

Article

Evolving Music Industry in China

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Abstract: With the introduction of iTunes by Apple in 2003, the music industry has brought the service provider major changes. With the development of the mobile Internet and the arrival of the streaming media era, the vertical integration of the record industry chain, which has the largest share among the three sub-chains of the music industry, has disintegrated. The offline sales channels that used CD as the medium gradually declined, while the online channels that used iTunes and streaming media as the medium gradually became the mainstream. Traditional offline music distribution channels have been subverted, and IT companies and Internet companies represented by Apple, Spotify, and Pandora are emerging as service provider upstarts. Similar to the global music industry ecology, China's music industry is divided into three sub-industrial chains in the service provider link. The first sub-chain, the record music chain, suffers from piracy problems. The second sub-chain, the music copyright chain, once unsustainable due to weak genuine protection, has improved with the strengthening of domestic copyright protection. The third sub-chain, the music performance chain, is currently the most popular chain, and is also the main source of profit supporting the entire Chinese music industry.

Keywords: Music industry, Streaming media, Digital music, Management industry

1. Introduction

In 1999, the global recorded music industry experienced a period of growth that lasted for almost a quarter of a century. Approximately one billion records were sold worldwide, and by the end of the century, the number of records sold was three times more than before. At the end of the 1990s, spirits among record label executives were high and few music industry executives at this time expected that a team of teenage Internet hackers, led by Shawn Fanning (then, a student at Northeastern University in Boston) would bring the turbulent process that eventually would undermine the foundations of the music industry (Bryce, 2022). Shawn Fanning created and launched a file-sharing service called Napster that allowed users to download and share music without compensating the recognized rights holders. Napster was sued by the music industry establishment and eventually forced to shut down the service (Forde, 2019). Other services with sophisticated services immediately also followed the lawsuit. Even though the traditional music industry used aggressive methods both legally and technically to stop online-piracy services such as Napster, Kazaa, Limewire, Grokster, DC++, and the Pirate Bay, new services emerged and took their places. By the end of 2013, the sales of physically distributed recorded music (e.g., cassettes, CDs, and vinyl) were set back to the relatively low levels of the early 1970s (Wikström, 2021).

China's music industry has also achieved and sustained rapid growth in recent years. Not only has it been higher than the GDP growth rate of the same period for three consecutive years, but it also reached a new high in the past five years. Focusing on the "music +" pan-entertainment consumption economic development model, the development environment of the industry becomes more complete, the business model and original system are becoming mature, and the innovation and application of music technology are widely used. The Chinese music industry has ushered in a golden period of development in the new era (Liu, 2015; Zhang, 2018).

The music industry (also called music business) (James 2023) refers to the industry that sells music-related products in return. The relationship between the various branches and development and changes in the music industry and between the music industry and other industries impact the entire social, cultural, and economic development. In other words, building a good music industry is an important part of improving the overall social and cultural industry. In 2018, Tencent Music Entertainment Group was established and officially listed on the NYSE in 2021, with a market value of USD 22.894 billion on the first day. As a new force in the entertainment consumer economy, the Chinese music industry has been growing in recent years, not only higher than the GDP

growth rate for three consecutive years, but also reached a new high in the past five years. Focusing on the “music +” pan-entertainment consumer economy development model, the industry's development environment becomes better, business models and original systems are becoming more mature, and music technology innovation is widely used. Therefore, the Chinese music industry has ushered in a golden age of development in new era (Pastukhov, 2022; Tin, 2019).

2. Chinese Music Industry Overview

From the perspective of the general business environment, the Chinese music industry has experienced the best period in history since the 1970s for about 30 years. Ding and Yu (2015) investigated the Chinese music industry in the past 30 years in Taiwan, Hong Kong, mainland China, Singapore, Malaysia, and other Chinese regions. They found that the most powerful and abundant talent resources were created for creation, production, and performance, which drives the development of the Asian recording industry. Until now, the rise of digital music relies on and enjoys the benefits brought about by the accumulation of music assets in that era. Faced with the current difficult situation in the music industry, the industry can survive and find a way to follow the changes of the music era (Li, 2013; Street et al., 2015).

2.1. Status of Music Industry

2.1.1. National Music Industry Base

Strengthening the construction of public and commercial spaces for music and creating such music culture have become a new trend. In terms of development, the music industry pays attention to its positioning in the whole market, gradually eliminating less related industries from the industry chain and focusing on the development of music-related industries to promote sharing and reconstruction of resources. This also is the driving force for its development. In terms of innovating business models, exporting high-quality content products, building event brands, supporting original music, and disseminating folk music, the National Music Industry Base Park of China is undertaking important missions (Ding and Yu, 2015).

2.1.2. Music Book and Audiovisual Publishing Industry

The implementation of projects such as the National Music Industry Excellent Project Award Program and the Chinese National Music Inheritance and Publishing Project has continuously supported and guided the publication of national music culture. The vinyl record market has revived, and the industrial chain has been improved. Major music labels continue to make efforts, the release of original music and digital record albums has grown rapidly, and the publication of children's music albums has also become a new prospect of business. Leading publishing companies take advantage of their brand advantages to form multi-level exchanges and cooperation in technology, copyright, and culture.

2.1.3. Digital Music

Digital music services in Taiwan provide single downloads, incoming calls and ringtones, mobile phone ringtones, mobile subscriptions, broadband streaming, digital TV music services, and so on. According to Taiwan's “the Year Pop Music Industry Survey Report”, the current form of online music consumption is streaming and listening to songs, accounting for 37.1% of the total digital consumption, followed by single downloads, accounting for 34.2% and incoming calls and answering rings, accounting for 28.6%. Taiwanese people prefer the “all-you-can-eat” consumption model (Zhang, 2018; Li, 2013). As a result, the streaming subscription model has been the mainstream of online music in Taiwan. Copyright management (DRM) encryption technology is available to consumers. What consumers buy is the right to use music, not ownership, and music cannot be copied or stored on computers and devices. This business model not only protects the intellectual property but also makes the music industry more acceptable. It also provides a new business model in the music market. At present, major digital music platform service providers in Taiwan include KKBOX, MyMusic, Omusic, StreetVoice, iNDIEVOX, and others all of which provide streaming music services or single downloads as their main service types (Berklee, 2021).

The function of “discovery” or “radio station” recommended by algorithms based on users' listening habits is also one of the functions that music service providers attach great importance to. Personalization and customization are the trends in the digital music industry. It allows music lovers to accurately find their favorite music and artists, edit music playlists like a DJ, and find excellent music with similar preferences. In addition, digital music platform operators use a huge database to accurately analyze subscribers' music preferences to find business opportunities in concerts. On a mobile electronic ticketing platform, they try to integrate online music with physical concerts, which gives more possibilities for the business (Parvez, 2020).

In the composition of user payment, advertising revenue, copyright operation, telecommunication music value-added and pan-entertainment digital music industry revenue, the user payment rate increased from 4 to 6%, an increase of 25% year-on-year, which

makes the market potential huge. The use rate of audio streaming media is as high as 89%. In the consumption environment dominated by digital album sales and paid subscription models, the contribution rate of streaming media is as high as 93.5%. Digital music platforms, mobile K-songs, short videos, and pan-entertainment live streaming have become the main battlegrounds for the digital music entertainment experience. Copyright operations, music social networking, pan-entertainment, and UGC multi-channel profit models are prospective (Wikström, 2021).

2.2. Music Education and Training

In 2018, the investment and financing of art education slowed down but the music education market was growing with the investment and financing of 253 million yuan and a year-on-year increase of 103%. The user demand in the training market grew rapidly, but the lack of high-quality teachers and the uneven quality of teachers became constraints for sustainable growth. Teacher training and qualification certification become prospective. Against the decline in the revenue of piano sales, the online + offline integration and complementary education and training model combined with artificial intelligence has become the development trend of the industry (Fan, 2010).

2.3. Audio Industry

In terms of professional audio product structure, speakers, earphones, and microphones drive the overall industry development with a rapid increase in sales. The trend of the integration of audio equipment and sound, light, and machinery continues in the market. The market demand for smart home theaters and panoramic sound is increasing, and wireless immersive audio equipment and related products become popular in the industry. Film and television drama music, game music, and anime music industry benefit from the support of relevant national policies. Especially, the animation music industry has achieved rapid growth. Through the implementation of the “video +” strategy, video game music on the Internet music platform is implemented in a one-stop solution for production, publicity, and distribution. The continuous increase in the budget for music in film and television businesses and the integration with the global film and television soundtracks have promoted the development of China's film and television music industry towards high-quality, mature, and professional development.

2.4. Karaoke Industry

The karaoke industry has boomed in new industries. The expansion of online karaoke, music social networking, chart-topping entertainment, and offline karaoke scenes has continuously realized the joint development of online and offline karaoke. In the future, AI technology and smart devices will upgrade the entertainment experience of karaoke, and the overall industry will show development trends through intelligence, interactive socialization, networking, big data, and service aggregation.

2.5. Radio and Television Music

The rapid development of intelligent networked vehicles has driven the diversification of smart car audio content and its penetration rate. The production of TV music shows has entered a stable period. The emergence of cultural and creative programs has made TV shows more extensive with more traditional and classic cultural elements and more diverse program formats. The number of online music variety shows not only increased rapidly, but improved in terms of the total number of episodes, viral value, and the number of genres. The turnover of Internet streaming platforms is also growing. Music is appropriate for transfer because the file size is small. With the improvement of communication technology, people easily download text data or music from the Internet. Video content such as movies also can be streamed, which was begun by i-Pads. Buying music from the Internet is not a substitute for music publications. Now, the business model has been converted to provide music at a cheap and fixed price (such as Spotify or Amazon Music) and to increase turnover through communication with consumers. Concerts are one of the representatives of this communication model. In addition to ticket revenue, the sales of meals and merchandise also occur during the concert.

3. Musical Instrument

With the China-US trade conflict, slowed consumption in the European and USA markets, environmental protection, and rapid growth in labor costs, artificial intelligence has been used for musical instrument consumption. The strategy of the musical instrument industry is combining “education + service” to increase the sales of musical instruments. The industrial cluster effect is observed, which drives the development of the musical instrument industry through the use of artificial intelligence and differentiation.

3.1. Music Copyright Brokerage and Management Industry

Under the guidance and regulation of relevant policies and regulations issued by the National Copyright Administration, copyright protection in the music industry has been continuously improved (Fig. 1). According to research data from the International Federation of the Phonographic Industry, the legitimate rate of physical record consumption in China has reached 96%, which is higher than the international average of 62%. There is still insufficient awareness of copyrights and payment for music. In the future, technological innovations such as big data and blockchain will play an increasingly important role in copyright protection.

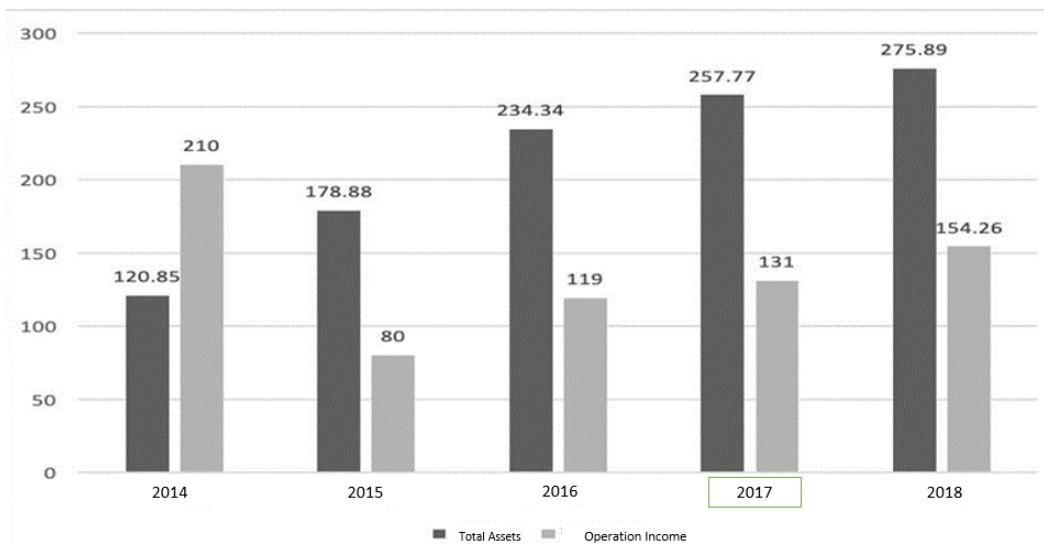


Fig. 1. Guidance and regulation of relevant policies and regulations. Please change the Chinese into English.

4. National Music Industry Performances

The total assets of the National Music Industry reached 27.589 billion yuan, and the main business income was 15.426 billion yuan with an annual increase of about 27%. The total operating profit was 826 million yuan showing an annual increase of 84%. The total number of companies has exceeded 1,000.

4.1. Music Book and Audiovisual Publishing Industry

Fig. 2 shows that the overall industry size of the music book and audiovisual publishing industry reached 1.338 billion yuan with an annual increase of 19.8%. The size of the music book industry was 1.031 billion yuan (an annual increase of 28.2%). The size of the audio-visual publishing industry decreased to USD 307 million with an annual decrease of 1.9%.

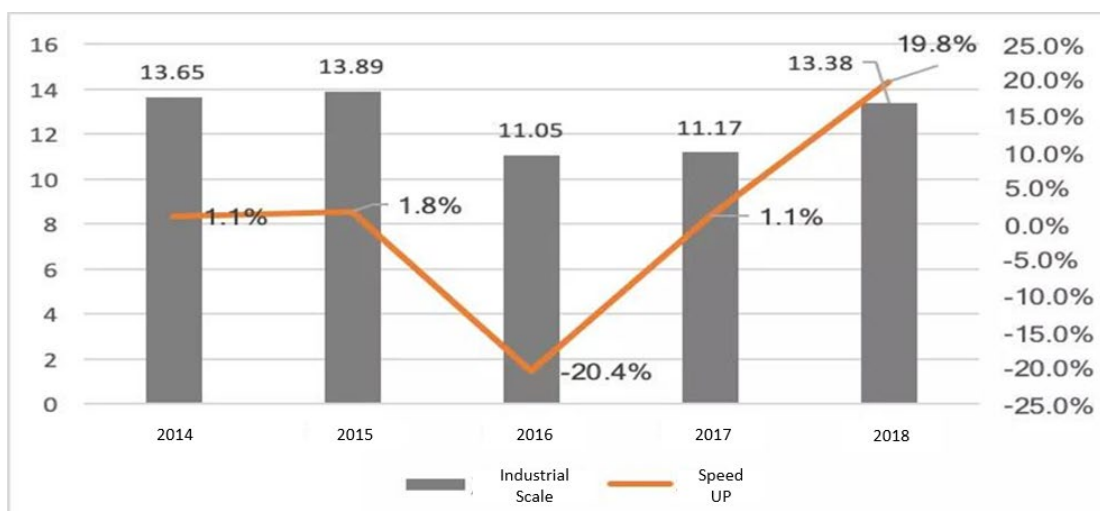


Fig. 2. Overall industry scale of the music book and audiovisual publishing. Please change the Chinese into English.

4.2. Music Performance

The overall size of the music and performing arts market reached 18.221 billion yuan as shown in Fig. 3. The total box office revenue of music performances was 6.818 billion yuan with an annual increase of 14.8%. The box office revenue for the theater performance was 2.587 billion yuan, that for concerts and music festivals was 3.985 billion yuan, and the live revenue was 250 million yuan. The number of musical theatre performances reached 42,900 which increased by 73.6% compared to the previous year.

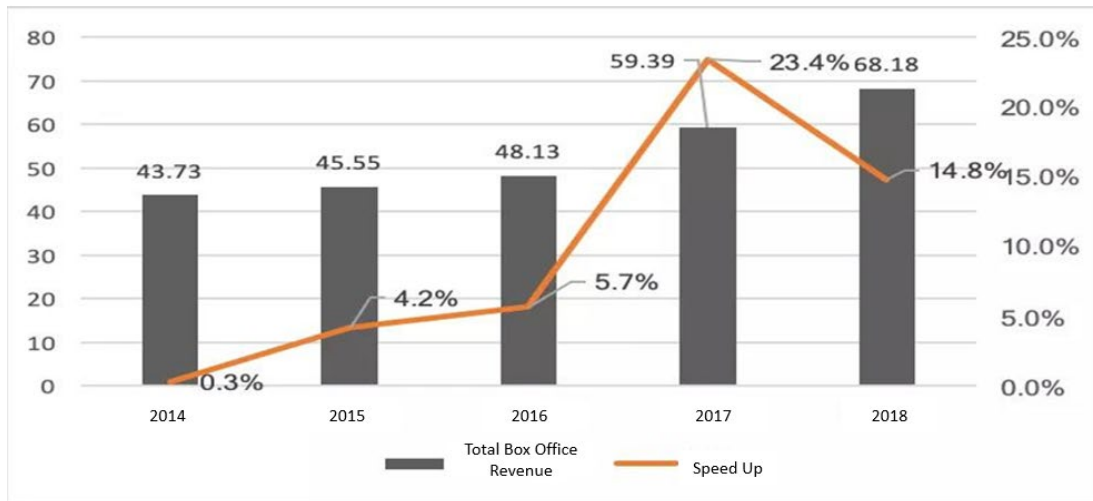


Fig. 3. Overall size of the music and performing arts market. Please change the Chinese into English.

4.3. Digital Music and Audio Industry

Fig. 4 shows the size of the digital music industry which was 61.242 billion yuan with an annual increase of 5.5%. The number of digital music users exceeds 550 million showing an increase of 5.1% compared to the previous year. The incremental user bonus is not offered, and the payments of existing users are the main growth factor in the future.

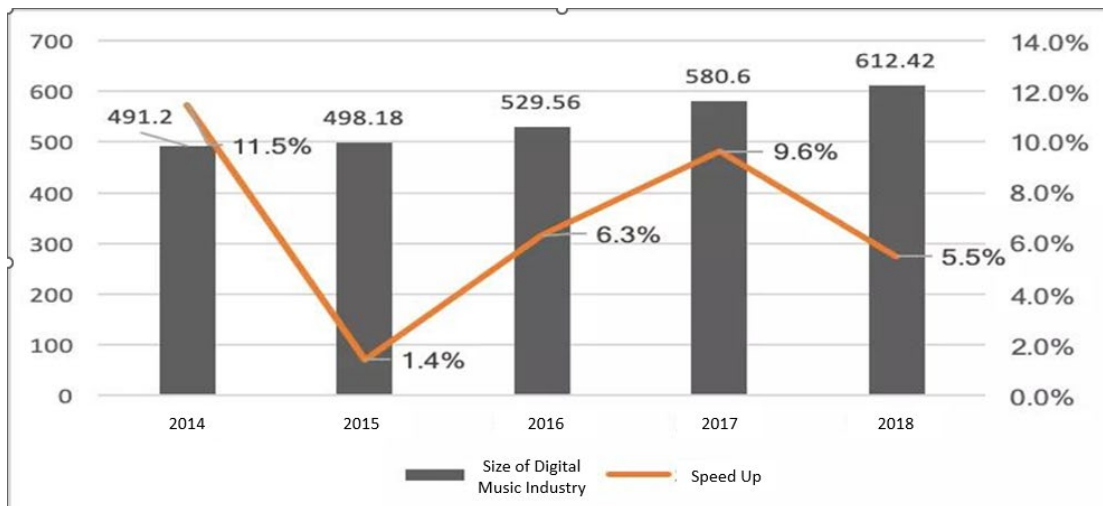


Fig. 4. Size of the digital music industry.

4.4. Music Education and Training

Fig. 5 shows the total revenue of the film and television drama music, game music, and anime music industry. In 2018, the total revenue reached 708 million yuan with an annual increase of 6.47%. The total revenue of the film and television music industry was approximately 360 million yuan with an annual increase of 3.45%. The game music revenue was approximately 169 million yuan with an annual increase of 5.63%, and animation music revenue was approximately 179 million yuan with an annual increase of 14.01%.

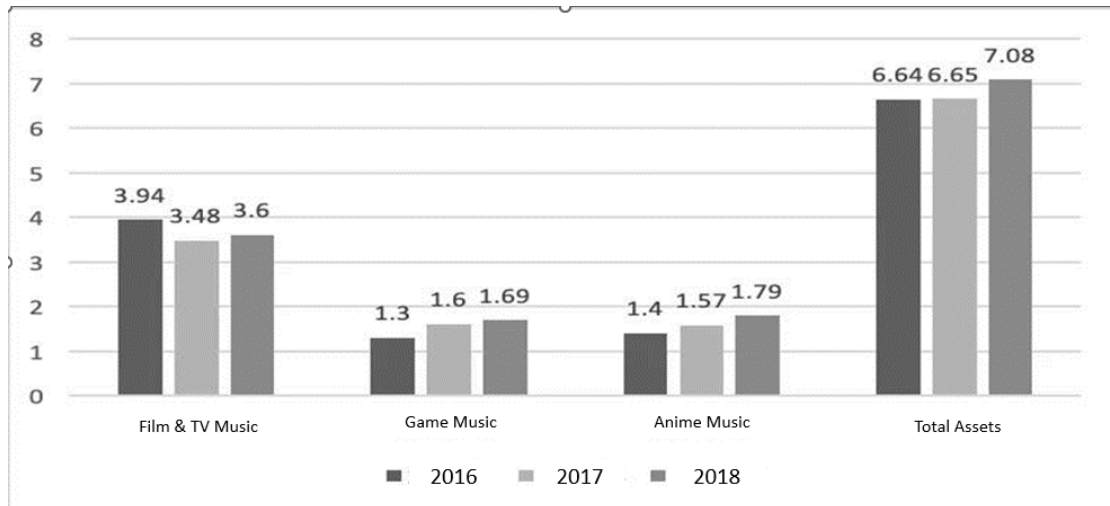


Fig. 5. Total revenue of the film, television, games, animation, and music industries. Please change the Chinese into English.

4.5. Karaoke Industry

Fig. 6 shows the total revenue of the karaoke industry reached 101.07 billion yuan with an annual increase of 12.3%. The traditional KTV market has shown a steady recovery, and online KTV grew rapidly. In 2018, the average number of using online K song software in a month in China reached 4.735 billion times, the mini-singing kiosk market size was 1.39 billion yuan with an annual increase of 15.1%, and the number of devices installed reached 70,000 with an annual increase of 25%.

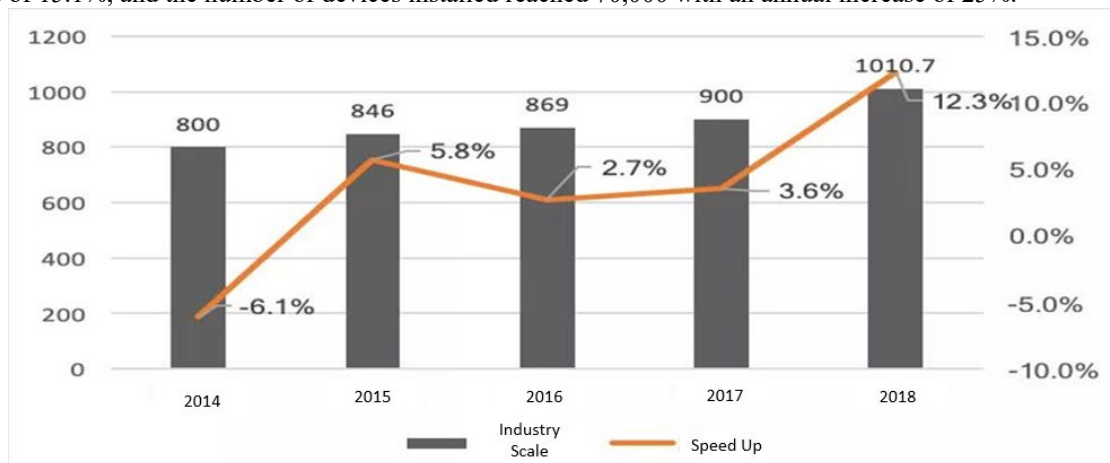


Fig. 6. Total revenue of the karaoke industry. Please change the Chinese into English.

4.6. Musical Instrument

Fig. 7 shows that the main business income of China's musical instrument industry reached 42.45 billion yuan with an annual increase of 4.40%. The growth rate of added value was 7.1%, and the profit margin was 6.89%, which was higher than the national average level of the light industry. The volume of export was 8.711 billion yuan with an annual increase of 23.9% with a total profit of 2.004 billion yuan showing an increase of 33.38% from that in the previous year.

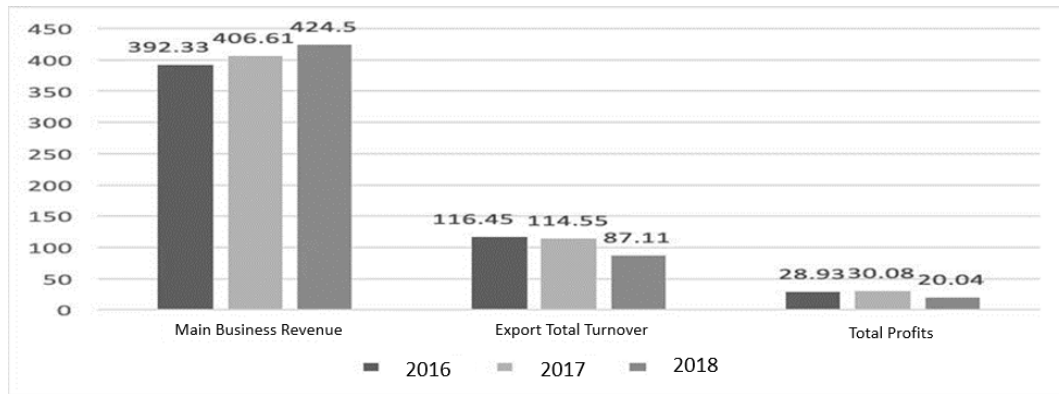


Fig. 7. Business income of China's musical instrument industry. Please change the Chinese into English.

5. Conclusions

With the transition from high-speed growth to medium-to-high-speed growth is the “new normal” of the macroeconomy, the development of the music industry has entered into structural adjustment with steady growth. The development of China's music industry has been achieved for the following reasons.

- (1) The “National Music Industry Excellent Project Award Program” to guide the healthy development of the music industry
- (2) The development of “Music Gathering” and relying on the “Belt and Road” strategy
- (3) The successful listing of Tencent Music Entertainment Group, which opened a new chapter in the investment and financing of the music industry
- (4) The “intelligent” technology that accelerates cross-border integration, transformation, and upgrading of the traditional music industry
- (5) Innovative business models to create high-quality content and build a sound ecosystem for the pan-entertainment music industry chain

Traditional music education continues to grow, and the output of world-class performers and musicians increases. However, pop music training and education have not shown a development trend. Over the years, many pop music talents in Taiwan have transferred to China for their debut. The development of behind-the-scenes talents in various fields such as concert stage art, lighting, and sound would have more opportunities to develop with advanced technologies. Recently, people's general concept of music has changed from performances on traditional stages in which the audience are passive recipients to “immersive appreciation” with various media and devices online. The development, evolution, and innovation of the music industry in China will face different changes according to the development of technologies and the changed concept of music.

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