Asia's digital divide poses challenge for music industry

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A woman listens to a CD in a music shop in Hong Kong. A 2011 forecast from technology consultancy firm Ovum said the Asia Pacific region will account for 35% of global digital music revenues to the tune of $7 bn by 2015, out of a global figure of $20 bn.

Technology is the new rock 'n' roll as smartphones and digital services transform the music industry. But for those companies helping change the way music is consumed, Asia presents big hurdles.

Apple's iTunes music store -- which has stamped its presence in the US and Europe as sales in traditional formats such as compact discs continue to fall -- is still a limited service in many parts of the region.

Other global players and streaming services popular in the West such as startup Spotify, a privately held firm launched in Sweden in 2008, are in the process of launching digital platforms in Asia, say analysts.

But together with region's sprawl of very different cultural sensibilities, complicated licensing issues between record companies, publishers and groups holding performing rights, and piracy hotspots, digital growth has been mixed.

"Doing business in the so-called western world is a little simpler," said Ruuben van den Heuvel, executive director of music, media and technology consultancy GateWay Entertainment told AFP from Brisbane, Australia.

"For western companies coming to Asia, it's like stepping onto a brand new planet and wondering how it works," he said. "The landscape for digital music is a bit of a piracy wasteland."

Globally the music industry remains in a period of dramatic change as it tries to reconcile the Internet's ability to grow audiences with the fact that this means people can easily get their music for free using peer-to-peer (P2P) software.

Recent data suggests the industry is starting to turn things around.

According to the International Federation of the Phonographic Industry (IFPI), digital music revenues grew 8.0 percent last year to $5.2 billion.

"The music industry has grasped the opportunities of the digital world in a way few, if any, other businesses can claim to have done," IFPI chief executive Frances Moore said in a report released earlier this year.

"Our digital revenues, at one third of industry income (and now more than 50 percent in the US), substantially surpass those of other creative industries, such as films, books and newspapers."

The Asia Pacific region is set to play a bigger role in that progress.

A 2011 forecast from technology consultancy firm Ovum said the region will account for 35 percent of global digital music revenues to the tune of $7 billion by 2015, out of a global figure of $20 billion.

But it noted that growth in the region will be compromised by the amount of free music already available online.

One black spot is China, which has nearly twice as many Internet users as the US. But its digital music revenues per user are currently about 1 percent of that of the US, according to the IFPI.

An agreement last year between Internet search giant Baidu and major record companies Sony, Universal and Warner that saw the tech firm shut down infringing services and set up an authorised digital music service was seen as progress.

But China has seen an estimated 99 percent digital piracy rate in recent years, meaning the legitimate market has operated at only a fraction of its true potential, according to the IFPI.

At $67 million, its overall music sales were smaller than Ireland's in 2011. It is a similar story in India, which has more than 40 million smartphone users and 14 million broadband connected households.

"Extremely large countries like China and India have got social issues far higher up their to-do lists than piracy," said Van den Heuvel.

"So it will be some time before piracy is really addressed to the point where it is stopped and consumers are forced to buy legitimate content on the web."

-- Seoul shows the way --

One place in Asia seen as a guiding light for the rest of the region is South Korea, regarded as a pioneer of anti-piracy legislation.

In 2007 it began updating its copyright law to account for the sprawling digital world and legitimised pirate services by forcing them to register with the government and implement filtering.

According to IFPI data it is now the most successful digital music market in Asia, with an estimated three million music subscribers to services such as MelOn and Mnet.

A combination of legal clout and a huge repertoire of K-pop acts has helped South Korea post steady growth, moving from 33rd to 11th biggest music market in the world between 2005 to 2011.

Elsewhere, KKBOX, a major service in Asia, is present in Hong Kong and Taiwan, offering streaming and download services.

One success story in Asia is YouTube, which has extended its presence in the region with launches in Malaysia, Singapore, and the Philippines in the past year, meaning that it translates the website into local languages and sells advertising locally.

It has already been "localised" in Japan, Hong Kong, Taiwan, South Korea and India.

"We saw huge growth and decided to localise in those markets," said Anthony Zameczkowski, head of music, YouTube Asia Pacific at the Music Matters industry conference held in Singapore in May.

"There is huge potential," he added, citing YouTube's growth as "an example of how the music industry could grow in the region, simplify the process, make sure everyone understands what everyone is getting and (ensure) no infighting between the rights owners".

Analysts agree that better agreements on licensing and pricing to ensure any new service is not open to litigation are crucial to future digital music sales in the region.

"Every significant global player is looking to launch in Asia in the next 12-24 months," said Van den Heuvel. "But they are going through the trials and tribulations of doing so."

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