

Lunch with China's king of copyright

Charles Chen is the co-founder and chief administrative officer of Tencent, the Chinese company whose revenues in the global online industry are topped only by Google and Amazon. As he explains in this exclusive interview, Tencent's success is rooted firmly in respect for copyright

By **Victoria Wang**

One day, while I was walking home from a nearby park carrying my yoga mat in a giant, worn-out plastic bag, a group of half-drunk London youths shouted at me, "Do you have any DVDs to sell?", and then laughed their heads off. I could have shouted back, "Do you know what a patent is?" - the classic question that my mentor, Mr Ian Harvey, would usually ask people in order to save them from the perils of IP ignorance/arrogance. That would teach them. But they clearly were not in a reflective mood; next time, perhaps. Instead, I simply walked on by with my head held high.

As a Chinese IP professional in Europe, however, I was intrigued. I couldn't help thinking about it: yes, China has problems with copyrights, but surely China also uses intellectual property for business purposes? So you can understand why I could not turn down the opportunity to find out the answers to my questions - even though it meant a trip from London to Switzerland. Charles Chen was leading a delegation from the Shenzhen Copyright Society to the World Intellectual Property Organisation (WIPO) in Geneva. We agreed to have lunch together at Lake Geneva.

A billionaire at 40

Chen was born in 1971, but is already a billionaire. However, he is also highly intelligent and - guess what? - IP-savvy. He is a core founder and chief administrative officer of Tencent. If you have never heard of Tencent, or even QQ, don't worry. Just imagine you have an internet kingdom with 136.7 million subjects. Your kingdom provides "one-stop online lifestyle services" - meaning value-added internet, mobile and telecommunications services, online advertising and beyond. Alternatively, imagine a vast map encompassing Twitter, Skype, MSN, PayPal, eBay, Angry Birds and much more. In the global online industry, Tencent's revenues rank behind only those of Google and Amazon. You've got it: it is one of China's largest and most respected internet service portals. Its internet platform, QQ, uses only legitimate copyrighted content.

We hear a lot of success stories from China these days, but we rarely hear that a very wealthy man has set up a copyright society in China and is serving as its chairman. Could you imagine Bill Gates or Mark Zuckerberg doing something similar in the United States? But Chen did exactly this when, in 2006, he established the Shenzhen Copyright Society together with Shenzhen's leading companies in the media, culture and high-tech sectors, and was elected as its chairman.

Chen was never an IP professional. After graduating from Shenzhen University with a chemistry degree in 1993, he worked for the Entry-Exit Inspection and Quarantine Bureau in the southern city, which is on the Hong Kong border. He subsequently obtained a law degree from Nanjing University in 1996. Three years later, he founded Tencent. He may have learned

basic IP law in law school, but we all know that law schools do not teach us the business of intellectual property – and certainly not those in China in the 1990s.

Instead, Chen learned by doing. One of his first IP experiences involved the QQ domain name. It had previously been taken by somebody else, so Chen waited and waited until the opportunity arose to buy it. He was also involved in litigation with an instant messaging company in the early days. But one or two IP disputes do not in themselves turn you into an IP person; rather, you become an IP person only when your intellectual property is working for your own business.

China's capital of copyright

So could it be that copyright infringement is not only a way to benefit local GDP? Could it be that the business of Tencent itself actually benefits through protecting copyright in some way? In other words, why has Tencent committed itself to using only copyrighted content? I passed on my questions via email before our meeting. In reply, I received some statistics that surprised even me.

From 2009 to 2010, the combined turnover of copyright industries in Shenzhen increased from about Rmb145 billion to Rmb1.177 trillion. Revenues from core copyright industries increased from Rmb34 billion to Rmb41.5 billion, with a growth rate of 22%. WIPO categorises “core copyright industries” as including software, creative design, press and publication, broadcasting and television. Together, these account for 15.39% of Shenzhen's GDP.

The turnover of non-core copyright industries – which include internet, mobile telecommunications and printing – totalled about Rmb22.5 billion. It is estimated that by 2012, the turnover of the internet industry alone will top Rmb80 billion. In 2009, the value of online transactions hit Rmb210 billion. These figures are dazzling, but let's make things simpler. In Shenzhen city alone, there are about 1,000 design companies. Bear in mind that Shenzhen is not even the biggest city in China. Does this mean, then, that there is such a thing as a home-grown, copyright-driven industry in China? I was intrigued.

I met Chen at a seafood restaurant on the shores of Lake Geneva. Throughout our lunch he impressed me with his unpretentiousness and calmness – a kind which commanded respect.

Investing in growth

Before we had even sat down, I had fired off my first question: “I heard that Tencent is one of the Chinese internet companies that uses only copyrighted content. Why do you

do that?”

“We want to be a longstanding company,” answered Chen. “Copyright infringement could cause litigation and damage the company's image. But using only copyrighted content does not come easy. We set up a budget for it. And you need to be smart in negotiating commercial deals. Each deal is different. You have to work on it and find your way in.” With a gesture of his hand, he mimicked a fish weaving its way through water. That is not a straight line. I understand: things are not so straightforward as simply paying a licence fee in exchange for the right to use.

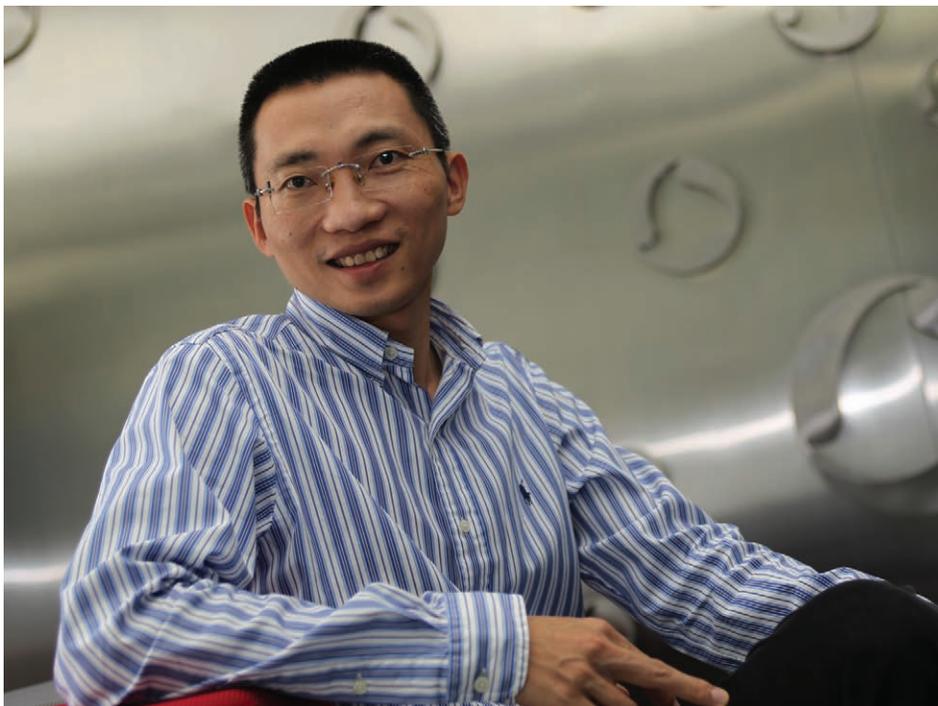
“Could you give me an example?” I asked.

“We invest in businesses that are complementary to our own,” Chen replied. “Perhaps we invest in a gaming company that is in the early stages of designing a promising new computer game. When the new game is launched, we can obtain an exclusive licence. Meanwhile, if the company does well, we also get a good return on our investment: one stone, two birds.” We sat down and ordered local fish from Lake Geneva.

Tencent's official website says that Chen oversees the company's administration, legal affairs, human resources and charity fund. He is also responsible for its management system, IP rights and government relations. I tried to imagine what goes through his mind daily. “Tencent is a huge company to manage and you have so many things to take care of. Strategies mostly, I guess?” I wondered aloud.

Management challenges

“We have a platform management structure, so I am not on my own,” Chen explained. “All founders of the company discuss and make decisions jointly. We now have more than a dozen people at top management level, but we still make decisions collectively. I am not in charge of business development strategies; my responsibility is for systems and support. Another member is responsible for strategies. Although all of us will discuss important matters together, each member is responsible for implementing the decisions within his realm of responsibility. But this is becoming difficult as the company expands. With the company growing bigger and bigger, you cannot have all members looking into all issues. So we are giving more discretion to each member. But still, we cannot leave them completely on their own, because this industry moves very fast. If any one member became isolated, he could easily lose sight of the most recent developments



Charles Chen, co-founder of Tencent and a billionaire at 40

“Domestic and international copyright systems need to address new phenomena in the online and software industries”

emerging outside his domain. That would be dangerous – his area could lag behind and even die. So you try to get each member integrated in the group. Yes, it is a constant battle of conflicts and you’ve got to try to balance it daily. But it is a good thing to have conflicts, as conflicts cause problems, which in turn bring opportunities.”

Our lunch was served. “The fish is beautiful”, Chen enthused, offering me a taste. I ate fast, as I had lots to ask. “After all these years, all your founders are still together and you have a more integrated management team. That is rare in the internet industry. How did you manage it?”

“We were classmates in middle school, and then attended the same university, so we know one another very well and are at ease with each other,” he explained. “We focus on making the cake bigger, rather than on fussing about who gets a bit more or a bit less. I remember that when we were preparing for the company’s public listing on the Hong Kong stock exchange, many people – including some professionals working on the listing – predicted that we would split as soon as the company had listed. Why would we do this? We could not understand it. They said that they had already seen it happen to so many other

companies. ‘Watch and see,’ they warned. But we are still together today. We never wanted to take the money and run. When we set up the company, we meant it to last. That is also why we have taken an open approach to structuring the company. Back in the early days, we decided that the company would not only belong to us founders – it would become a public company. So from the beginning, we ran the company in the way that one would run a public company. During the second year of its establishment, we won venture capital investment. And it was not difficult to get listed at all.”

“Because there was no need for major restructuring?” I suggested.

“Exactly,” Chen responded. “But we also had the problem of employees trying to leave. For example, competitors would try to poach our managers, offering them shares in their companies, which would soon be listed on the stock market. They were also offered higher positions, such as deputy chief executive. These offers could appear very tempting to the managers. So we had to keep a stiff upper lip when this happened.”

“So you just let them go?” I asked.

“No. We had our Plan A, B and C in terms of how to handle the situation.

“Using only copyrighted content does not come easy. We set up a budget for it. And you need to be smart in negotiating commercial deals. Each deal is different. You have to work on it and find your way in”

Sometimes you would set up a solid budget to keep them; but you would also talk to them and help them to see that the competitor's approach might not be sustainable. You helped them to understand what would happen to that company after one year. One year later, usually, the competitor had not done well. Some people understood and stayed; while others left. So you must spot successors. Every leader should have a successor in waiting. It might be a manager at a higher level or even someone at a lower level. You must also groom them and give them support. That is why we constantly recruit talent. Again, it is a conflict – there are always conflicts that need to be balanced. But we still need to enjoy food, drink and life.” Chen smiled and sipped some sparkling water.

Surviving, then thriving

“So many internet companies have gone bust over the years. How did you manage to survive and thrive?”

To my surprise, Chen responded: “It is luck. We were born in an era when the Chinese internet boom began.”

“But luck favours the prepared,” I interjected. “You must have done something right.” I thought he was being modest.

“If you tried to make a list of our problems, you would end up with something like this” – he unfurled a long imaginary scroll – “but you cannot afford to solve all the problems before moving on. In fact, one would get nowhere if he tried. You've got to solve the problems while moving forward. Sometimes, a problem today might no longer be a problem next year. Things are always changing.”

“So one must move forward and get problems solved along the way,” I said.

“That is the only way,” he agreed. “Also, one must not expect to achieve everything as

desired. You must see what the mainstream is – if the mainstream of what you do is good, it is worth doing.” Now, *that* is sound advice. Richard Branson has said something similar: if you always concentrate on your weaknesses, you will find that they are too numerous, so you might as well focus on your strengths. As a matter of fact, this wisdom speaks volumes about China's growth in recent years. The country has so many problems; yet the only way to solve them is by doing so along the way of progress.

Copyright policy

I then moved on to the subject of copyright: “I know you founded the Shenzhen Copyright Society and personally serve as its director. What kind of organisation is it?” Unlike in the West, where the private sector tends to drive IP policy and has a big say in policy making, China's IP policies are usually driven by the government, with the private sector usually following in the direction in which it points. I was thus curious about the precise role of Chen's society.

“It was set up by the leading companies in Shenzhen back in 2006,” Chen replied.

“Its founders come from two areas: the creative industries and the high-technology industry. We wanted it to promote copyright and serve as a driver for copyright-based industries. It is primarily a bridge of communication, helping the Shenzhen IP bureau to keep a finger on the pulse of business, so that public policy can respond to business realities in a timely way. It has advised the government on public policy regarding copyright protection. The society is also a forum for members to discuss copyright issues, including the new challenges of the digital era. You are welcome to visit and share experiences.”



The Tencent headquarters in the boom city of Shenzhen

Chen himself previously submitted a policy recommendation to the Shenzhen government, suggesting that it launch a review of the contribution of copyright industries to the Shenzhen economy and establish criteria to categorise Shenzhen's cultural and creative industries. His initiative was applauded by the private sector and well received by officials. Shenzhen is a special place: the current head of its IP bureau is a well-respected scholar who once taught in an elite university in Beijing. One of its former deputies is a successful entrepreneur, who introduced me to the audio version of the *Economist* years ago, saying that he himself always listened to it when he drove his car. It may not be as novel an idea as suggesting that a US or European IP commissioner watch every episode of *Happy Girl* – the Chinese equivalent of *Britain's Got Talent* (although that might help to bring the global IP system one step closer to harmonisation) – but it is pretty rare at local government level in China. That's Shenzhen for you.

I am thus not surprised that the Shenzhen government lends its ear to the private sector. Shenzhen is a migrant city, young and dynamic. It has the advantage of being the first Chinese city to experiment with a policy of reform and liberalisation, and has since developed a reputation for being tolerant and innovative, which has

attracted new talent from China and overseas. Being one of China's financial centres also helps. Shenzhen is home to ChiNext (a Chinese equivalent of Nasdaq), the Shenzhen Stock Exchange and the Culture Assets and Equity Exchange – a copyright exchange. This has further served to attract both talent and investment to Shenzhen, and help private companies in the copyright industries to raise capital. I was interested to learn Chen's thoughts on the magic of this city, and mentioned his impressive statistics about the copyright industries.

"Shenzhen is not the biggest city in China. How did it achieve these figures?"

"There are a few outstanding companies based there," Chen replied. "You have Huawei, ZTE, BYD [in which Warren Buffet invested], Xunlei, Tencent, HuaQiang and so on. They are industry leaders. The convergence of the creative industries and the high-tech industries has given a boost to each. Advanced information technologies have upgraded traditional sectors, such as newspaper, broadcasting and television. They have also provided technological support for design, new media, online gaming and other emerging copyright-driven sectors. Equally, high-technology industries have also been boosted by the cultural and creative industries. The digital display, digital publishing, low carbon printing, specialised filming and new

technology sectors have flourished as a result. For instance, the Shenzhen HuaQiang Culture and Technologies Group has experienced major success in adopting this business model, converging technologies and culture. Shenzhen is the first Chinese city where a single government department is in charge of all IP perspectives – copyright, trademark and patent, and competition matters. The cost of enforcing IP rights has also been falling. The public policy environment is business friendly. The government has issued a whole package of policies to strengthen copyright protection, in order to stimulate the copyright industry.”

“Where do you think the balance between copyright protection and consumers’ freedom in using digital content lies?” I then asked.

“The major issue of copyright does not lie between company and consumers in our business. We have long realised that squeezing consumers with copyright is not a feasible business model. Information technologies have been constantly evolving. We must let consumers enjoy the benefit from them first. We try to take a long-term view in profiting. Fee charges, such as membership fees, have taken on a wide variety of forms. The real issue of copyright lies among companies; the industry changes faster than legal systems – they should catch up. Domestic and international copyright systems need to address new phenomena in the online and software industries. Shenzhen is changing its copyright legislation, which might have a domino effect on national legislation.”

Moving abroad

“Recently,” I observed, “an English-speaking friend asked me why he had not seen me on Skype recently. I explained that I have been using QQ instead, because many friends in China use it. It is very quick to send large emails, such as photos, via QQ, and you can use your mobile phone to log on to your account. So he asked me whether there is an English version. Is there?”

“Yes, we already have an English version of QQ,” Chen replied.

“So how is business going internationally?” I asked.

“We have had some success in the United States, where we acquired Riot Games, a US gaming company,” he answered. “We have also had some success in Thailand, in terms of digital products, gaming and traditional Chinese language versions for local Chinese populations. In Russia, India and Vietnam, we have had



腾讯网
QQ.com



腾讯网
QQ.com



腾讯网
QQ.com

some interesting successes.”

I was curious. “Tell me more.”

“In Vietnam,” he explained, “we invested in a local company and literally helped it to become the number one internet company in the country. In Russia, however, simply having money is not enough to invest – it is very difficult. So we set up a joint venture with a local company. In this way, we opened up the market. India is different: we could not set up a joint venture on our own, so we teamed up with another investor to invest jointly in an Indian company.”

“So people can use QQ in these countries?”

“Yes. In India QQ is popular among young people. Many of them use it for dating. In India, parents still have a big say in marriage, so young people find their freedom by using QQ’s instant messaging service to communicate. That said, going global is still quite difficult for the Chinese copyright industry. Some companies trying to do so have experienced failures.”

“What do you find most challenging in

Action plan



There is a lot more to copyright in China than piracy:

- There is a fast-growing copyright industry in China. It has started to adopt the business model of converging the creative industry with the high-tech industry - think of the same approach employed by Apple and Steve Jobs, then magnify it.
- The going-global strategy of the Chinese copyright industry presents business opportunities for a variety of foreign organisations, which can either make up the missing links of the industry chain, or provide professional service and policy support.
- China and Chinese companies have a long list of problems, as do every other country and company. But these problems can be solved only while moving forward, something that all savvy entrepreneurs already understand.
- QQ is really smooth in sending big emails, including pictures. Try it.

going global?” I asked.

“The biggest challenge is to have an established business model in recipient countries,” Chen replied. “So far, the downstream copyright industry chain is still not quite there to make this happen. But in future, there will be a whole group of Chinese companies going overseas. Right now, the domestic market is quite prosperous. Once the leading companies are fully fledged, the domestic market will soon saturate and then the need will emerge for them to explore overseas market.”

“So what will be copyright’s role in this process?”

“Copyright works differently from other IP rights – say, patents. Patenting activities should start before a business enters an overseas market. But this is not the case when it comes to copyright. For creative industries, culture management comes first, then copyright.”

The future for China’s copyright industries

While finishing my salad, I asked him my final question: “What is the future of China’s copyright industry, do you think?”

“The convergence of high-technology and creativity will keep on driving the industry,” he predicted. “This will be the first trend to emerge. You will see many cultural and creative industries adopt a technology-

plus-creative business model. Internet, cloud computing and other services will become powerful drivers for China’s copyright industry. They will enable more people to create content, and consequently more content will become available. This is because the internet makes it easy for people to express themselves. People can use cheap, yet advanced digital tools to create and publish content. The internet is also changing production processes. For example, design tasks can be subcontracted more easily. For consumers, the increasingly mature e-commerce market enables more of them to read, subscribe and make payments easily – especially small sums. Finally, the exploitation and copyright trade of traditional Chinese culture will become increasingly globalised. This will increase demand for service infrastructure, including for domestic and foreign publishing organisations, museums, public libraries and international organisations such as WIPO and the World Trade Organisation. They can help to resolve rights disputes and remove market barriers. China’s economy is shifting from ‘Made in China’ to ‘Created in China’. That is the future. And that is why the Chinese government has been promoting the copyright-driven industries – these industries can help to change economic structures, introduce sustainable growth patterns and improve the quality of life of civil society. In future, China’s need for global copyright protection and trade will only increase. If possible, we would like to enhance communication and collaboration from the perspective of the private sector.”

I had been considering getting rid of the plastic bag which I use to carry my yoga mat, but after this lunch I have changed my mind. My friend is right: I could see this as a business opportunity. All I need to do is to set up an online shop via QQ and print an ad on the bag: “www.qq.com”. *iam*

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Over the coming year Dr Wang will be profiling other IP personalities in senior positions inside Chinese companies.