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Combating digital piracy in China and its unintended side effects

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Research shows a reduction in online piracy in China's digital publishing sector boosted creative production but also reduced writers' efforts in engaging with readers

The protection of intellectual property rights (IPR) has long been a sticking point in China's dealings with the West. Despite making gradual strides in its regime in recent decades, the country remains plagued by concerns over copyright infringement in the physical as well as digital realms. Online, Chinese authorities continue to wage their battle against piracy, which is costing billions in lost revenues in everything from movies to TV shows, as well as music and books.

For the country's booming digital publishing industry, these efforts to combat online piracy are critical, as a recent research study shows that suppressing the threat of digital piracy can lead to an improved level of creative output by writers, although this did not come without unintended cost.

The new study, [Digital Piracy, Creative Productivity, and Customer Care Effort: Evidence from the Digital Publishing Industry](#), was co-conducted by **Liao Chenxi**, Assistant Professor of Marketing at The Chinese University of Hong Kong (CUHK) Business School, Prof. Li Xiaolin at the London School of Economics and Political Science and Prof. Xie Ying at the University of Texas at Dallas. The study is among the first to provide empirical evidence of how reduced intellectual property piracy can increase creative output.

To get an idea of the stakes involved in the digital publishing industry in China, consider that Tencent-backed China Literature, a major player in the online publishing industry in China, raised US\$1.1 billion in its 2017 record-setting IPO. The industry is estimated to have netted revenues of 20.6 billion Chinese yuan in 2020, with around 509 million readers nationwide. While the roots of the booming Chinese internet publishing sector, which sprouted in early 2000, mainly consisted of fantasy novels that often contains elements from ancient mythology and martial arts, it has grown into a mature ecosystem in diverse genres.

Like other countries, in China free cloud storage plays an important role in facilitating piracy of digital content. That is why the researchers choose to look at the termination of a free service by Chinese cloud storage provider V-Disk in 2016, which incidentally increased the cost of digital piracy and as a result led to a reduction in copyright piracy of the creative works of internet writers. Consequently, writers put in more effort in writing. However, not all writers put in as much extra effort after the free storage service was stopped.

MAKING MONEY WRITING DIGITAL BOOKS

In China as in any other part of the world, anyone can start writing and distributing their material on the internet, but not everybody can make money from writing. To start off, aspiring internet writers typically sign up for an account with a digital publishing platform to benefit off the latter's reach. Doing so allows writers to freely offer their material to the platform's readers, but at this point aspiring scribes are not permitted to monetise their writings.

It is only when their work gains a measure of popularity from readers would the digital publishing platform then offer the writer a contract deal. This allows them to sell their material to readers on the platform and earn a proportion of the revenue from sales of chapters in their books, as well as any appreciatory "tips" paid by readers on top of this. The actual profit split between the two parties usually varies from contract to contract.

Both types of writers usually post their novels in series and are encouraged by the publishing platforms to update their work almost every day to attract and retain readers. Writers who are not on contracts can publish on as many competing platforms as they desire, but are unable to make any money off their efforts. Contracted writers meanwhile may only publish on platforms that they signed with and only the first few chapters of their books can be read for free. Readers who want to continue reading the book would have to purchase the remaining chapters, with the price of each chapter usually determined by length.

Successful Chinese internet writers who garner a loyal following are typically able to reap strong financial rewards. For example, one of the most successful is Tang Jia San Shao, a contract writer for online publisher Qidian, who reportedly made 122 million yuan from royalties in 2017, according to a ranking released by mainland Chinese media. In addition to the royalties generated from publishing digital books, many writers are also asked to turn their books into TV shows, movies or even cartoon series, opening new avenues to monetise their creative output. For example, Tang's famous novel Douluo Continent was first adapted into a cartoon and then into a TV drama series recently.

BOOST IN CREATIVE OUTPUT

The researchers went through close to 1,000 books written by both types of writers and examined their output by their creative quantity and quality, as measured by the length of each book and reader feedback, respectively.

The results show that money-making writers improved their productivity in terms of quantity without sacrificing the quality of the work after V-Disk ended its service. On the other hand, writers who are writing for free did not show any significant improvement in their creative productivity. On the contrary, the quality of their creative work went down after the free storage service ended.

"It's quite clear that digital piracy poses an enormous threat for contracted writers because it affects how much money they bring home," Prof. Liao comments. "That's why we see increased effort in writing more and better books from contracted writers after V-Disk shut down."

Prof. Liao explains that as readers could no longer easily access pirated books from the V-Disk service, these readers returned to the original publishing platforms and purchased the digital books there. As a result, writers who made money were not only more properly compensated by sales revenue, they no longer had to compete with the pirated copies and therefore could direct their full attention on writing their best work possible to compete with other writers on the same publishing platform. This resulted in an improvement in the creative efforts of these writers.

However, this is not the case for writers that are displaying their books for free. According to Prof. Liao, since their books are free to readers on the publishing platforms anyway, the livelihoods of these writers were unlikely to be affected by digital piracy because they do not make any money from their digital works in the first place. Also, Prof. Liao speculates that the decrease in their creative quality could be a result of increased competition from profit-making writers who had more time and effort to devote to writing.

SIDE EFFECTS

However, the researchers found that while lower levels of digital piracy encouraged money-making writers to improve their creative output, it also led to a decline in their efforts to communicate with readers.

Readers can encourage writers who are signed by the publishing platforms through three channels: purchasing their book chapters, rewarding them with tips, or leaving comments. The study finds that both sales and tips would drive this type of writers to publish more work but they have no effect on motivating them to interact more with the readers, which typically involves replying to reader comments and acknowledging reader support. On the other hand, reader feedback led to both an increase in writer output and writer interactions with the readers.

The study notes that before the V-Disk termination event, profit-earning writers displayed more passion in engaging with their fans, perhaps in the hope of generating extra income through reader tips and to discourage their fans from reading pirated copies of their works.

"When the threat of 'losing to' pirated copies is gone, contracted writers became less motivated to interact with their readers and less bothered to elevate the reading experience of their fans. This could be bad news for publishing platforms because if reader experience falls, it's going to drive traffic elsewhere," Prof. Liao warns.

DESIGNING POLICY

Prof. Liao and her co-authors urge publishing platforms to be aware that when the threat of digital intellectual property piracy goes down, an improvement in the creative output of signed writers can come at the expense of reader experience. Therefore, platforms may consider

designing a compensation plan that provides incentives for writers to maintain lively interactions with their fans.

For policymakers in emerging markets that lack IPR protection, this study provides evidence for the benefits of having strong IPR protection. The researchers urge policymakers in these markets to use economic incentives (for example, to make piracy more costly) to strengthen IPR protection.

"Many emerging economies are in the process of moving away from 'imitation' to 'innovation'. Any kind of piracy would be a blow to innovation," Prof. Liao comments. "Intellectual property needs to be protected because the lack of it will kill creativity."

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