditional music market in China, up to 3.6 billion RMB (Wen, 2013). According to the *2010-2013 Annual Report of the Online Music Market* in China issued by the Ministry of Culture, in 2010, online music market reached 2.3 billion RMB (total basis income from ISP), an increase of approximately 14.4% compared with 2009. The report analyzes that online music piracy is prominent in 2010 and online music market is limited and devoid of growth momentum due to a lack of original musical composition

Given the giant number of potential users in China, the Chinese digital music industry may become the largest worldwide (IFPI, 2014). In 2011, the number of online music companies reached 452, an increase of 28.7% compared with 2010 while online music market reached 2.78 billion RMB (total basis income from ISP), up by 20.8% over 2010. However, exposed issues in 2010 continue to exist in year

2011. By the end of 2012, the number of online music companies reached 575, an increase of 27.2% compared with 2011 while the online music market valued at 45.4 billion RMB. However, issues such as copyright protection and the lack of business models of online music in the Internet environment remain unsolved that year. By the end of 2013, there were 695 online music companies in China and the market income reached 7.41 billion RMB, an increase of 63.2% over 2012. Meanwhile, the number of online music users reached 450 million. Nevertheless, the same issues as those in year 2012 were left untapped.

#### **1.1.2 Music Copyright.**

With the prevalence of the Internet era where MP3 and other new kinds of music players rejuvenate the music life, the traditional form of music is declining. The rise and fall of Chinese music industry is propelled by an important factor - the lack of copyright protection. Copyright is one of the core competencies of a record company to which little importance has been attached since the founding of record companies in China. Previously, mainland record companies offered salaries for musicians. In the 1980s, pop music was recorded in cassettes, which failed to take into consideration the payment for copyright fees to Hong Kong, Macao, Taiwan or overseas music composers. From the 80s to 90s, the idolater brought unprecedented glory for record industry until the mid-1990s when the album sales precipitated considerably due to the piracy issue (Wen, 2013).

The rise of the Internet has eclipsed the role of CDs in music dissemination. The piracy issue, however, also extends to the network. Without an inclusive copyright protection system, issues such as the lack of legal protection, proper structures, equivocal systems and other relevant issues cripple the ability of the record companies to adapt to the Internet (Ibid).

### **1.1.3 Digital Music Copyright.**

Digital music refers to the storing of digital format that can be transmitted through the network. The quality of the music will decline as a result of the replication in the traditional recording process. The biggest advantage of digital audio technology is that no matter how many times the sound is recorded, quality will be preserved (Moser, 2006, pg. 186-187). “Due to the convenience of digital music, its advantages make digital music a flourishing industry” (Wang, 2007). There is no clear legal definition about digital music copyright in China. But the Copyright Law article 10 said that copyright law protected the composition and also digital form of composition. So the digital music became the object of protection by law. Music copyright is a part of Intellectual Property Rights that protects such rights holders as lyrics, songwriter and Record Company and etc. with the right retention period of 50 years in general (Copyright Law of People’s Republic of China 1990, 2012 revised edition). However, this concept varies from country to country. The concept of copyright has two definitions in China: one focuses on the administrative party, while the other is a collection of a series of specific rights. In comparison, the US copyright concept also includes moving image right to protect

the particular interest groups (Jin, 2006). In China, the legal provisions are not clear about music licensing model, so are the payment standard and compensation in the online environment. “Compared with other countries, the Music Copyright Society of China has similar representation and status, but the annual rate of copyright fees charged constitutes only one percent even one-thousandth of those charged by other countries” (Wang, 2013). Due to the lack of government enforcement, limited administrative and audience indifference of intellectual property rights lead to the unstandardized digital music market in China.

#### **1.1.4 Digital Album**

“A digital album is a zip file containing a set of MP3 files and a JPG of the cover image for the album. Since all digital products on this site are distributed electronically, there are no refunds for erroneous purchases or downloads” (Theconnexion).

In 2009, the music collection of *UNDERFLOW* published by Zhang Yadong was debut only in form of digital music album. CEO of *Taihe Rye Music* Song Ke said: “the digital music album is a new sales model, which is not only a sign of the regularization of digital music, but also the substitute for physical CDs” (Qi, 2009).



## 1.2 Problem Statement

The Internet and popularization of broadband with the addition of user demand for digital music have facilitated the rapid development of the digital music on a global basis. “But in China, copyright issue has become a factor adversely impacting the long-term development of digital music. Since users pay model is difficult to devise, many original music websites can hardly survive” (Li, 2010). According to the “Internet Statistics Center of China in 2006”, the number of active Internet users in the Chinese market is about 50 million to 60 million. If the download price is ranging from 2 to 4 yuan for one song, the music industry will lose an astronomical amount of nearly 10 billion by piracy for each year in China. CEO of *Taihe Rye Music* Song Ke said that given the low cost of infringement, high cost of rights under the network environment and incomplete pay models of cooperation, the record companies need stronger policy and market protection.

This study will focus on the above-mentioned issues relating to the business model and the market of the digital music industry by analyzing the digital album model and co-operation so as to broaden the study scope of the transition of digital music copyright protection in China with reference to the digital album Jay Chou’s model released by Jay Chou in 2014.

### **1.3 Purpose of Study**

The purpose of my study is to analyze the effect of digital album in non-standard environment of music industry. It centers on the assessing and investigating the changes in protection measures for copyrights since the emergence of digital album as well as offering a new business model of digital music in China.

### **1.4 Research Objectives**

- Analyze the market evolution in the Chinese digital music industry from 2009-2014.
- Investigate the current market status of digital music copyright.
- Analyze the business model in digital album sales predicted on Jay Chou's model.
- Investigate the factors behind the rapid increase in the sales of digital album sales in 2015.

### **1.5 Research Questions**

- What are the policy and market changes of digital music industry from 2009 to 2014 since the first digital album emerged?
- Based on Jay Chou's model and digital album sales, what is the price range of acceptance of the users and whether or not to include the value-added services in digital album to boost the sales?
- What are the changes of online music service providers in the current market after digital music album emerged?

- What kind of problems still exists in the Chinese digital music market after the development of digital music album?

All of research questions will be further discussed in Chapter 4.

### **1.6 Significance of Research**

In the era of the digital music, copyright has become an increasingly significant aspect. Once fully protected by copyright music, music websites and record companies can protect their interests and get fair returns. Composers will be protect by law and musicians will no longer worry about piracy or random dissemination on the Internet, which will encourage the production of high-quality music and generate considerable income for musicians. Audience can also enjoy high quality music and introduce more original foreign music into China.

This study will contribute to the field of business model and music industry through digital album in China and the following two aspects should be taken into account:

- Policy: To explore and make relevant the stipulation and utilization of policies in the music industry and make this research a reference for future studies.
- Market: To collect and analyze the market measures about the digital music and offering information about how new business model evolves through digital album.

## **1.7 Outline of Research**

This research is designated into three sections. Firstly, Chapter 1 will present an overview of the digital music and related issues about copyright by focusing on the definition and issues related to the digital music industry, music copyright and digital music copyright in China. Chapter 2 will present literatures of history and development of Chinese music industry, revenue model in worldwide and applied Digital Millennium Copyright Act contents about digital music in the world. Chapter 3 will present methodology of this research.

Secondly, Chapter 4 will analyze evolution of (2009 - 2014) digital music industry in China, influence and chain reaction of Jay Chou's model, business model and SWOT of digital music industry in China.

Last section of results and suggestions obtained from data of chapter 4. Based on the market status and take consideration the protection measures with data chart analysis, discuss the operation of digital album model, as well as put forward some suggestions for future researches in Chapter 5.

## **1.8 Research Methodology**

The research methodology will be proposing qualitative study. Based on the case study and reviewed literatures process with followed by data collection and observations through secondary method. The details of methodology will be explained in chapter 3.

### **1.8.1 Case study**

The case study will help to demonstrate and explain the Jay Chou's model (2014).

Introduce Jay Chou's case and lead to digital album.

### **1.8.2 Secondary Source**

The secondary data will be used to evidence Chapter 4 and Chapter 5, including the survey data from the report, books, journals, articles, published dissertations and validated websites.

## **1.9 Limitation**

The study of digital album is a new field in China. Therefore, there are only limited literatures concerning the business model in digital music. This study, based on qualitative research method, such as case study, direct observation, analysis of documents and data lacks deeper discussions about the materials covered the mentioned issues.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature review will be divided into four sections: Digital Copyright History in China, Digital Millennium Copyright Act, Music Industry in China and Digital Music Business Model. A lot of researches have investigated in the field of copyright law and digital music copyright (Hovey, 2002; Hoffmann, 2005; Moser, 2006; Li, et al., 2007; Jiang, 2002; Wang, 2013; Wen, 2013; Jiang, C.J.Z.P., 2008), music business (Sparrow, 2006; Jin, 2006; Wang, 2007) as well as the development report of the Chinese digital music industry.

#### **2.2 History of Digital Copyright in China**

If a copyright was appeared with printing press, then the earliest emergence of copyright should be in China. In 1907, Aurel Stein of British stole a work from Dunhuang Caves (Zheng, 2009, pg. 2, 3). The book is known as the *Diamond Sutra*, which is considered the first Block Printing work in the world (Carter, 1957, pg. 42, 57-59). It is 500 years earlier than Europe's earliest Block Printing work. The origin of copyright can be traced back to the Song Dynasty in China (Zheng, 2009, pg. 3). The Chinese people initiated "official copyright protection in 1068 when the Emperor of the North Song Dynasty issued an order forbidding the reproduction of the 'Nine Books' without authorization" (Zhang, & Xie, 2007). The official publisher is Guo Zi Jian of the Tang Dynasty. It is as early as the 932 of the Song Dynasty that the book publishers

began to be aware of copyright protection for the first time (Ibid). For instance, “Mr. Cheng of Meishan, Sichuan, printed the *Stories of the East Capital*”. On the “copyright page” presented the words that “Printed by Cheng of Meishan, who applied protection from the superior, any reproduction is prohibited” (Wu, 2004). The first copyright law of China was *Copyright Law of the Qing Dynasty* released in 1910, 200 years later than the Statute of Anne (Song, 2006). After the collapse of the Qing Dynasty, China issued two copyright laws in 1915 and 1928 respectively.

Computer network “originated in the 1960s, emerged in the 1970s, 1980s gradually improving, 1990s ushered the climax of the world information technology” (Li, et al., 2003) and gave rise to the institutional issues. Copyright protection on the Internet is a prominent issue (Jiang, 2002). In spite of the late start of the China’s network development, it is developing rapidly. The Chinese Academic Network (CANET) was established in 1986 (Li, et al., 2007, pg. 406). Until June 30, 2004, The 14<sup>th</sup> Statistical Report on Internet Development in China showed that the total number of Internet computers in China reached 36.3 million; www site reached 626,600 and the total number of Internet users reached 87 million. China has become a networked nation. With the advent of the Internet age, Internet copyright issues are beginning to emerge rapidly with increased seriousness and salience (Li, et al., 2007, pg. 406). “Digital copyright theories have gradually been established” (Jiang, 2002). By using the Internet as a kind of copyright infringement, it is possible to reproduce and replicate the copyright works online. However, it is also necessary to protect copyright at the same time, therefore posing a high-tech challenge to the 1990’s Copyright Law. However,

1990 Copyright Law and 1991 Regulations for Implementation of Copyright Law have no provision with respect to the Internet (Jiang, 2002).

In 2000, the Amendment of the Copyright Law was issued and the Article 2 stipulated that the Article 10 of “Copyright Law is all applicable to the copyrights of digitized works” (Li, et al., 2007, pg. 411). According to Article 2, “the scope of compensation for infringing copyright on the Internet will range from RMB 500 to 500,000.” 7 October 2001, China amended the Copyright Law. The legal recognized of the “right of communication via information networks”. Article 10 (12) provides that the “right of Communication via Networks is the right to communicate to the public a work, by wire or wireless means in such a way that members of the public may access these works from a place and at a time individually chosen by them” (Jiang, 2008). Article 37 and 41 were provisions that focus on the Right to Network Dissemination of performers and producers of audio and video recordings. Article 47 also protects the legitimate rights of people without permission and disseminates their works to the public through the information network, performance, or audio recordings are violations (Li, et al., 2007, pg. 412). In order to extensively infringe upon the communication right, including “linking and searching as communication via networks,” it’s “inconsistent with the original concept of the ‘communication right’”. The basic elements of copyright infringement is “copy”, the concept will be expanded when the “linking and searching” is incorporated in “communicating via networks.” Actually, the behavior of providing “linking and searching” already constitutes infringement (Jiang, 2002). From 2002 to 2004, the Chinese government has promulgated a number of regulations to protect the



copyright of the Internet and Punishment. So far, regarding the General Principles of the Civil Law of the People's Republic of China, Copyright Law and Implementing Regulations of Copyright Law that offers protection in a networked environment has a become more clearly legal basis.

### **2.3 Digital Millennium Copyright Act (DMCA)**

In the past few years, due to the litigation involving the frequent occurrence of document sharing, copyright has become the limelight of social concerns. However, the opponents of copyright law are trying to simplify the issue in order to address the issue of copyright law, and declaring "liberalization of information." John Perry Barlow (1994) said that copyright law had been constantly changing. The emergence of digital expression could not reduce the importance of copyright law. Copyright law is now forced to adapt and adjust to the new environment. Take the Copyright Law in the US where digital music can be downloaded with a computer and from the Internet for reproduction and transmission. However, the protection of copyright law still abides by the traditional provisions (Moser, 2006, pg. 194). "Fortunately, the Copyright Office regularly accepts registrations for web sites and seems very willing to adapt the law to the needs of novel expressions made with the aid of new technology" (Hovey, 2002, pg. 214). In consequence, in 1998, America issued Digital Millennium Copyright Act.

DMCA is an amendment to the 1976 Copyright Law of United States. The process of "creating the DMCA was a long and arduous job, because many constituencies had very specific concerns, and those concerns often conflicted" (Hoffmann, 2005, pg. 54). There

are several provisions consisting of the copyright. DMCA is concerned with three issues related to the music industry: Anti-circumvention rules and copyright management information, Limited liability of online service providers and Webcasting amendments.

- Anti-circumvention rules and copyright management information

The technology of circumvention refers to descrambling the scrambled works by copyright owner, and decrypting the encrypted works by copyright owner. Copyright management information is the embedded digital information in a document, which allows the copyright owner to detect unauthorized use and monitor the payment of royalties.

- Limited liability of online service providers

As for copyright protection in a networked environment, the basic issue is who should be responsible for the infringement. Acts such as someone uploads music without permission or downloads copyrighted works to the Internet will be considered direct Infringement. In terms of indirect Infringement, those who obtain profits out of the infringement acts should bear the legal responsibility (Moser, 2006, pg. 196). Section 512 of the DMCA demonstrates four new limitations on the liability that exempt online service providers:

1. Transitory communications;
2. System caching;
3. Storage of information on systems or networks at direction of users;
4. Information location tools.

(U.S. Copyright Office Summary, 1998)

- Webcasting amendments.

In 1995, the US Congress passed the Digital Performance Right in Sound Recordings Acts (DPRA), stating “creating a performance right in sound recordings that is limited to digital transmissions.” Three types of digital transmissions were addressed: “broadcast transmissions, which were exempted from the performance right; subscription transmissions, which were generally subject to a statutory license; on-demand transmissions, which were subject to the full exclusive right.” Section 112 of the Copyright Acts included an exemption designed to facilitate the transmission of the recording - “ephemeral recordings” that allows transmitting organization to make and preserve the music up to six months and no more than one copy of the work. Section 402 of the DMCA, an amendment to section 112, stating “recordings that are made to facilitate the digital transmission of a sound recording where the transmission is made under the DPRA’s exemption for digital broadcasts or statutory license” and allowing “in some circumstances the circumvention of access control technologies in order to enable an organization to make an ephemeral recording.” Section 405 of DMCA revised and expanded the statutory license subscription transmission, including webcasting as a new category

of “eligible non-subscription transmission.” As above, Section 402 of DMCA makes “a single ephemeral recording to facilitate digital transmission” of broadcast statutory an exemption or permit under the DPRA. As the Copyright Office Summary proposed, “Transmitting organizations that wish to make more than the single ephemeral recording of a sound recording that is permitted under the outright exemption in section 112 are now eligible for a statutory license to make such additional ephemeral recordings, also the new statutory license applies to the making of ephemeral recordings by transmitting organizations other than broadcasters who are exempt from the digital performance right, who are not covered by the expanded exemption in section 402 of the DMCA” (U.S. Copyright Office Summary, 1998).

## **2.4 Music Industry in China**

- Pre-digitization

The Chinese Music Industry (henceforth CMI) is featured with a long history and complex industry system. “Mainland China is one of the earliest regions where music industry activities began to emerge (such as live music performance)” CMI has operated and developed for over a thousand years. In the history of the Chinese Music Industry, there are three major sectors of the music industry, including “music performance, music recording and digital music,” that have constituted the system and structure of the Chinese Music Industry.

For music performance, “the early development of the CMI can be traced back to venues such as 'Wasi' and 'Goulan' that were established during the Song Dynasty (960-1279).” During this period, industry convergence was mainly related to performing arts such as dance and drama. It represents the integration of the CMI industry (Li, 2011). Due to the intervention of the Cultural Revolution and the wars, the music industry was hardly developed until the 1970s when economic reforms were instituted ( Li, et al. 2015).

The rapid development of the CMI began in the 20<sup>th</sup> century and reached a peak in the early 21<sup>st</sup> century. The first music recordings of the Peking opera were produce in 1904 by Victor Talking Machine Company. CMI recorded sector has been developing in Mainland China for more than one hundred years and was still a dominant sector until 2006. “Thus its development is approximately 50 years later than the commencement of the Western recorded music sector.” During this period, the industry “experienced two developmental stages in Mainland China:” 1990s-1940s, when the “New Music of China” and “School Songs” started and 1980s-2005 when , industry structure extended to cultural industry after the founding of the People’s Republic of China (PRC) in 1949 (Li, 2011).

- Digitization

The year 2006 embraced the third period - digitization. The year 2006 marks a milestone of digital music sector whose sales accounted for 36% of total music revenues (\$26.8 million US dollars) in Mainland China. Many record companies

began to engage in the digital music industry (Li, 2011) and to develop technology-based digitization of music (Street, Li, et al. 2015). As Li (2013) observed, “the development of China’s digital music industry was almost synchronous with the West.” Digitization jointed “peer-to-peer” (P2P) technology and engaged on fields such as online sales, ringtones and streaming services. In terms of the users of the streaming sites of music, online music sales was reported to reach 14% in 2010 among 70% music subscribers in 600 million people (Tan, 2011). Since the emergence of 3G technologies in the late 2000s, mobile music market dominated the mainstream (90% in 2004; 73% in 2008) market while online market only accounted for 10% in 2004 and 27% in 2008 (Li, 2013). The 2014 Development Report of China’s Music Industry showed that digital music sales reached RMB 44.07 billion, among which RMB 39.71 billion was from wireless music and RMB 4.36 billion from online music, Digital music market thrived in 2004. The persistent issue of piracy has led to a substantial decline in CD sales. In 2009, approximately 20 of the 7,200 online music websites in China involved in lawsuits (Hu, 2009). Compared with 88.3% income from advertisements, only 5.1% originated from subscription fee. Most of the music was downloaded without any charges (Chen, 2013). After 3G appeared, ringtone market grew in wireless music market. In 2005, wireless music sales reached RMB 2.6 billion with RMB 1.2 billion from ringtones. Most of the ringtone items were used by popular music or classical music and other sounds forms. An illustration of the song of *Mice Love Rice* was reached sales revenues of RMB 20,000,000 and more than 600,000 times downloaded in a month in 2005 (Tu, 2006). However, ringtones market cannot

avoid the prevalence of piracy. Compared with the US, China's Internet users were twice as many as the US users, but the per capita digital music income was only 1% of that in the US (Pu, 2001). According to Mertha (2005), Chow (2006) and Dimitrov (2009), it is the lack of political system that posed the threat of piracy. Others considered that the US have "specialized intellectual property divisions within its courts" (Priest, 2014), and then compared with year-on-year prosecution increased. In 2008, the copyright prosecution higher than a third than the previous year (Tong, et al, 2008; Sepetys, & Cox, 2009; Pang, 2012), and 300 illegal website sites were closed in 2011 (Tan, 2011). In the same year, the Alliance of the Digital Music Industry (ADMI) was established. Significant corporations in music industry such as included *Tencent*, *Sina* and telecom companies will comply with rules and make concerted efforts to help regulate the online music market. The existence of ADMI is comparable to the streaming services in West. *Baidu* and *Xiami* serve the roles similar to *Spotify* and are required to sign an agreement with rights holders. After that, the stock of *Baidu* reached a peak on the NASDAQ (Dong, & Jayakar, 2013). Then, *Baidu* and *Xiami* were acquiring by the *Alibaba Group* (International Business Times, 4<sup>th</sup> June 2013). According to the result of a survey of the Chinese musicians with respect to their revenues from the streaming services, in terms of the payment details released by the National Copyright Administration, composer own 10%, lyricist 10% while singer 80% (Xiang, 2013). Obviously, copyright holders and record companies got nothing.

In recent years, the digital music providers developed rapidly in China, except old brands such as “KUGOU MUSIC” and “QQ Music”, the others new providers like “Netease Cloud Music” and “Chang Bar” also gradually increased. They provide a multiple market and choice for our digital music uses in China. But the streaming music still cannot escape the piracy, providers cannot get revenue from users, advertising is still the major source of income (Zhang, 2015).

## **2.5 Digital Music Business Model**

In the mid-1990s, most people hardly heard of the Internet, let alone the usage. Companies had never thought about establishing a market on the Internet. Unexpectedly within a few years, Internet has become one of the major markets for the music industry featuring the capability of approaching a large number of consumers and businesses alike. Amazon opened the book retail revolution, creating an almighty way for consumers to buy books, DVD and CD (Sparrow, 2006, pg. 1). During the same period, digital music began to circulate through the Internet. However, only a limited number of users were interested in online music, and its impact on traditional music was constrained. Not until the 21<sup>st</sup> century did online music became the limelight in the music industry and online music sales a new business model with the rise of wireless music and websites providing free download music (Yin, & Zheng, 2015).

“Digital music industry is the collection of enterprises engaging in the production, transmission, sales service and relevant production and operation activities” (Ibid) .The online music service started in 2003 with only 30 services providers and “400,000



licensed tracks online”. Now over 400 providers are available for online music service worldwide and “more than 11 million licensed tracks online” in 2010 (Huang, 2012). Currently, the digital music industry is constituted by “record companies, telecom operators, digital music service providers”, electronics manufactures, “technology developers” and other “auxiliary and supporting systems that consists of relevant government departments, industry management agency, financial investors” and “social survey institutions, etc.” Due to the differences in national conditions, domestic digital music is distinct from the foreign digital music in two respects: first, digital music has brought “more opportunities than challenges in China;” second, China’s digital music industry uses wireless music driven online music (Yin, & Zheng, 2015). In the digital music industry chain, the contents provider is recording company and core values are music copyright. Recording companies that owns the copyright should be allocated a large share of profits and represent the upstream in industry chain. Therefore, business model is very important in the music marketing. Yin (2015) states that “Business model is the integrated solution to maximize the customer value, by forming one complete and high-efficiency running system with unique core competence, integrating all the elements that can help the operation of enterprise and providing products and services for sustained profits of the system”. To put it simply, the business model is how to make profit for enterprise.

Music sales and distribution are parts of the marketing process. The present digital music business model is divided into two categories: “technique” and “content”. “Technique” refers to technology as the development platform in the enterprise.

“Content” refers to content providers as a platform for development in industry chain (Yin, & Zheng, 2015). When Napster firstly opened the door of MP3 music downloads, peer-to-peer (P2P) structure reduced profits and impacted the foundations of traditional music industry (Magali, et al., 2004). During the peak period, about 75 million registered users downloaded nearly 10,000 songs per second (Ku, 2001). Since many music files online are not granted with the author’s permission, P2P technology of Napster encountered a copyright issue with many record companies and related software companies such as *Universal Music International* embarking on copyright protection (Magali, et al., 2004). *Yankee Group* (2002) described five conditions for legitimizing music services:

- Availability: record companies and independent labels must provide digital music for service providers.
- Ownership: consumers wanted to buy their own music instead of renting. Service providers need to enable consumers to mix, burn and copy the music.
- Portability: downloaded music can be played on any device.
- Exclusivity: legitimate music services providing contents must be distinguished from unlicensed services.
- Digital Rights Management (DRM): to enable consumers to share music with friends, services providers need to provide DRM.

However, most consumers are trying to look for cheaper ways or even anticipate getting the digital goods for “free”. Collecting more revenue is a new strategy that signals social progress (Ramaprasad, et al., 2012). The “pay-per-download” model used by iTunes enables free digital music in the music industry, and there are others revenue models, including subscription model, broadcasting model and artist-to-consumer model (Fox, 2004). In order to make profits for sustainable development and growth, each revenue model should consist of other revenue channels.

- Pay-per-download Model

The Pay-per-download mode provides a combination of single songs, albums and playlists of the users (Amberg, & Schroöeder, 2005), which is sued by the five major labels and some third-party providers (Fox, 2004). They used data format, such as iTunes format ACC and others WMA, MP3 (Amberg, & Schroöeder, 2007).

- Subscription Model

Subscription Model is that users paid periodically to music library, such as monthly charge (Fox, 2004; Rappa, 2004). It belongs to prepaid model but more stable in nature (McCourt, & Burkart, 2003). Subscription model will expand the new user group based on the frequent users, therefore charging higher adverting fee (Meyers, 2001).

- Broadcasting Model

Broadcasting Model is a free music service provider to meet the users' expectations.

Fox (2004) analyzed it from three dimensions: firstly, after the download or listening, the website will present advertising sales. Secondly, the record company allows the use of their music with paid commissions by the third-party websites.

The last one is to get the users' information and click rate through free music download.

- Artist-to-consumer Model

Artist-to-consumer Model is a way similar to direct distribution and sales by artists to fans. It will provide more additional functions to attract more fans. Online digital music providers will contract with recording companies and artists to appeal to more fans to their websites (Bockstedt, et al., 2006). This model provides several aspects for artists: live performances and real-time charts; presell music works for registered users, network communication and other functions (Sylva, 2000).

As the current environment in China, the leader of digital music service provider *Taihe Rye* has millions of users. Commentators believe that record companies, singers, music producers and songwriters have started to obtain real profits under the support form the "Alliance of the Digital Music Industry" of *Taihe Rye* in China. The Alliance provides the technology that orients the development of marketing model and profit model (Yin, & Zheng, 2015).

## **2.6 Conclusion**

In light of the limited literatures concerning the business model of digital album in digital music industry, the study will center on digital music copyright and music business to explore the new transformation of digital music copyright protection. This research will bridge the gaps in the business model of digital album and new policies for digital music copyright protection in China.

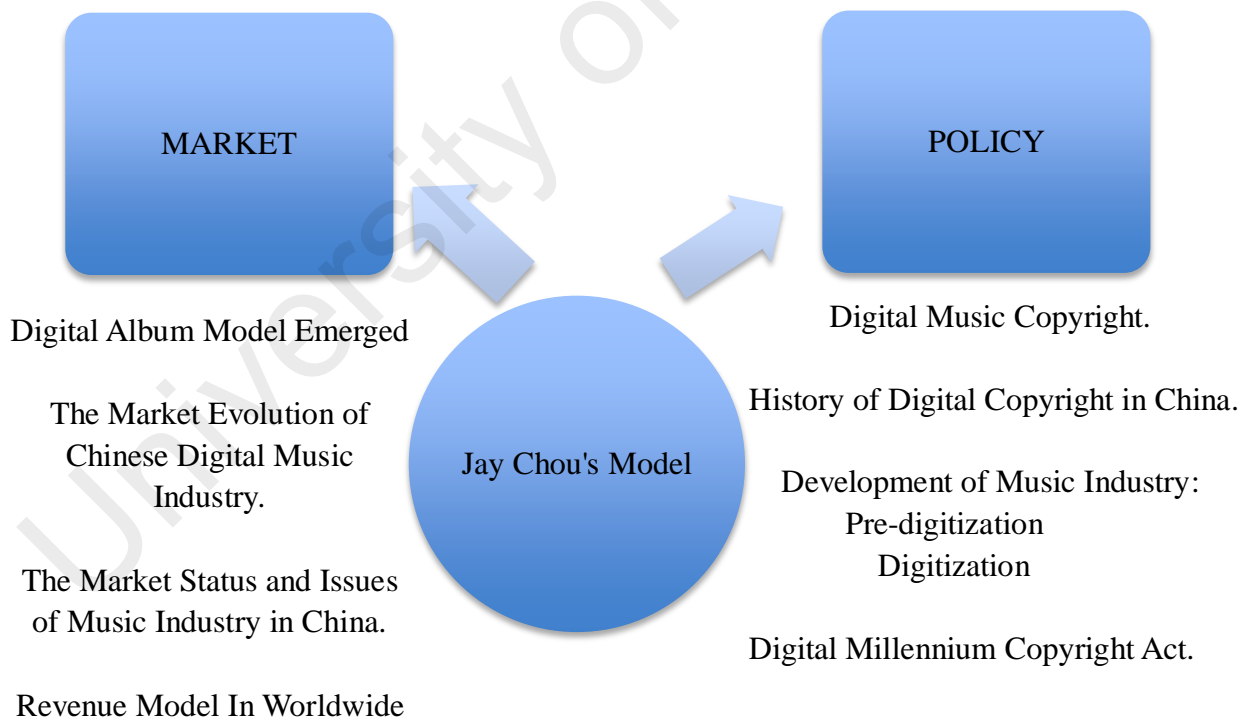
University of Malaya

## CHAPTER 3

### METHODOLOGY

This chapter begins with the research framework based on the case study and is integrated with the findings of reviewed literatures, followed by data collection through case study, literature study and secondary sources. The qualitative study of this research will be used to analyze all the data in the end.

#### 3.1 Conceptual Framework



**Figure 1:** Conceptual Framework

The above-mentioned conceptual Framework will be applied to Jay Chou's Model to expand research. Figure 1 illustrates the procedure of study. The first step in Chapter 1 is based on the definition and issues of music copyright, digital music copyright and digital music industry. The Second step refers to the study of the digital music business model and music industry market in Chapter 2. The revenue model will present four typical revenue models worldwide. The development of music industry can be divided into pre-digitization and digitization. Furthermore, another section is digital copyright protection in Digital Millennium Copyright Act. In the last step, the objective of proposing a new transition of the digital music industry will be expanded by digital album in case study section.

## **3.2 Data Collection**

### **3.2.1 Case Study**

Case study will help to demonstrate and explain the Jay Chou's model (2014).

On 17 December 2014, *JVR* (Jay Chou's music company) music said in a statement that *NETEASE Cloud Music*, *TTPOD* and *KOALA FM* and some other music websites infringing audio right of the leading song *XIE ZI TE DA HAO* in Jay Chou's new album. They require these websites to immediately remove the infringed content. On the contrary, as the exclusive owner of the copyright of Jay Chou's online music, Tencent's *QQ Music* becomes the biggest winner. Yao Haifeng, a researcher of the International music industry, said in an interview: "from the current development status of digital music, copyright competition is

becoming a major competition for online music sites.” In fact, in recent years, album industry is undergoing a downward trend, making people pessimistic about the prospect of the music industry and resulting in the increased complaint about the improper business model.

Most of music sites are still at the exploratory stage for obtaining the most suitable business model. In December 2014, Jay Chou and *QQ Music* jointly published the first digital album *Aiyo Bu Cuo*, including his 12 new songs. Different from the previous digital music free of charge, users have to pay 20 RMB to *QQ Music* online before listening to the new album. This is different from the traditional record distribution and has attracted extensive attention in the market.

*QQ Music* stated that this digital music album was the first attempt after negotiation between the two companies and they did not expect such a great market influence, as no one had anticipated such a good outcome. This 20 RMB digital album was sold more than 150,000 pieces from the end of 2014 to 2015. This project is not only an act to pay respect for the singer, but also a way to offer a new revenue model for record companies.

The case study sheds light on the need to take into consideration the policy contents and a new cooperation model between record company and networked music website that can support digital music download service.



### 3.2.2 Secondary Source

Part of Chapter 4 and 5 of the study are extracted from the literature study. The literature study focuses on 4 respects based on Jay Chou's case:

- Research for Digital Millennium Copyright Act is mainly predicated on the books and journals related to copyright. Keywords of relevant literature sources are digital copyright protection in DMCA.
- Study of the history of digital copyright is mainly conducted in China. Literature resources consist of books and journals, including the modern history of digital copyright, different sections of copyright and the development of legal protection.
- Music industry research is conducted in China based on pre-digitization and digitization era with the latter being the research focus. Literature resources are journals and industry reports with regard to the Chinese system of music industry, development and the reform of copyright, development and policies of the digital industry, data extracted from the music industry reports in China and comparison with the US digital industry.

- Business Model study centers on digital music with journals and enterprises reports being the major literatures, including the development of online music, the structure of transmission of digital music and sales model, and influence of digital music in China, conditions to legitimize music services and major revenue model for online music download.

The survey data from the Development Report in China's Music Industry, Development and Trend Forecast in China's Digital Music Industry and Annual Report of Online Music Market. These reports, in addition to data description and analysis of the changes in China's music industry market in recent years, can also facilitate the development of the digital music industry and predict the prospect in the future market.

### **3.3 Analysis**

The analysis section will consist of evolution of digital music industry in China from 2009 to 2014, four typical business models of digital music in China, chain reaction of Jay Chou's Model. The study of digital music industry will employ the SWOT framework so as to assess the advantages and disadvantages of the digital music industry.

## **CHAPTER 4**

### **MARKET AND POLICY STUDY IN CHINA**

This chapter will research the evolution of music industry in China from 2009 to 2014, and analyze the current situation and problems facing the digital music industry based on Jay Chou's Model. Additionally, analyze the business model of digital music in China. This chapter will answer all the RQs from chapter one.

#### **4.1 Evolution of digital music industry in China (2009 - 2014)**

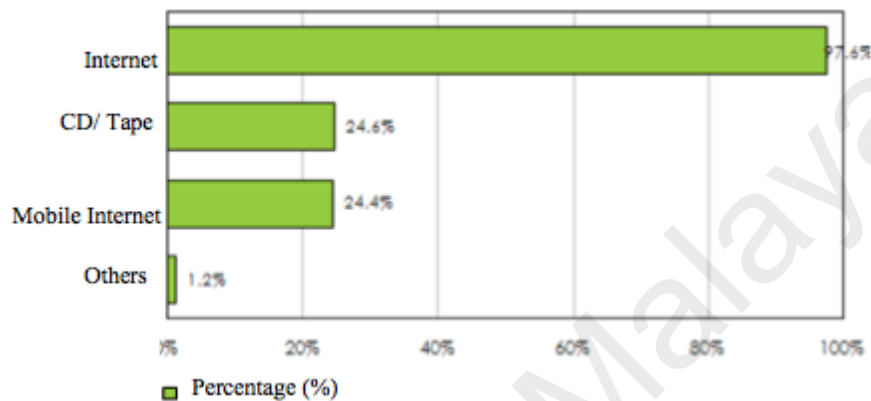
##### **4.1.1 The Development of the Chinese Digital Music Industry in 2009.**

In 2009, *Recording Industry in Numbers 2008* (RIN) released by IFPI shows that the sales of physical CDs continued to decline in mainland China while digital music sales increased. The competition of these two industries has reached historic turning point: the recording market is scaling back in Mainland China; whereas the digital music is accelerating the process of "sec kill" the traditional record industry.

In 2003, physical CD sales in China reached 160.1 million US dollars, but fell to 37.7 million US dollars the following year. At the same time, the digital music sales increased from 28.1 million US dollars in 2006 to 31.8 million US dollars in 2007.

The scale of recording industry fell from 160.1 million US dollars in 2003 to 69.4 million in 2007, marking a loss of nearly 100 million US dollars (Li, 2010).

In June 2009, more than 10 providers of music service launched “Network music survey in 2008”, showing that 50% of consumers opt to non-physical CDs and only 12% of consumers still buy physical CD. More than 70% respondents refer to music websites to satisfy their own needs.



**Figure 2.** Pathway of Chinese Internet users obtains music in 2009. (iResearch)

Figure 2 shows a survey of the pathway of 3,575 Internet users who accessed to music in 2009 in China. According to the data released by iResearch investigation, the leading pathway for obtaining music was from Internet in 2009. With a percentage rate of approximately 97.65%, digital music has become the mainstream music channel.

In February 2009, Zhang Yadong released a debut album in digital format, which was called *UNDERFLOW*. It was the first published digital album (Qi, 2009). The album includes 10 songs from Chinese and foreign singers such as Faye Wong, Karen Mok and Angela Harry etc. The CEO of *Taihe Rye Music* Song Ke said that digital album is a new sales model, as well as a sign of the normalization of digital

music. When physical CD dominated, consumers often complained that the majority of songs included in the physical CDs were not their favorite. It is unreasonable to buy the whole album for a few songs, which, in turn, led to the prevalence of pirated albums. In comparison, digital music can be freely circulated on the Internet; consumers can download their favorite songs directly, thus improving the overall music sales. The first digital album *UNDERFLOW* began to transition of digital music from singles to album era (Qi, 2009).

On 30 March 2009, Google launched downloading and searching services for legitimate music. This service was restricted to mainland users in China. Google music uses the business model of free music download with advertisement placement. Google launched legitimate online music as a paradigmatic demonstration that promotes the standardization of the Chinese online music market.

- **Policy**

On August 26, 2009, the Ministry of Culture published the *Notice of Strengthening and Improving Internet Music Content Censorship* ([2009] No.31), putting forward the specific demands for strengthening the online music content review and standardizing music business. Due to the prevailing piracy music prevailing in the Chinese online music market, record companies and online music providers are collided in the legal disputes of music copyright. The notification provides a more equitable and normative environment for the Chinese online music providers as

well as censorship and procedures for imported music. This has contributed to the healthy development of the digital music industry in China.

On the Basis of the *11<sup>th</sup> Five Year Plan* (2006 - 2010), the government begun to develop a new business model for the music industry by approving and launching the National Music Industry. It is trying to become the largest promotion and trading platform for original music in China.

#### **4.1.2 The Development of Digital Music Industry in 2010**

The market of Chinese online music developed steadily in 2010 when the government further standardized the market operation and management. The number of digital music companies increased to 240, up by 14.3% when compared to the year 2009. The revenue of the Chinese digital music market reached 2.3 billion RMB in 2010, an increase of 14.4% over the same period of 2009. In terms of users, the number reached 360 million while the utilization rate reached 79.2%. Among the users, males and the young people constituted a higher percentage. On the other hand, many of the original music and composers benefited from the network in 2010; they promoted the transmission of digital music. Copyright issue was still the major problem of network music. Long-term free usage of Internet resources in China led to difficulty in framing a payment model in short run, let alone a business model of online music (Ministry of Culture, 2010).

### ● Policy and Measures of Chinese Digital music in 2010

In 2010, according to the modification of piracy and unauthorized in the *Rights of Collective Management Organizations as not-for-profit bodies regulated* published by the National Copyright Administration, the Ministry of Culture closed more than 300 music websites that were not approved in order to control the illegal network music operation. In April 2010, the Ministry of Culture investigated into and dealt with 10 network music sites that provide music with prohibited words and contents for the purpose of purifying the environment of network music.

This year, the Chinese government published the *12<sup>th</sup> Five Year Plan*. The government will promote the development of the Chinese music under the music censorship system. By the end of 2010, the state council published NO.50 notification ([2010] 50). According to the piracy and infringement of Internet music market, it is of great importance to investigate and handle the issue of illegal music.

#### 4.1.3 The Development of Internet Music Market in 2011

In 2011, China has become the largest country of Internet users and mobile users in the world (Ministry of Culture, 2011). The revenue of the Chinese online music market reached 2.78 billion RMB that year, an increase of 20.8%. Until the end of 2011, the Ministry of Culture and government had approved 452 online music companies with business qualifications.

Piracy and long-term free use of Internet resources in China have made it difficult to form a payment model. Meanwhile, it is necessary to improve the quality and features of digital music service. On 22 April, the Ministry of Culture released *Interim Provisions on the Administration of Internet Culture* to investigate *Baidu* and other 14 websites suspected of offering illegal online music services, which helps to strengthen the censorship and record of online music content and record 100,000 pieces of music in 2011. The Alliance of the Digital Music Industry (ADMI) was established in June. Chinese record companies and major telecom companies such as *Tencent*, *Sina* and other 20 firms reach an agreement to abide by laws and regulations of online music system.

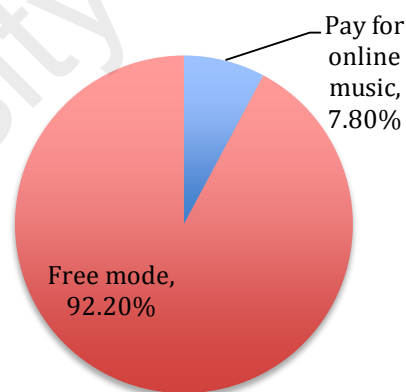
#### **4.1.4 Development of Digital Music Industry in 2012**

Year 2012 was a special time for digital music in China when it embraced not only the rapid growth of the market, but also a new business model (Ministry of Culture, 2012). According to the annual report published by the Ministry of Culture, the revenue of digital music reached 4.54 billion RMB, an increase of 63.3% compared to 2011. At the same time, 575 companies of network music were granted permission.



Policies regarding Internet social community of music with a new value added services charging method were became a focus and have a great potential and market (iResearch, 2012). In February 2012, the Ministry of Culture published the 12<sup>th</sup> *Five-year Plan* to promote the combination of emerging cultural industries and network technology. In October 2012, digital music providers such as *Baidu*, *Tencent*, *Kuwo*, *Kugou*, *Duomi* and *Xiami* launched the strategy for legitimize the payment for online music resources as to build an environment of payment model for the Chinese digital music. At the same time, a lot of network music websites and online music APPs began to remove the unauthorized digital music.

Free consumption methods were still the mainstream method in the Chinese online music market in 2012.



**Figure 3.** Situation of payment for online music users in 2012 (Ministry of Culture, 2012)

The data shows that only 7.8% of users are willing to pay for music. Most of users are reluctant to pay for music. Online music providers need to build and improve the pricing model.

#### **4.1.5. Development of Digital Music in 2013**

Digital music market developed steadily in 2013. Revenue of market reached 7.41 billion RMB, up by 63.2%. There are 695 companies of digital music that have obtained business license, and the authority have investigated and punished 143 illegal corporations of digital music.

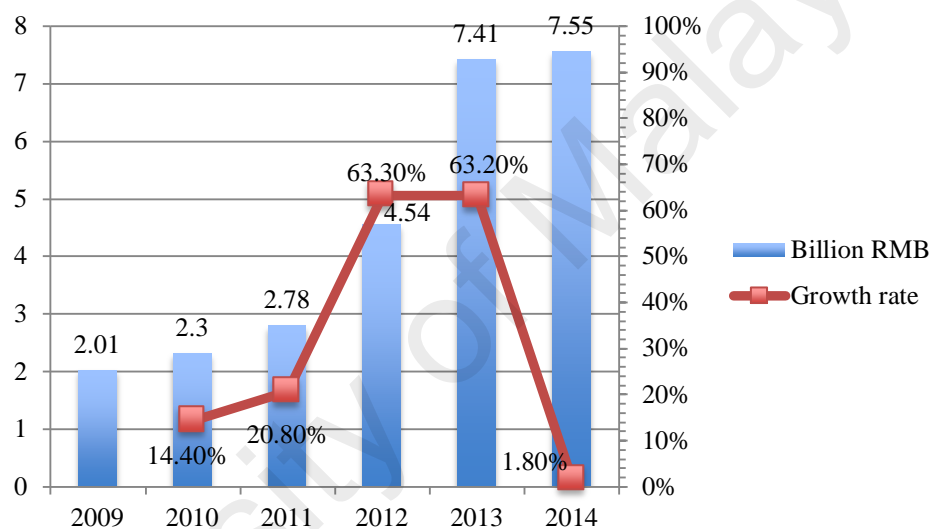
In January 2013, *Alibaba* acquired *Xiami* service providers and set up a music apartment in order to protect digital music copyright. In August 2013, the Ministry of Culture released the *Measures for the administration of the content of the network culture management* ([2013] NO.39). The document proposes that government will be responsible for the audit and management of network content.

In addition, online music corporations were looking for a breakthrough in business model, such as providing high quality audio downloads payment model that requires payment in form of VIP download with high quality even super quality music and providing different privileges of concert tickets. The price is 5 - 10 RMB per month for VIP users. The Ministry of Culture said that 2013 was the first year for pay-for-download model. But the average users of payment are less than 3/1000.

Pay-for-download model still needs improvement and breakthroughs. With the emergence of new business model, online music companies begin to compete for the exclusive right, which compels music service providers that infringe upon the property rights to exit the market.

#### 4.1.6 Development of Digital Music industry in 2014

The growth rate of the Chinese digital music market begins to decline in recent years. The revenue of digital music market reached 7.55 billion RMB, only an increase of 1.8%. There were 1034 companies of digital music website that have obtained permission, a growth rate of 49% (Ministry of Culture, 2014). The figure below shows the revenue of digital music market from 2009 to 2014.



**Figure 4.** Revenue of digital music market from 2009-2014

As a lot of digital music companies begin to provide digital services, purchase and protection of legitimate digital music copyright has intensified in 2014. A large number of music companies have begun to embrace the exclusive rights - the major factor that has triggered off many lawsuits with respect to music copyright (Ministry of Culture, 2014). As a result, the music industry underwent marginal decline in the revenue growth rate this year. In addition, it also reflects the positive change in the digital music market. However, there still lacks a breakthrough in

business model. Payment model for VIP download services fails to acquire strong response from market. Low rate of payment remains to be a major problem.

#### **4.2 The chain reaction of Jay Chou's Model**

On 17 Dec 2014, Jay Chou's music brand *JVR Music* issued a statement, stating that digital music websites such as *Xiami*, *TTpot*, *Netease Cloud Music*, *Koala FM* and video sites of *iQIYI*, *YOUKU*, *TuDou* and *PPS* have infringed upon a song of Jay's new album *Xie Zi Te Da Hao*. *JVR Music* requested these sites to remove the music immediately. On 24 Dec 2014, Jay Chou and *QQ Music* released his first digital album *Aiyo Bu Cuo*. The album includes 12 new songs. But unlike previous "Free Lunch", users need to pay 20 RMB for *QQ Music* to listen to the album. Unlike physical CD, the new album has attracted great attention in the market.

##### **a. Pricing and Marketing**

On 26 Dec 2014, Jay Chou launched the 13<sup>th</sup> album *Aiyo Bu Cuo*. The physical CD album was divided into two versions: Hardback Edition and USB Limit Edition. The price is 138 RMB and 378 RMB (no including delivery fees) from *jaycn* official website. Hardback Edition included a carry bag embroidered with Jay Chou's name. USB Limit Edition also included a carry bag embroidered with Jay Chou's name and an extra pen drive. Up to the 26 Dec, pre sales of two versions have reached 72,000.

The pricing of digital album is 20 RMB, including 12 songs. Value-added package included outtakes of MV, Jay Chou's photos of private collection and custom photo with Jay Chou. Additionally, users can only listen to the album through *QQ Music* after downloading, unable to share and disseminated the downloaded music through *QQ Music* platform. Until 29 Dec, the sales have reached 150,000 pieces. Followed by Jay Chou's album, on 21 May 2015, Zhou Bichang also launched her first digital album through *QQ Music*. In June, the famous Korean band BIGBANG released second Mini digital album through exclusive cooperation with *QQ Music*. The difference was that the pricing was 5 RMB per album (included value-added package). In addition, the payment methods could be through *ALIPAY*, *WeChat* and credit cards.

Regarding the different pricing 5RMB to 20 RMB of digital album, there is no official pricing standards offered by service providers. Marketing Consultant of Universal Music Tong Xuena proposed that at present, the market price of digital album is reasonable. Download pricing needs to consider the affordability of market, divides different grade pricing according to the popularity of music. She also suggested the pricing range of 5 RMB to 10 RMB for Chinese market. The price is more favorable than international platform and it is accept by Fans and Internet users who together with major music sites, support copyrighted music.

## **b. Policy**

Copyright protection and lack of awareness are still the embarrassing problem in Mainland China. The market and online platforms have been aware of the importance of copyright for the music industry, but piracy is still rampant. On 12 April 2016, the International Federation of the Phonographic Industry (IFPI) said in the 2016 global music report that the Chinese music market is ruined by piracy for decades. In 2015, with the establishment and expansion of music platform, transactional music emerged for the first time in China. At the same time, the Chinese government has been removing the infringing content and cracking down on piracy. “The era of do not pay for use of musical works has passed,” said by Yan Xiaohong of National Copyright Administration of The People’s Republic of China on 21 April 2016.

The NO. 37 statistical report on the Development of Internet in China published by China Internet Network Information Center (CNNIC) shows that the copyright issue is the core of Internet music market in 2015. On 8 July 2015, The National Copyright Administration issued *Notification About Online Music Service Providers to Stop Dissemination of Music Without Authorization*. The notice requires network music providers remove the unauthorized music before 31 July. The National Copyright Administration will handle the issue according to the law after 31 July and continue to spread the unauthorized music with network music service providers. They called the notice as “the most stringent decree of copyright”. This policy will reduce a number of copyright lawsuits and solve tort cost low, and

high costs for right protection. It forms a powerful control on piracy. On 1 Nov 2015, a number of domestic music platforms were revised and took a practical action to show support for legitimate digital music. After two months, the removed unauthorized music reached more than 2,200,000.

On June to November 2015, the National Copyright Administration, Cyberspace Administration, Ministry of Industry and Information Technology and Ministry of Public Security launched the governance of Internet piracy, which is known as *Jian Wang 2015* and includes 5 elements:

- i. Strengthen the law enforcement of music sites' copyright and remove the music works without permission from the piracy sites.
- ii. Process and stop the infringement upon using storage space in network.
- iii. Reduce and standardize the piracy of the third party APPs.
- iv. Standardize and establish the copyright protection mechanism for online advertising.
- v. Strengthen the copyright protection of digital content reproduced in the networked environment.

(Jian Wang 2015 Action, National Copyright Administration of China)

On 15 July 2015, the National Copyright Administration held a “network music copyright protection conferencing” in Beijing. Including *QQ Music*, *Kugou Music*, *NetEase Cloud Music* and others 25 Internet music service providers signed *Self-discipline of Network Music Copyright Protection*. The ‘Declaration’ promised

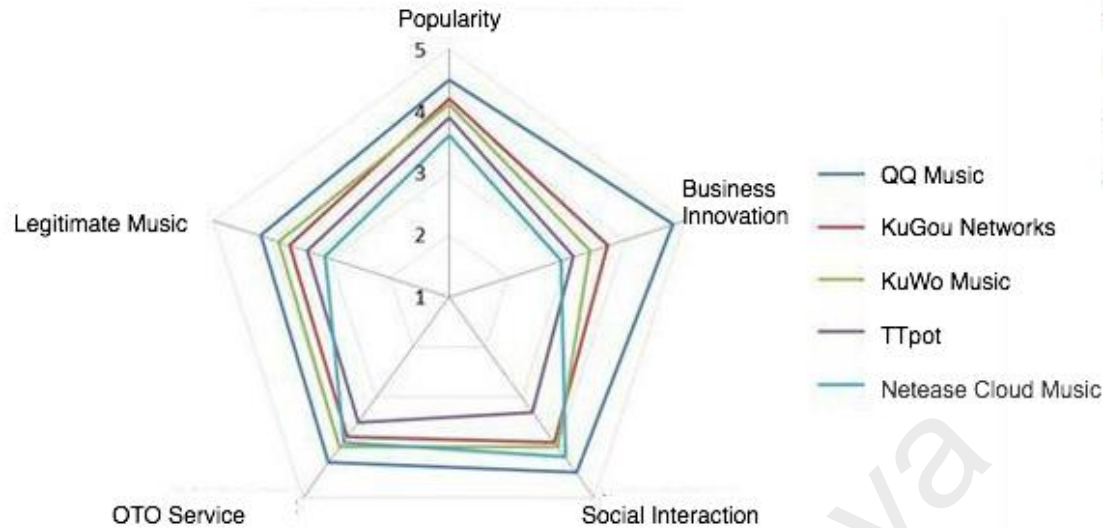
to resist all kinds of network music copyright infringement behaviors, and refuses to spread unauthorized digital music. The conference has played a positive role for legitimate network music.

On 9 Nov 2015, the Ministry of Culture issued *Notification of Further Strengthening and Improving Content Management of Network Music*. 'Notification' required network music need to approval before it's launched since 2016. Network music service providers need to censor music content by themselves before releases, and all the information needs to backup the administrative department of the Ministry of Culture. The Ministry of Culture will randomly select the information and providers. The Notification will take into effect on 1 Jan 2016. Online music service providers have reported self-censorship information since 1 April 2016.

### **c. QQ Music**

In recent years, *QQ Music* always focuses on the copyrighted music industry. From a variety of places to purchase music copyright and authorize, it provides the Super Quality (SQ) that include APE and FLAC format of copyrighted music for Internet users. The legitimated music reached 15 million in 2015, and agent copyright management, rights protection and delegation of authority of record companies in Mainland China. The figure below shows the advantages of *QQ Music*.





**Figure 5.** Capacity distribution of digital music Apps (BigData-Research).

As showed by Figure 14, *QQ Music* becomes the leading providers of business innovation. In the other areas, such as popularity, legitimate music, OTO service and social interaction, *QQ Music* is slightly higher than the other service providers. *QQ Music* with Jay Chou's cooperation starts a new model of digital music copyright protection and transition for payment. The vice-president of *Tencent* Peng Jiaxin stated that *QQ Music* would invest more in exclusive rights in the future.

The success of digital album produced by *QQ Music* has chartered a new path for digital music copyright protection. Whether for Jay Chou, *JVR* or *QQ Music*, digital album is conducive to the healthy development of digital music industry and explores a new mode of thinking for business model of digital music. Online music charges become a focus of digital music industry once again (Zeng, 2015). Researcher from the International Music Industry Institute Yao Haifeng said that as

the music copyright becomes the focus of network music companies, the era of digital music copyright is coming in China.

#### **d. Digital Music Service Providers**

In recent years, *QQ Music* begins to explore the construction of copyright. In 2014, *QQ Music* has signed exclusive copyright with *Warner Music*, *YG Entertainment* and *Sony Music* in Mainland China. If the other online music platforms use the three music works, it is imperative to get permission from *QQ Music*. Other network music providers also compete with *QQ Music* to launch the copyright at the same time. *Alibaba* established *Ali Music Group* in July 2015. *Xiami Music* and *TTpot* become the main components of *Ali Music Group* through acquisition in 2013. Its market focuses on original music industry. *EVERGRANDE Music* with *Baidu* and *Ali group* signed a contract of authorized music. *Netease Cloud Music* also expanded the original music services.

Through the competition of copyright, network music service providers begin to assume a variety of roles, and music industry chain started to change. In addition, competitions for copyright will lead to increased cost of copyright, small and medium service providers will be eliminated.

#### **e. Advantages of Digital Album**

Digital album is more flexible than the physical CD. Network approach is more convenient for listening and sharing, quick and easy for purchase, physical CD needs to logistics for supporting or purchasing offline. On the contrary, it takes only a few seconds from releasing a digital album to purchase through quick payment channels, such as the wallet of *WeChat* and *ALIPAY*.

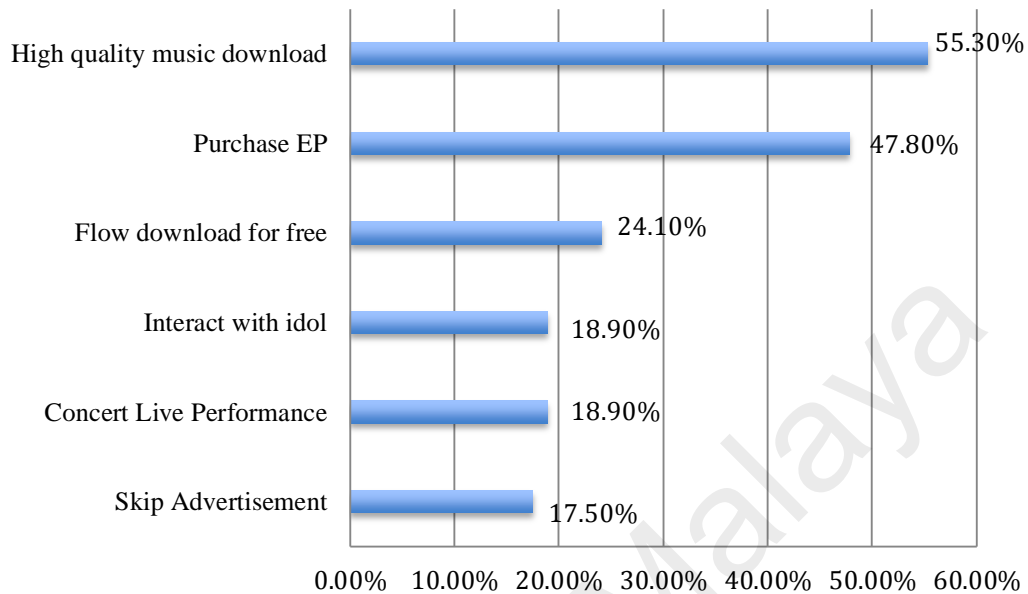
In the aspects of sound quality, digital album provides the Super Quality audio file that using APE and FLAC lossless format, equivalent to quality of physical CD. The high quality audio records are legitimate records from record company.

Additionally, there are plentiful interaction models, such as leaving a message to idol and communicating with others fans. In addition, digital album consists of a lot of value-added services for fans, such as autograph letter from idol, surrounding gifts and private photos and etc. They have successfully collected attention from users.

#### **f. Willingness-to-pay of users**

University students as the major group of Internet users have become the main force in digital music industry market. On 11 June 2015, *NetEase Cloud Music* and Data Center of China Internet (DCCI) published *Digital Music Report in Campus*. Report mentioned that the demand of college students for digital music had reached 91.4%. They were willing to pay 20 RMB per month for music, the

willingness-to-pay achieved 40.8%. The figure below shows the major contents of users to pay for network music.



**Figure 6.** Major contents of users to pay for network music. (iResearch 2015)

Figure 15 shows that 55.3% users accept high quality music download fee and 47.8% accept purchase of an EP fee. Digital album provides the Super Quality music for pay to download still has a great potential in the market, either digital music industry.

### 4.3 Business model of digital music in China

Although the Chinese digital music industry has yet to form a standard payment environment, the digital music providers have never stooped exploring. According to researches, the main business model of digital music industry in China includes Advertising Model, Payment Model for User Download, Value-added Service Model and Internet Social Contact Model of Music.

### a. Advertising Model

The authorized digital music service providers offer free listening and downloading services for online music users and they use data of registered members, user traffic and click rates to attract advertisers to get advertising revenue. This model is to use users' traffic to bring profits.

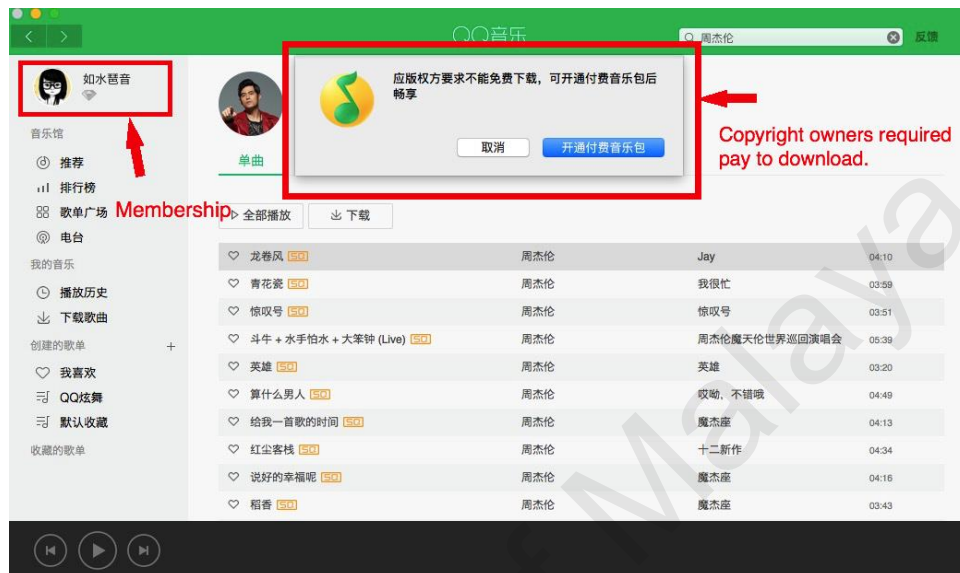


Figure 7. Advertising Model (Baidu Music)

### b. Payment Model for User Download

QQ Music insists on payment model for user download by adopting a variety of software. The main profit model is "Free + Green Diamond Members" service. In fact, this is the combination of pay-to-download model and value-added service model. They provide users with standard quality music for free listening. Green Diamond users are required to pay to download the Super Quality (SQ) include format of APE and FLAC of copyrighted music. In addition, green diamond users also enjoy services such as uploading, watching HD Music Video and filtering

player's advertisement. Due to the weak copyright protection in China, it is difficult for this model to function effectively in the short run. Payment model for user download still needs time for further development in China.



**Figure 8.** Payment Model for User Download

### c. Value-added Service Model

Value-added service refers to customers' needs to provide customized services. It is designed to provide a better music service to boost sales, for instance, the green diamond model and playlist model launched by *QQ Music*. Users create a playlist through download and favorite music, and then users will search and get a similar and the latest playlists. Users could be share with friends, listen and comment on these playlists. This model also needs time for wide acceptance in China, in spite of its great potentials.



Figure 9.1 Green Diamond Model of QQ Music

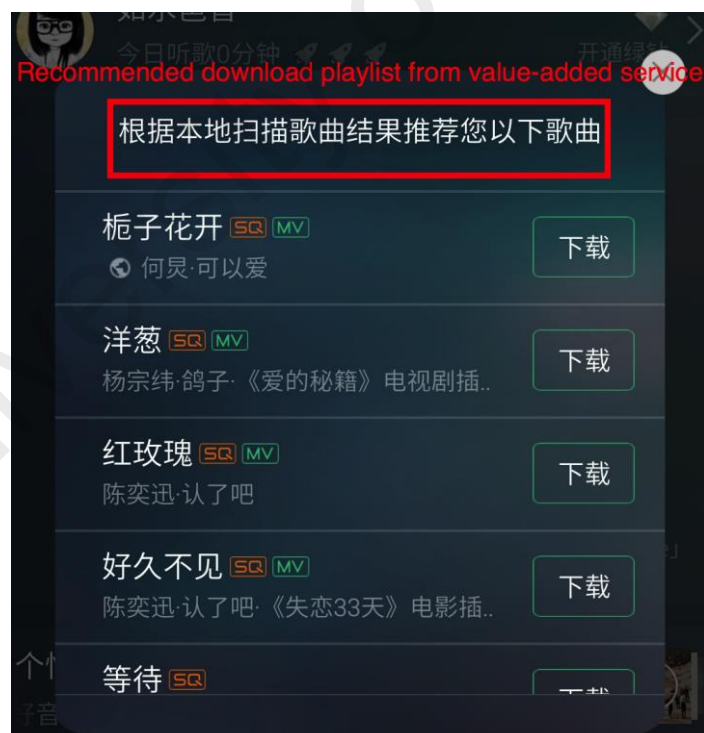


Figure 9.2 Recommended Playlist Model from QQ Music

#### d. Internet Social Contact Model of Music

As it is difficult for the payment model to make breakthroughs in a short period, many companies begin to seek a new method. For instance, *YY Music* and *Chang Bar* provide a new direction for digital music. *YY Music* is a live platform of online music performances, and attracts users to buy virtual gifts for performers and register as VIP members to obtain profits. Similar to *YY Music*, *Chang Bar* provides 3 free virtual flowers for users every day. When the users sent out more than 3 pieces, he/she should pay 19 coins for each new flower.

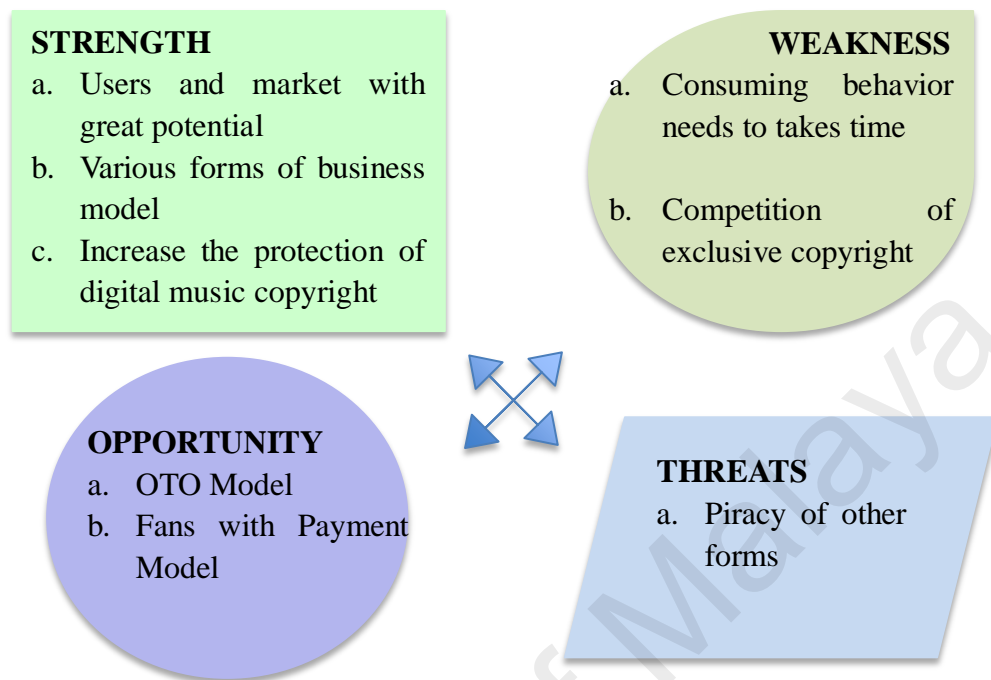


Figure 10. YY Music online performances

Although these four major business models have been formed in China, the network music fails to achieve a stable profit model and lacks payment experience for users. So the business model of digital music market still needs a long period of time for processing and practice.



#### 4.4 SWOT analysis of Digital Music in China



**Figure 11.** SWOT analysis of digital music market in China.

##### ● **Strength**

According to the data of 2016 global music report, the revenue of the Chinese music industry increased by 63.8%, reaching 170 million. Revenue of digital music increased 68.6%. The Chinese people have strong consumption capacity. The issue of pay for digital music has been discussed for many years in China. Since the first digital album established by Zhang Yadong in 2009, the transformation of pay for digital music has experienced a stalemate in the last decade. *QQ Music* has played an important role, through mature method of “green diamond” membership and digital album exploring greater commercial potential for digital music industry. In July 2015, *QQ Music* launched another payment service by providing the latest music for customers with

payment form for the first time, and it offered two price choices: 8 RMB and 12 RMB. Subscription has maintained a steady growth since launched. The revenue of Lu Han's digital album reached 5 million to 9 million RMB in 2016. Payment model became the mainstream for digital music.

Business model of digital music is undergoing a diversified trend. The content of digital album is more diverse than physical CDs. Interactive and value-added services can satisfy the needs of users and record companies. In addition, the business model of exclusive rights, digital album, social intercourse and OTO (Online To Offline) concert also have a great potential.

As the intervention of administrative power, supervision and punishment are increasing, the National Copyright Administration issued *Notification About Online Music Service Providers to Stop Dissemination of Music Without Authorization* in 2015. And the 'Notice' increased the cost of illegal sources and reduced the cost of copyright, forming strong supervision of piracy.

#### ● Weakness

Internet users enjoy free music for many years in China. The habit of paying needs time to form and develop. And long-term existence of piracy market cannot form a standardized environment in a short time. Legalization of digital music market needs to increase the legal norms.

The cost of copyright was increased due to the competition of exclusive rights, which increased the difficulty of manages network music environment and a lot of small and medium service providers will be shut down. Business model of digital album is still at the early stages of exploration, and profit model is not complete. Furthermore, the emergence of digital album also affects the function of album collection.

- **Opportunity**

In 2014, the tickets of live concert reached 3.9 billion RMB and the audience reached 1,369 million in China. Regardless of the concert or box-office, offline performance is a major element of musical performance in China (EntGroup, 2015). With the digital album and online performance emerged, digital music charge becomes a focal point in music industry, online as well as offline market needs integration and develops a win-win relationship.

Fans effect. Jay Chou's digital album sold 160 thousand within one year; South Korea band of BIGBANG sold 1 million copies. Fans become important elements to assess the value of artists.

- **Threats**

Although the sales of digital music have increased, the benefits of artists and record companies are still underdeveloped. Basically, the infringement of big website does not exist. But a lot of SkyDrive, BBS and micro-blog become a new form of infringement. Due to the complex number and monitoring, there are still many problems regarding the

rights of artists and labels. Moreover, China has yet to link search with the category of legal prohibition. Therefore, some video and music sites use deep linking and third-party websites to offer free download.

University of Malaya

## CHAPTER 5

### CONCLUSIONS

#### 5.1 Research Summary

Based on the analysis and results of the Chinese digital music market, digital album and business model, the author will summarize the research and reach conclusions regarding the Chinese digital music copyright protection in this chapter and also put forwards suggestions for further researches.

- a) **Exclusive copyright will become the competition focus of the digital music platform.**

With the emergence of digital album and *Notification About Online Music Service Providers to Stop Dissemination of Music Without Authorization*, the majority of the digital music platforms have adopted exclusive playing. For instance, QQ Music has made 3 categories of show programs with exclusive music (total 7) rights in 2015 (EntGroup, 2015).

In terms of exclusive copyright, the small platform cannot get the copyright resources while exclusive platform will have a greater impetus to protect copyrights and combat piracy. Digital music industry will accelerate the process of transition.

**b) Payment Model will be further promoted and diversified.**

Digital album not only allows users to develop and adapt to the habit for paying, but also stimulates the consumption of digital music. On the basis of member payment function, live online concert and OTO (Online To Offline) services also offer a different payment method for digital music.

**c) New transformation for digital music copyright.**

By the end of 2014 and 2015, Jay Chou, BIGBANG and some other music artists had launched digital album through QQ Music, which was purchased for 6 million times. The result demonstrates the feasibility of digital music charges in China. Digital albums with a lower price not only enable high-quality audio music, but also offer exclusive benefits for fans. This new model charts a new direction and method for the legitimization of digital music.

## **5.2 Conclusion**

Digital album represents a new attempt to pay-to-download model, altering the perception that online music is free to download in the mind of consumers. Given the impact and popularity of digital album in the market, it is impossible to promote the development of legitimate digital music without the support from fans and Internet users. Meanwhile, in order to realize users' interaction with digital music, the platforms require the step-by-step establishment and improvement of the interactive industry chain and mechanisms for online music. The realization of a mature payment model for download digital albums also requires continual efforts and incessant experience. In

2015, China issued *the Notification About Online Music Service Providers to Stop Dissemination of Music Without Authorization* in order to forcibly manage and protect the digital music market. However, due to the various manifestations of the copyright infringement of digital music, it is imperative to include national policies, legislations and other administrative departments to protect and manage the digital music industry.

### **5.3 Suggestions for future research**

The topic of the new transition of the digital music copyright protection and digital album is a new field in China, which lacks the specific information about user behaviors for pay-to-download prior to the emergence of the digital album in China. The future researchers can investigate the factors influencing users consuming attitude and how to improve the willingness-to-pay in China.

Additionally, for digital music business researches in China, the future researchers can investigate which kinds of value-added services are more likely to facilitate users' consumption and how to use digital album to promote physical CDs to achieve a win-win situation.

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