

Digital Copyright in China

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Background

- USA and China are both part of World Intellectual Property Organization
- Intellectual property rights negotiation has become a major issue in global trade

History

- China started protecting Intellectual Property Rights in 1979, which was three years after the Cultural Revolution
- China joined the World Intellectual Property Organization in 1980
- China became a member of the Paris Convention for the Protection of Industrial Property in 1985
- China acknowledged the Madrid Agreement for the International Registration of Trademarks in 1989

Copyright Law in China

- China actually has a good copyright law
- Enforcement is poor for many reasons
 - low economic foundation
 - poor political structure
 - weak education
 - culture barriers

Microsoft Windows

- The price of a genuine version of Windows is too high for Chinese consumers
- The price made it impossible for most Chinese consumers to purchase Windows ten years ago
- By contrast, a consumer could buy a copy for 5 RMB, which was the cost of the DVD

Microsoft's Approach

- Ignored large-scale infringement by consumers
- Also distributed free and heavily discounted copies
 - More people used Windows (network effect)
- Cared more about the user base and lock in than short-term profit

Results of Microsoft's Approach (1)

- Windows gained 95% of the market share
- Most Chinese application software runs only on Windows or in IE
 - online banking
 - games
- Made it virtually impossible to use anything other than Windows

Results of Microsoft's Approach (2)

- As the Chinese economy has grown, more consumers and corporations have started purchasing genuine copies
- Microsoft's dominant market position has started to become highly profitable

Microsoft's Approach Today

- Make the simplified Chinese version of Windows less expensive
- Start suing for infringement
 - Microsoft vs Dahong Insurance in Shanghai (2.17 million RMB)
- The language barrier prevents reimportation

Blizzard uses Similar Approach

- Blizzard Entertainment targeted the Chinese market by making the simplified Chinese version of Warcraft cheap
- It prevented reimportation by making the simplified Chinese Warcraft runnable only on the simplified Chinese Windows

Chinese companies' Strategy

- Provides basic service for free
 - QQ, QQ Music, QQ Game, weChat, Weibo
- Charge for value-added service
 - By paying 10 RMB (1.6 USD) per month, you get high quality music access
 - You can purchase special animation in weChat
 - Weibo lets you customize your page by paying 10 RMB per month

Examples

- Tencent purchased the distribution rights for many songs in China
- Sohu purchased the distribution right for an American TV show called “Gossip Girl”

Logic behind these strategies

- To localize in China is IMPORTANT, and it's HARD
- Chinese consumers are still not used to paying for digital content; business models adapt to that fact
- Unit cost for digital goods is almost 0
- China has a huge population
 - Not everyone has pay
 - Even those paying don't have to pay much
 - Businesses can still be profitable

Speculation

- *Merge from both directions*
 - *Chinese become more used to paying for digital content*
 - *More business models to make digital content accessible*

Discussion

- Do you think the Chinese market is important enough to customize your entire marketing strategy?
- Can you think of an additional strategy to prevent reimportation?

Thank you!

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Notes on Class Discussion of Meng Huang's Presentation (1)

1. One of the reasons for the “cultural barriers” referred to on slide #4 is the fact that the history referred to on slide #3 is very recent. China did not start protecting intellectual-property rights until 1979. By contrast, the basis for intellectual-property rights in the US is Article I, Section 8, Clause 8 of the US Constitution – an 18th-century document!
2. Slide #6 refers to a “network effect.” Communication and information-technology products are often subject to network effects; this means that a user of such a product not only benefits directly from his use of it but also benefits indirectly from others' use of it. For example, I benefit far more from using Word or PowerPoint if many others' use it than I do if only a few others use it, because everyone else who uses it can read documents that I create and create documents for me to read. Network effects create a positive feedback loop; on Meng's slide #6, many people use Windows because of the free or discounted copies, which means that application developers have more incentive to build applications that run on Windows, which means that *more* people have an incentive to use Windows, which means that *more* applications will be developed, ...

Notes on Class Discussion of Meng Huang's Presentation (2)

3. Slide #9 refers to “reimportation,” which is a potential problem whenever a company based in a developed-economy country tries to sell its products both domestically and in developing-economy countries. Doing so requires the company to employ *differential pricing* – in the developing economy, it must charge a low price so that people can afford the product, but, in its domestic market, it wants to charge a higher price in order to make a profit. What is to stop a US consumer who travels abroad from buying the product at the lower price and “reimporting” it to use in the US; more importantly for the company, what is to stop someone from making a business out of buying in bulk in the poor country, reimporting to the US, and charging a price that is significantly higher than the overseas price but still significantly lower than the US price (thus undercutting the company in its domestic market)? As Meng points out on Slide #9, the language barrier prevents reimportation of the simplified Chinese version of Windows.

Reimportation is a significant issue for many developed-economy companies, including drug companies, electronics companies, and textbook publishers (who have traditionally sold English-language textbooks in, say, India at far lower prices than the same books are sold at in the US or the UK).

4. Slide #9 also mentions that Microsoft sued an insurance company in Shanghai for 2.17M RMB. This is approximately \$350K. It's a strikingly low figure for a multi-billion dollar company to sue over and almost certainly did not cover the lawyer's fees. So this was probably a strategic suit, brought in order to signal to the Chinese market that infringement was going to be challenged legally as well as technically.

Notes on Class Discussion of Meng Huang's Presentation (3)

6. Slide #13 refers to “localization.” This term connotes the need for global businesses to recognize and adapt to multiple aspects of Chinese culture as well as to the fact that China is a huge country in which there is both a rapidly growing economy and, still, a large number of very poor people.

7. Meng's questions on slide #15 provoked a wide-ranging, very lively discussion. The consensus among students familiar with the tech economy in China today was that the best way to “localize” is to (a) make it easy for Chinese consumers to buy your product (*e.g.*, make sure that they can pay for it with credit cards issued by Chinese banks!), and (b) set a price that Chinese consumers can actually afford to pay.