

# China trade ruling helps US, but piracy a problem

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FILE - In this July 29, 2004 file photo, a Chinese man sell pirated DVDs from his suitcase collects payment on the streets of Beijing, China. Chinese people are spending more money than ever at movie theaters for the relatively few Hollywood releases the government will let them see, in 2009, but many choose instead to buy high-quality pirated DVDs for about a third of the price of a movie ticket. (AP Photo/Ng Han Guan, File)

(AP) -- American companies counting on a favorable trade ruling against China to boost sales of CDs, DVDs, books and video games will need a crackdown on rampant piracy before they can reap big benefits.

Chinese incomes are lower than in the United States, and the quality of pirated entertainment there is quite good, making legal goods a tougher

sell.

U.S. entertainment and media companies hope a [World Trade Organization](#) decision this week requiring Beijing to lower import barriers will make more legal products available in China, and perhaps diminish demand for pirated goods.

But there's a long way to go in a country where a pirated DVD is easily available for a third of the price of a movie ticket - often before the movie opens in Asian cinemas.

"I don't care whether it's pirated or legitimate so long as they look good and are convenient," said Linda Nie, 30, a researcher at a Beijing university who recently bought a pirated Chinese-language edition of Thomas Friedman's "The World is Flat."

She said 70 percent of her books and DVDs at home are pirated. "The pirate stuff is good quality and well-wrapped. It's so easy to get. It's available everywhere."

The Chinese can also easily access music and video for free through file-sharing sites, particularly when they have high-speed broadband connections, as many Chinese now do.

The WTO rejected Beijing's policy forcing U.S. media producers to route business through state-owned companies. But China is considering an appeal, and it may ultimately take the threat of sanctions to truly open the world's largest marketplace to American entertainment.

The Chinese import restrictions have been blamed for making fewer legal goods available and thus helping pirates profit and proliferate.

"Consumers buy pirate copies maybe because it's very slow for

legitimate copies to enter the Chinese market," said Xiao Wei, manager of the FAB music and movie store in Beijing. "For example, pirate copies of the movie 'Slumdog Millionaire' were available right after it won the Oscar award, but we just started to sell the legitimate copies recently, half a year later."

Trade groups want Beijing to allow prosecution of those who sell small quantities of pirated goods and make enforcement more consistent, instead of relying on periodic crackdowns and going easy on violators the rest of the time.

China has a population of 1.3 billion, but sales of legal entertainment products have been relatively small. Consider music: China has nearly 30 times more people than South Korea, but sales are 40 percent smaller, at about \$82 million last year, according to the International Federation of the Phonographic Industry.

Anti-piracy efforts have helped boost legitimate sales in other Asian countries in the past, but those gains were short-lived because new copying technology quickly took hold, the federation says.

In the early 1990s, several Asian territories cracked down on mass producers of pirated discs after the U.S. threatened trade sanctions on Asian exports. By 1996, legitimate music sales in Hong Kong had more than doubled to \$232 million.

But many underground disc makers simply migrated to the Chinese mainland. Plus, disc copying on personal computers became easier, and the Internet made distribution relatively painless. Hong Kong music sales came to just \$56 million last year.

In China, as piracy intensified, music sales fell from \$389 million in 1992 to about \$80 million in 2000, IFPI stats show. Sales rebounded as

China earned entry into the WTO, but quickly dissipated.

Today, China's largest search engine, Baidu.com, provides thousands of links to unauthorized songs for streaming and download. Legitimate alternatives have been offered, and the WTO decision could help lift barriers to foreign investment in online music ventures. But so far success has been limited.

The Wawawa Music Store launched an online subscription service in October, offering subscribers 88 song downloads from independent musicians every month for a relatively affordable 20 yuan, or about \$2.90.

But even at 3 cents per song, "piracy has been an impediment" to legitimate companies hoping to make money, said Mathew Daniel, vice president at Wawawa's Chinese distribution partner R2G.

A piracy crackdown could be a boon for the video game industry as well, though analysts say not anytime soon. So far, game consoles like Microsoft Corp.'s Xbox 360 and Nintendo Co.'s Wii have not been successful in emerging markets, and China effectively bans them.

High cost is partly to blame, but widespread piracy also scares game makers away. In China, gamers stick with multiplayer online games like "World of Warcraft," rather than Wii-style console games.

"The idea of paying a lot of money to buy a disc is going to take a certain amount of time to get used to," said Colin Sebastian, a video game analyst with Lazard Capital Markets. "Over the long term, as Chinese consumers have more disposable income and they can afford to buy set-top boxes and consoles, it's going to be a bigger opportunity."

There are some signs of hope. The Chinese are spending more money at

the movies than ever, lured by Hollywood blockbusters on the big screen. "Transformers: Revenge of the Fallen" recently overtook "Titanic" as the top box office earner ever in China, with a \$59 million gross.

Foreign movies are allowed to run in theaters just two or three weeks before being pulled, and the government shuts them out during peak viewing periods such as school vacations to protect Chinese cinema.

A government cap effectively limits Chinese theaters to 20 Hollywood releases a year, but the WTO ruling did call for loosening distribution rules. That will help studios get DVDs to the streets at a price that can compete with pirated ones, said Greg Frazier, the MPAA's executive vice president for international policy.

"There's no panacea to solving piracy problems," he said. "But everything helps."

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Associated Press Business Writers Joe McDonald in Beijing, Min Lee in Hong Kong and Barbara Ortutay in New York and Associated Press researcher Bonnie Cao in Beijing contributed to this report.

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