



Ministry of Foreign Affairs

Report on Chinese Online Music Market Opportunities

Commissioned by the Netherlands Enterprise Agency

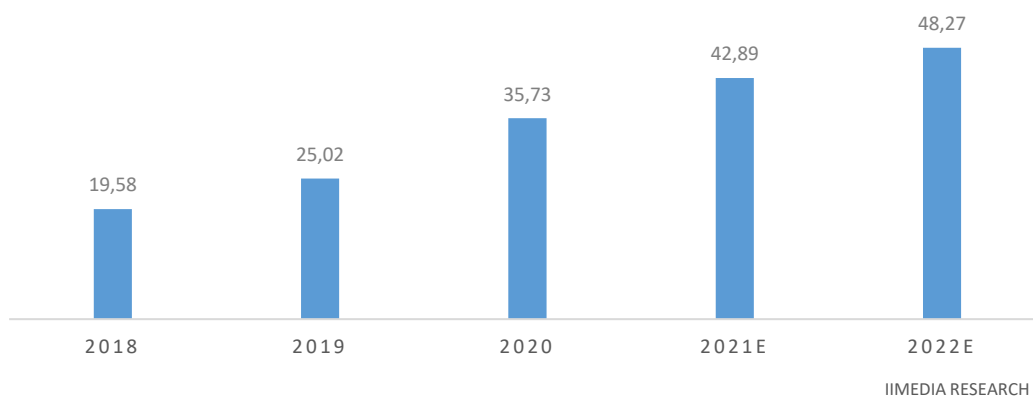
*>> Sustainable. Agricultural. Innovative.
International.*

Report on Chinese Online Music Market Opportunities

Market overview

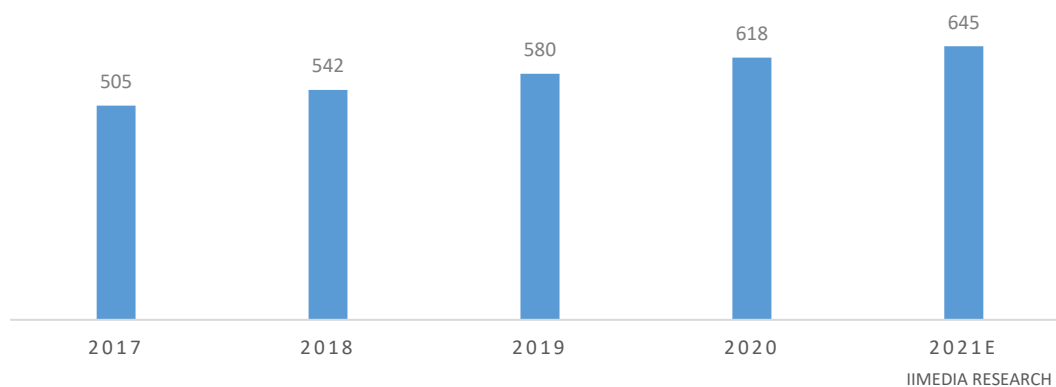
In 2020, the Chinese music market was seriously affected by the COVID19 pandemic. The offline music events including concerts, music festivals were suspended or turned to cloud live. In spite of that, the Chinese online music market kept a stable growth. According to iiMedia Research, the China digital music market has reached about RMB 35 billion by the end of 2020, with an estimated size of about RMB 42 billion in 2021.

**MARKET SCALE OF CHINA DIGITAL MUSIC INDUSTRY
2018-2022 (RMB BILLION)**



The music mobile users in China have been growing in the recent years. The Chinese music mobile users have exceeded 600 million by the end of 2020. The competition to keep music users among mobile platforms has become fierce with the slow-down growth of music mobile users.

**MUSIC MOBILE USERS SCALE IN CHINA
2017-2021 (MILLION)**



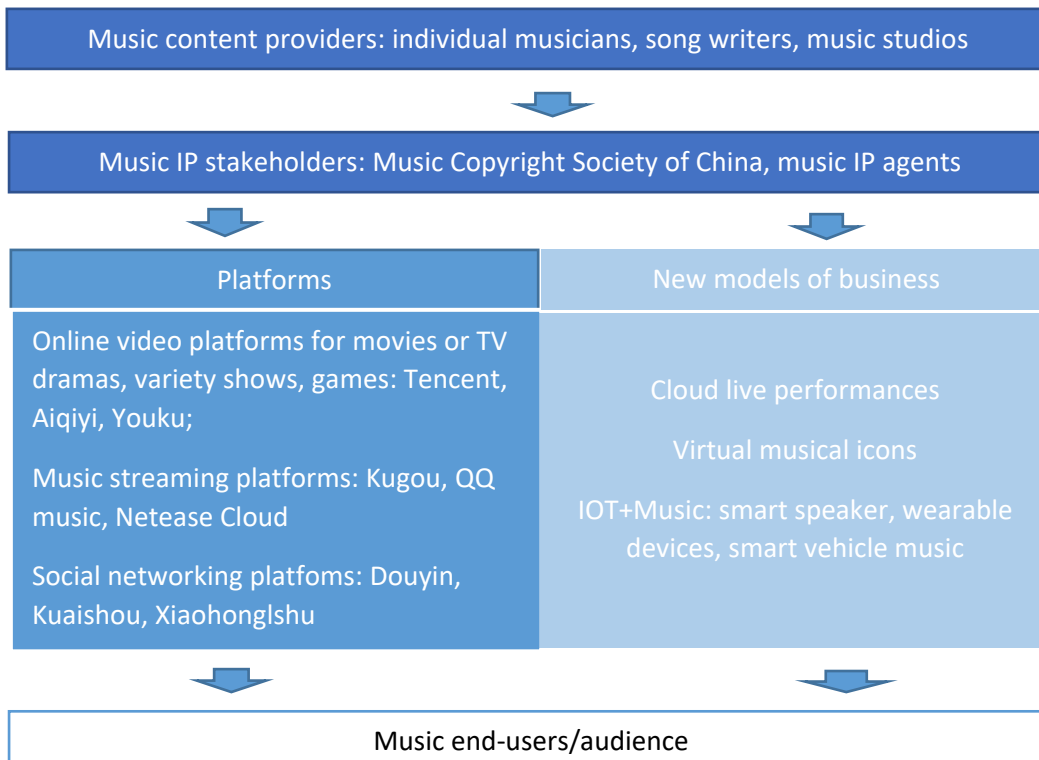
PEST analysis of China's digital music market environment

Political Environment	Economic Environment
<ol style="list-style-type: none"> 1. In May 2017, China for the first time put "music industry development" into "key cultural industries project", upgrading music industry to a strategic emerging industry; 2. In May 2020, the Chinese government released a notice to build up a country strong in the field of IP, providing support to music IP protection in policies. 	<ol style="list-style-type: none"> 1. In 2019, Chinese GDP per capita exceeded \$10000, proportion of entertainment consumption rising in household consumption; 2. COVID19 had a serious impact on offline music industries, speeding up its upgrading towards online; 3. Turn-over of online music industries outperformed offline ones globally in 2020 with a quick growth of streaming platforms in revenue.
Social Environment	Technical Environment
<ol style="list-style-type: none"> 1. China's consumption structure and concept is upgrading, with a rising proportion of consumption for culture and entertainment in daily consumptions; 2. Post-80s and post-90s have developed a habit of paying for the music they like, with recognition of paid membership promoted by the streaming platforms; 3. The traditional music market structure has been changed with more inputs into digital music market from music content providers. 	<ol style="list-style-type: none"> 1. Increasing use of 5G is providing users a better visual and audial experience; 2. VR technologies are giving users an immersive experience by creating virtual musical space with development of cloud music technologies.

Data Source: BigData Research

State of the digital music market

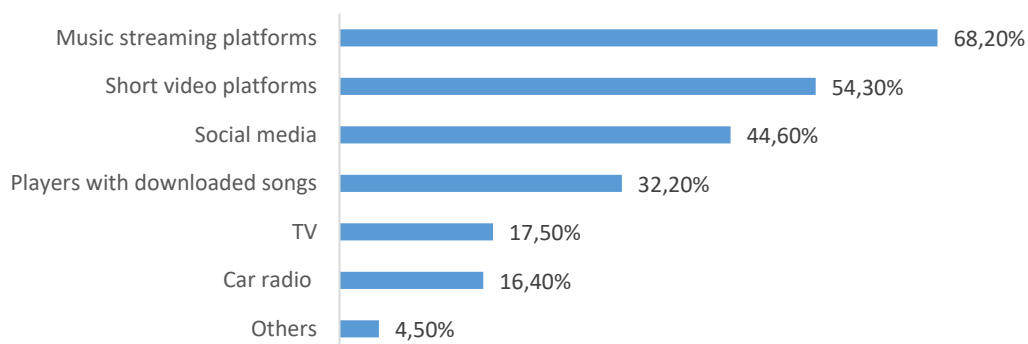
The wide use of 4G technologies and easy access to the music and social networking apps in mobiles have played a significant role in the growth of the digital music market. The high-tech elements like AI, 5G, IOT and cloud technologies are supposed to create new models of business. Online video platforms have covered traditional B2B music users like movies, TV dramas and variety shows. Music streaming mobile platforms provide an easy and convenient access to music for the Chinese audience. Mobile social networking apps (e.g. Douyin, Kuaishou, Xiaohongshu) have expanded the access to music for more potential audience. The new models of business have been tried with the wide use of AI, 5G, IOT and cloud technologies.



Music access channels for Chinese users

According to BigData Research, around 70% users in the first half year of 2020 were found out to choose music streaming platforms among all the frequently used channels, 54.3% short video platforms, and 44.6% social media.

CHINESE MUSIC USERS ACCESS CHANNELS FOR THE FIRST HALF OF 2020



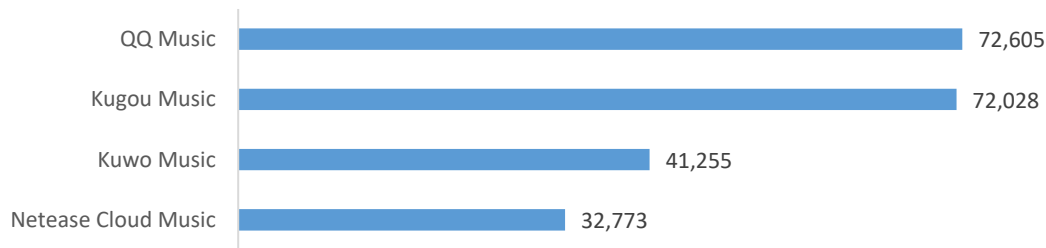
Data Source: BigData Research

Music streaming platforms

Among all the access channels, music streaming platforms are targeting directly the music audience in their functions and contents. The 4 major music streaming platforms in China are QQ Music, Kugou Music, Kuwo Music and Netease Cloud Music. Bigdata Research released "China's digital music market report for the first half year of 2020" that QQ Music was ranked the first

with 72.605 million daily active users averagely in June 2020, followed by Kugou, Kuwo and Netease. The first 3 platforms - QQ Music, Kugou Music and Kuwo Music are all under Tencent Music Entertainment Group (TME).

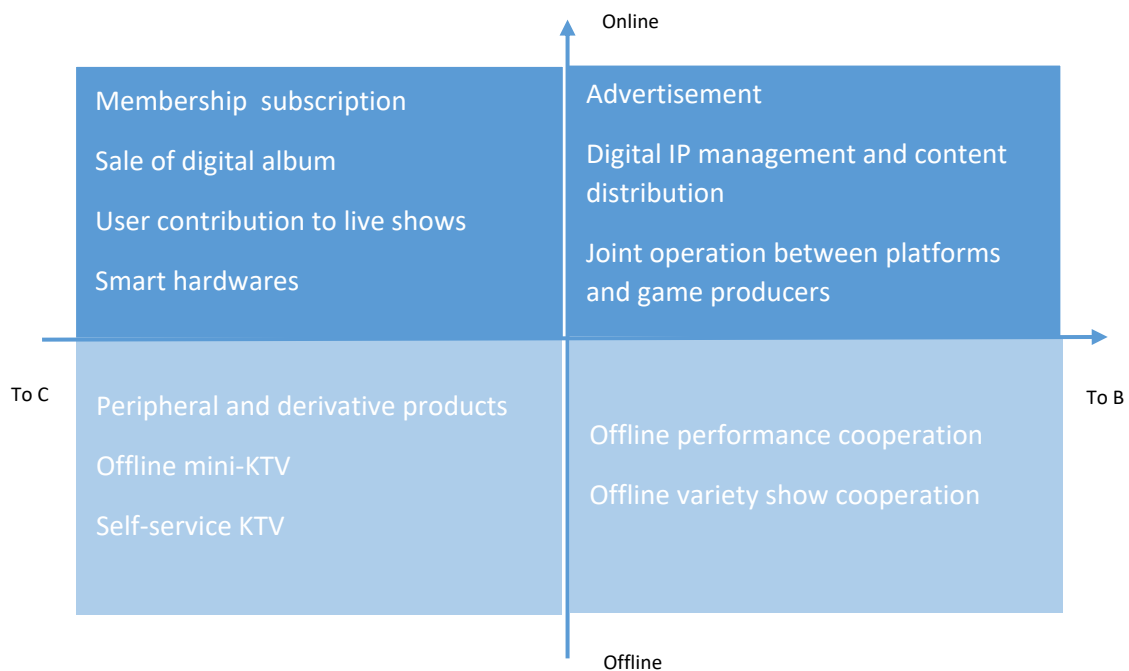
DAILY ACTIVE USERS IN JUNE 2020 (MILLION)



Data Source: BigData Research

There are two digital music business profiting modes in China: to C and to B, with a combination of offline and online. In the to C market, it is clear that the major players are Tencent Music Entertainment Group TME and Netease Cloud Music, with profiting modes of paid membership, digital album, and advertisement. The to B market involves the profiting modes concerning content production, marketing, smart hardwares, and offline performances.

BUSINESS PROFITING MODES ANALYSIS FOR CHINA DIGITAL MUSIC MARKET



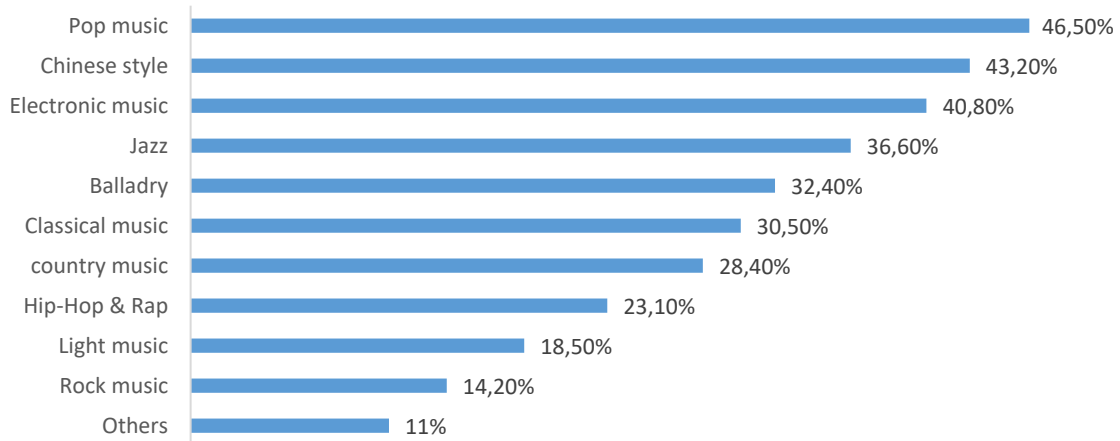
Data Source: BigData Research

Music style and song language preference of the Chinese digital music users

Chinese digital music users are majorly young, middle-incomed white-collar workers and students: 80% users aged under 35, 54.4% male and 45.6% female, more than 50% users with monthly income of RMB 5000 to 10000, 40% living in first and second tier cities.

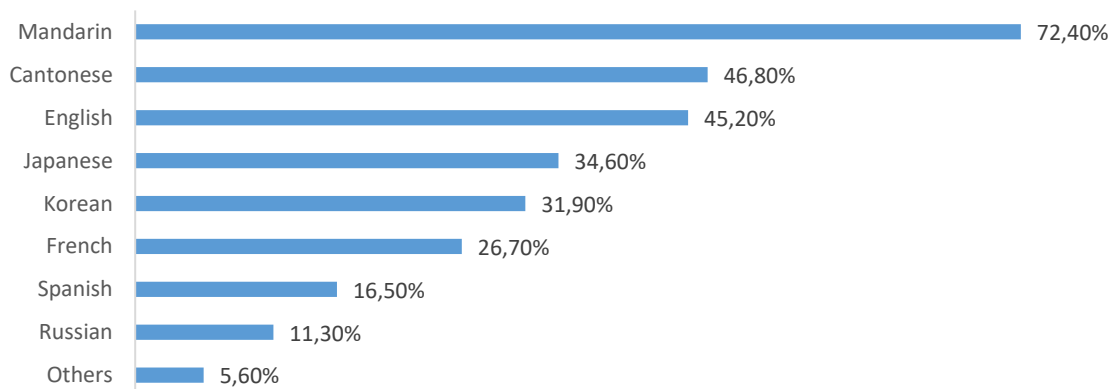
In a big data analysis on music style preference, pop music was ranked the first followed by Chinese style, electronic music, Jazz and etc.; on song language preference, Chinese mandarin was the first in ranking, followed by Cantonese (one of Chinese dialects), English, Japanese, Korean etc..

MUSIC STYLE PREFERENCE OF CHINESE DIGITAL MUSIC USERS FOR THE FIRST HALF OF 2020



Data Source: BigData Research

SONG LANGUAGE PREFERENCE OF CHINESE DIGITAL MUSIC USERS FOR THE FIRST HALF OF 2020



Data Source: BigData Research

Short video platfoms - Social networking platforms

Short video platfoms, started from 2013, have been developing very fast in China. Compared with traditional videos, short videos are low in production cost, fragmented in production and dissemination, fast in spread, popular with social networking, and vague in boundary between producers and consumers. By June 2020, Chinese short video users have reached 818 million with an average daily use time of 110 minutes.

Among all kinds of short video platforms, social networking platforms (e.g. Douyin, Kuaishou) are the most successful. Two players in China, ByteDance (Douyin) and Kuaishou, have taken up major share of the domestic short video market. Having seen the success of Tiktok (Douyin's international version), the international players, Twitter (Vine, Periscope), YouTube, Facebook (Instagram and Lasso) and Snapchat are also developing their own businesses in short videos.

The background music BGM in short videos have a wider access to users than the original music, considering the big number of active daily users in the platforms. In the recent years, some old songs have suddenly become popular again among youths or even all age groups after being used as BGM in some short videos, especially recommended by Douyin. However, the music IP owners could benefit very little due to a weak protection in music IP. The IP protection have become stronger since the Chinese IP authorities requested the short video platforms to screen their content to improve IP protection at the end of 2018.

Opportunities

IP cooperation with the platforms in content management and distribution is considered as a good business opportunity. In recent years, the Chinese government has been trying to improve IP protection to build up a better business environment via a strict law enforcement and supervision. And the major music streaming platforms are trying to attract more audience with a large music library.

Tencent Music Entertainment TME reached a strategic cooperation agreement in 2020 separately with the international giants in music industries Peermusic, Merlin Network and Royalty Network, and upgraded cooperation with Space Shower and Being Inc. Netease Cloud in 2020 signed cooperation contracts with the international players BMG, UMPG, WCM and etc..

The international music giants are planning to extend their businesses to Chinese market both online and offline, starting from IP content cooperation with the music streaming platforms and exploring further profits in music distribution and promotion.

Opportunities for Dutch musicians seem to be more due to easy access directly to Chinese audience via short video platforms. However, Dutch individual musicians are difficult in competition with the Chinese Key Opinion Leaders KOL at short video platforms. KOLs are mostly supported by a professional team - Multi-Channel Network MCN. MCNs are in fact helping KOL to produce content, matchmaking with short video platforms as well as commercializing. The number of Multi-Channel Network MCN in China has increased dramatically in 2017 and 2018 due to the subsidies from short video platforms. Currently, the Chinese MCNs have developed mature profiting modes when the subsidies are fading out.

Challenges

About a decade ago, in 2010-2011, music, books, movies and software could still be downloaded for free in China. Unlicensed music files were rampant online until 2015 when Chinese authorities launched a nationwide operation which ordered digital streaming outlets to take down unlicensed music files. When the authorities decided to rein in piracy, things were significantly improving. In just a few weeks, over 2.2 million unauthorized recordings were removed. After the operation, major streaming platforms quickly started signing licensing deals with record companies. All the major platforms now tend to pay a higher price for exclusive rights to content, meaning for instance a song can be exclusively accessed on QQ, but not on other platforms like Netease Cloud. Already in 2018, 96% of consumers were listening to licensed music (source: IFPI 2018 Music Consumer Insight Report).

The music IP protection is much better now in China than before with the strict supervision on the platforms from Chinese authorities. However, it is still very difficult for an individual musician to be compensated financially enough from a specific music IP infringement due to a large amount of time and energy consumption in legal procedures.

Chinese artists are used to making only a small portion of their income from royalties, as opposed to live shows and product endorsements. Due to lack of awareness of the importance of copyright in the Chinese music industry itself and the far from satisfying legal outcomes of copyright infringement cases - the low cost of copyright infringement versus the high cost of obtaining oftentimes low legal remedies - Chinese artists rarely bring copyright infringement cases to court. Legislators sought to address the challenges in enforcing copyrights. The 2020 amendments to the PRC Copyright Law became effective on June 1, 2021. The most remarkable changes are relating to higher compensation which can serve as an effective weapon to deter copyright infringement. In line with the Civil Code, and the amended Trademark Law, Patent Law, and the Anti-Unfair Competition Law, the 2020 amendments to the Copyright Law introduced punitive damages to penalize parties that commit serious and willful copyright infringement - up to 5 times the loss suffered by the copyright owner or income gained by the infringing party. The maximum statutory damage to be paid by an infringing party has also been raised from previously CNY 500,000 to CNY 5 million.

The Chinese music streaming platform users have not fully developed the habit of paying for the online music, though the proportion of paid users has a quick growth in the recent years. According to TME's Q1 financial report released in May 2021, the proportion of their online music paid users have reached 9.9%, higher than that in their Q1 report 2020, which was only 6.5%, however, much lower than that on Spotify, their foreign counterpart, which was 46% in Q2 2020. The number needs to go up if China's digital music market is to become sustainable.

China has a strict censorship system. National Radio and Television Administration is supervising all the online and offline channels including film, TV, and all the online platforms to build up socialist values. The socialist values in some aspects are different from the western values, which is why there are many restrictions and screenings on the imported music shows or events. For example, Mango TV deleted the performance of a singer because of too many tattoos on his skin during their broadcasting of semi-final of Eurovision Song Contest 2018.

Current cooperation in music between China and the Netherlands

The cooperation in music between China and the Netherlands focus on offline performances, events or festivals.

ISY Music Festival

ISY Music Festival started from 2018 in Sanya with an ambition to create the newest, biggest, and best-to-date dance music festival in the world. Sanya Municipal Government and other local government authorities made a huge investment in building Sanya International Music Theme Park to host ISY Music Festival and other music-themed events in Sanya, Hainan, a tropical island in the south of China.

A number of Dutch DJs (e.g. Armin Van Buuren, Bass Jackers, and etc..) joined in the first three editions of the ISY Music Festival (27-31 December 2018), building up a good reputation for Dutch DJs and music among Chinese audience. Due to the COVID-19 pandemic, the fourth edition (27-31 December 2020) saw very few participation from international musicians.

Amsterdam Dance Festival

The Amsterdam Dance Event (ADE) is the leading electronic music platform and the biggest club festival in the world for the whole spectrum of electronic music sub-genres. ADE consists of a conference (day) and festival (day & night) program, covering five days. It attracts over 5.000 electronic dance music professionals and more than 400.000 visitors. Since 2017, ADE has a dedicated China program (House of China) that introduces the latest developments in the Chinese music industry to its visitors. It attracted leading promoters, artists and Digital Streaming Platforms (DSPs), including NetEase Cloud Music and Tencent Music.

More information:

Martin van de Velde (co-organiser House of China)

martin@productus.nl

Dutch music agents/distributors active in China

BHM

BHM (Shenzhen Brotherhood Music Culture Media Co., Ltd) is widely known for investing, operating, and promoting international music festival IP's in China, including Q-Dance from the Netherlands (the world's largest hardstyle EDM music festival brand). Next to participating in over 20+ Festivals all over China and 150+ club shows in 30+ Chinese cities, BHM is also involved in music festival integrated marketing planning, stage & show production design, and artist management services.

More information:

Paul Neuteboom (GM)

paul@bhm-china.com

Kanjian

<https://en.kanjian.com/>

Kanjian provides comprehensive rights management tools, solutions and dedicated business strategies to the music industry.

- Comprehensive Licensing
- Artists and Label Services
- Marketing and Promotion
- Booking and Live Events
- Business Consulting

Creative Holland is an initiative of the Dutch Creative Industry, powered by the Ministry of Foreign Affairs, Economic Affairs, and the Ministry of Education, Culture and Science in close collaboration with branch organizations. Creative Holland is a public-private partnership aiming to accelerate creative industry exchange, and has a specific focus on three countries; China, United States, and Germany. Creative Holland identified the rapid developments in the Chinese music industry as an opportunity for Dutch companies.

Creative Holland China

Contact: Michiel Roosjen (Representative China)

E: michiel@creativeholland.com

The Dutch economic network includes an embassy, 4 Consulate-Generals and 6 NBSOs in China. The network is here to support Dutch businesses. Whether you are a starting entrepreneur or an experienced company, the network is here for your questions on doing business in China.

Embassy of the Kingdom of the Netherlands

4 Liangmahe Nanlu, Chaoyang District, Beijing 100600

T: +86 10 8532 0200

E: pek-ea@minbuza.nl

Consulate-General Shanghai

10/F Tower B, Dawning Center, 500 Hongbaoshi Road, Changning District, Shanghai 201103

T: +86 21 2208 7288

E: sha-ea@minbuza.nl

Consulate-General Chongqing

Unit 5404, Yingli International Finance Centre

28. Minquan Road, Yuzhong District

Chongqing 400012

T: +86 23 6399 7000

E: cho-ea@minbuza.nl

Consulate-General Guangzhou

Teem Tower, 34/F, 208 Tianhe Road

Guangzhou 510620

T: +86 20 3813 2200

E: gnz-ea@minbuza.nl

Consulate-General Hong Kong SAR

Room 2402B, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong SAR

T: +852 2599 9200

E: hon-ea@minbuza.nl

NBSO Chengdu

Square One, office 2204, 18 Dongyu Street, Chengdu 610016

T: +86 28 8692 3062

E: nbsochengdu@nbsochengdu.com

NBSO Dalian

4910 World Trade Center, 25 TongXing Road

Zhongshan District, Dalian 116001

T: +86 411 3986 9998

E: nbsodalian@nbsodalian.com

NBSO Jinan

Room 102, Luneng International Center
No. 2666 Er Huan South Road, Jinan 250002
T: +86 531 8606 5138
E: nbsojinan@nbsojinan.com

NBSO Nanjing

Office 4701, 47/F, Intercontinental Nanjing, No. 1 Zhongyang Road, Gulou District, Nanjing
210008
T: +86 25 8470 3707
E: nbsonanjing@nbsonanjing.com

NBSO Qingdao

A-2505, Top YiHe International, 10 Hong Kong Middle Road, Shinan District, Qingdao, 266071
T: +86 532 6677 7516
E: nbsqingdao@nbsogindao.com

NBSO Wuhan

Room 1306, New World International Trade Center, 568 Jianshe Dadao, Hankou, Wuhan 430022
T: +86 27 8576 6511
E: nbsowuhan@nbsowuhan.com

This is a publication of
Netherlands Enterprise Agency
Prinses Beatrixlaan 2
PO Box 93144 | 2509 AC The Hague
T +31 (0) 88 042 42 42
E klantcontact@rvo.nl
www.rvo.nl

This publication was commissioned by the ministry of Foreign Affairs.

© Netherlands Enterprise Agency | December 2021
Publication number: RVO-230-2021/RP-INT

NL Enterprise Agency is a department of the Dutch ministry of Economic Affairs and Climate Policy that implements government policy for Agricultural, sustainability, innovation, and international business and cooperation. NL Enterprise Agency is the contact point for businesses, educational institutions and government bodies for information and advice, financing, networking and regulatory matters.

Netherlands Enterprise Agency is part of the ministry of Economic Affairs and Climate Policy.