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**“Shanzhai“ as an innovation
in a competitive market environment**

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Abstract

The purpose of this paper is to put forward the hypothesis that the transformation of innovation from the imitation and integration of industry chain, in order to achieve the low-cost competitive strategy, which has been initiated by Chinese Shanzhai manufacturers. In addition, this thesis analyzes the innovation in the Shanzhai Culture. The question – “What is the innovation of Shanzhai?” is followed by the Shanzhai industry and Shanzhai culture sections. The findings offer an insight into the competitive strengths of Shanzhai manufacturers in market and some valuable observations of Shanzhai phenomenon.

Keywords: Shanzhai manufacturer, Shanzhai culture, imitation, Innovation.

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1. Introduction

The purpose of this paper is an analysis that a transformation from initial imitations of Shanzhai to innovation contributes to the achievement of a low-cost competitive strategy by Shanzhai industry, it also presents the development of Shanzhai culture in Chinese society.

What is “Shanzhai”? *“Shanzhai has had multiple meanings: escape from authority; rising against social injustice; developing a set of rules parallel to those of the government; or submitting to a government amnesty and returning to the established order.”* (Xi Wen, 2009, http://www.chinatoday.com.cn/ctenglish/se/txt/2009-03/12/content_184541.htm)

What is the Grassroots’ level? According the dictionary, *“Grassroots is the common people at a local level (as distinguished from the centers of political activity)”*. In community of China, Grassroots are the ordinary people in a community or the ordinary members of an organization, as opposed to the leadership, for example common consumers, rural people and netizen. Their personal power is weak, but the number is huge. Grassroots s level always refers to low-level community.

1.1 The early history of Shanzhai products

The initial product of Shanzhai is a DVD player in 1999. It was produced because some businesspersons wanted to dodge the government tax and also did not want to invest in advertisement and promotion. Shanzhai mobile began to be popular in Guangdong province.

In Guangdong in 1999, the VCD and DVD players were very popular. Some businessmen hired a small number of farmer workers and rented a small workshop to assemble copycatting DVD and VCD players. The shapes and functions of these kinds of Shanzhai DVD players were very similar to DVD players of well-known brands, and the brand names of the Shanzhai DVD also resembled those brands.

These kinds of copycatting DVD players were the sources of Shanzhai products. Meanwhile, another popular Shanzhai product was the MP3 player, because the technological requirement was low, while the demand for MP3 players was high. More than 300 Shanzhai brands of MP3 players appeared. Compared to Shanzhai mobile products, Shanzhai MP3 players entered markets much earlier, and vendors were selling Shanzhai MP3 players of famous brands in the same stores. (Xiao Ping, Nov-2008)

It was regretful that Shanzhai MP3 player did not enjoy as big share of the digital market as the Shanzhai mobile phone. There were many reasons: the prospects of MP3's development were uncertain, i.e. it was anticipated that it would be substituted by music mobile phones and other digital products. The development of the MP3 player was, in other words, not clear enough in the MP3 market. In turn, excessive expansion of the market caused significant damage, which reflected blindness and antinaturalism of the Shanzhai culture's initial development. The MP3 market capacity could not accommodate so many brands and ultimately collapsed. (Xiao Ping, Nov-2008) This situation was the converse of the mobile phone market. In any case, the technical barriers became lower and lower and the market demand was great, which was the main reason for the introduction of a large number of Shanzhai MP3 players and DVD to the digital market.

1.2 Success of Shanzhai mobile phone

The most famous Shanzhai product is the Shanzhai mobile phone. The first Shanzhai mobile phone appeared in 2004. They were fake goods, such as fake Nokia mobile and fake Samsung mobile. These kind of fake mobiles used very cheap chips, the quality and signal were bad, so they were not accepted by consumers.

Since 2006, the MTK mobile phone chip was developed by MediaTek. The "one-step program" was introduced, which integrated the mobile phone chip and the platform of the mobile phone software. This technology reduced the cost for the

terminal manufacturers and thus accelerated the product to the market. Due to more integration of multimedia features and lower prices, the MTK chip was utilized by mobile phone companies and mobile phone design companies in a wide range. In addition, the MTK chip was a developed product, so that mobile phone manufacturers were able to obtain the mobile phone platform as a semi-completed product. In this way, Shanzhai mobile phones could be produced very quickly. (Xiao Ping, Nov-2008)

Shanzhai mobile phones attracted many customers who focused on the cost performance of products. There are many advantages to Shanzhai products: no 17 percent added-value tax, no network license fee, no sales tax, and no 3-4 Euros checking fee to the government. Shanzhai running costs are further minimized by the absence of marketing and after-sales service. Thus, a lot of hot money poured into the mobile phone industry. (Zhong Liang, 2009, <http://wireless.people.com.cn/GB/145644/145645/8895943.html>) According to statistics from 2007, the production number of Shanzhai mobiles was around 150 million, almost matching the total mobile phone sales in the domestic market. Sales were not only high in the domestic mobile phone market; its export volume was considerable as well, including India, Brazil, Russia, and even the European market.

Ironically, some Chinese consumers are gradually moving away from the Shanzhai mobile phone, especially middle-class customers, while the export growth is booming. Because after-sales service is poor, consumer concepts have been changing. High-end customers used to steer clear of Shanzhai sets for other reasons, i.e. because they were unsure about their quality and worried by losing face if they went wrong.

1.3 Other Shanzhai products

After unqualified success, more and more Shanzhai manufacturers looked forward to markets of other digital products, especially the television market.

Since 2003, Shanzhai industries began to use “foreign garbage” chips to assemble LCD-TVs. Because the cost of manufacturing the LCD screens was expensive and the

technology of transformation was not mature, the quality of Shanzhai LCD-TVs was poor. With MediaTek entering the LCD-TV chip industry, the cost of a LCD-TV chip became only half the cost of other chip solutions for LCD-TV. MediaTek provided opportunities for the development of Shanzhai LCD-TVs. (Xiao Ping, Nov-2008)

Additionally, since 2007, the LCD screen producer Nanhai Chimei Optoelectronics Ltd. could produce 9 million or more LCD screen per year. Since there were not enough LCD-TV brand-manufacturers to buy these LCD screens, Shanzhai LCD-TV manufacturers became a very important platform to solve the problem of LCD screens inventories that, in turn, accelerated the development of Shanzhai LCD TV industry. (Xiao Ping, Nov-2008)

As the price of Shanzhai LCD TVs was low (a 26" LCD TV was sold for about 250 Euros, and a 32" LCD TV for 295 Euros). The market expansion was really fast, especially in the hotel industry, KTV-businesses and the outdoor TV media market, because these kinds of customers did not pay much attention to the quality of the display. Although Shanzhai LCD TV industry did not impact the mainstream market and mainstream brands yet, the famous brand TV manufacturers, such as Sony and Philips, already had an awareness of Shanzhai TV industry. (Xiao Ping, Nov-2008)

Since 2008, digital cameras became the target market of Shanzhai industry as well. In the streets of Guangzhou and Shenzhen, some digital product stores were selling Shanzhai cameras, and customers could buy Shanzhai digital cameras through the B2C website. Because of the lack of mature decoder chip- and zoom lens technologies, Shanzhai digital cameras used the solution of a web-camera. The overall performance was unsatisfactory.

The notebook market is another target market of Shanzhai product industries. According to media reports, some Shanzhai EeePCs (netbooks) appeared on the market, which were similar to the Asus EeePC computer. The price was very low, and they were also equipped with a 300MHz processor, 512MB memory, 7" LCD screen, and wireless internet access. The most Shanzhai EeePCs were assembled from second

hand notebooks, and thus customers held the quality unsatisfactory. Therefore, Shanzhai notebooks were unable to grasp attention in the market. (Xiao Ping, Nov-2008)

1.4 Shanzhai culture

Recently, Shanzhai products have expanded into different aspects of life. For instance, there are photos of dogs painted to look like the national mascot (“Shanzhai pandas”), and models of Beijing Olympic Games’ National Stadium made out of



Figure 1-1: Shanzhai Panda

sticks (“Shanzhai Bird’s Nest”) on Chinese websites, blogs, bulletin boards, and news.

“A property developer in Nanjing, hoping to lure business and buzz, set up storefront facades with logos such as “HAAGON-BOZS”, “Pizza Huh”, “Bucksstar Coffee”, “KFG” and “McDnoald’s.” Images of what became known as “Shanzhai Street” spread rapidly online.”

(Shanzhai Wenhua, 2009, <http://schott.blogs.nytimes.com/2009/02/04/shanzhai-wenhua/>

Shanzhai culture now suggests to the many a cleverness and ingenuity of Chinese people. “Shanzhai culture, then, can be seen as a celebration of the DIY spirit or as a parody of mainstream culture that can provide mundane life with entertainment.”



(Sky Canaves and Juliet Ye, 2009, Figure 1-2: Shanzhai Street

<http://online.wsj.com/article/SB123257138952903561.html>)

2. Literature Review and Theoretical Background

2.1 Integrating of the Industry architecture

The key characteristics of integral industry architecture are shared by different components. (Karl Ulrich, 1993) In order to achieve good performance in production, the industrial components should continuously be jointly modified. In the whole of the industry chain, one part of industry chain delivers one function, then mixing all functions of a range of components. (Karl Ulrich, 1993) Different manufacturers can produce differentiated products of similar functions through the assembly of the standardized of industrial parts. The high-level cooperation among companies in production enables each specialization of each company. Therefore, the changes of their products become more frequent and rapid. (Karl Ulrich, 1993) Companies can produce various products easily without the extra switching cost to the other components. The standardization of industrial components provides possible chances that manufacturers can explore the economies of scale. The integration of the industry chain also provides opportunities of cost savings, both for assemblers and suppliers within the industry chain. In terms of innovation, the integration of the industry chain and the development of current production are easier in this architecture. (FUJIMOTO Takahiro, 2002) When using the integrating method, the companies are more manageable in the complexity and uncertainty of the competitive environment of market. (FUJIMOTO Takahiro, 2002) On the one hand, the integration of the industry chain entails certain disadvantages, because a large number of competitors may lead to a price war, a copycat of goods and low entry barriers. (Karl Ulrich, 1993) On the other hand, when two companies cooperate with their contra relationship and specialize their business activities, their productivity is improved at the aggregate level. Innovation from integrating the industry chain is the key to achieve the low-cost strategies of Shanzhai manufacturers. (FUJIMOTO Takahiro, 2002) If raw industrial components come from suppliers then the good relationships between suppliers and manufacturers become very important. This is because the supplier must fully

understand the demander's innovation. (Karl Ulrih, 1993) The current relationship arrangement between the Shanzhai manufacturers and the components' suppliers is the challenge of the architectural transformation. Shanzhai manufacturers strive for a low-cost advantage, but also they should build their credit standing in long-term relationships with their suppliers to ensure the cost advantage in the very competitive market. (FUJIMOTO Takahiro, 2002)

2.2 Imitation in the competitive industry

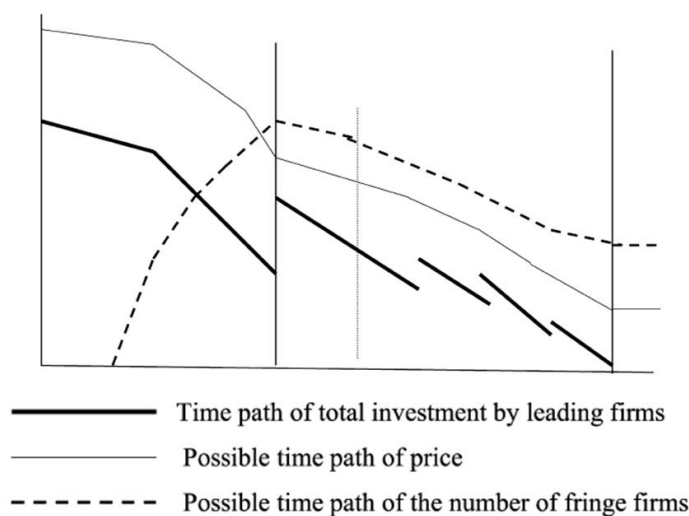


Figure 2-1: An example of industry life-cycle

Source: A theory of competitive industry dynamics with innovation and imitation, 2007

The literature introduced as the innovation model of an industry life cycle in the competitive market. (Serguey Braguinsky, Salavat Gabdrakhmanov, Atsushi Ohyama, 2007) In the early stages, the leader of the market makes an investment in the innovation. All firms, including potential market entrants, can benefit from this investment. In the period of free imitation, the innovating activity will sharply decline but the output will grow which is determined by capital growth. (Serguey Braguinsky, Salavat Gabdrakhmanov, Atsushi Ohyama, 2007) As the industry grows further, the price and profit will decline. This is a big problem for the industry in whole, especially for new entry companies. This situation leads to the reduction of investments of leading companies and a slow growth of all existing companies. (Serguey Braguinsky, Salavat Gabdrakhmanov, Atsushi Ohyama, 2007) However,

when more and more companies shut down their imitative activities, new opportunities emerged. Some companies pick up the innovative activities again. Most new entry companies entered the market without patents and intellectual property rights protection. This causes companies to be more competitive if they have further information on the market environment. (Serguey Braguinsky, Salavat Gabdrakhmanov, Atsushi Ohyama, 2007) Companies are looking for new technologies through imitation and refinement, evaluating and learning from the results of market sales. This will lead to new technology. Some companies can choose to invest in the information by gathering the technologies to achieve competition in the market. *“The imitation and learning perspective views this firm’s choice as routine-based, history-dependent and target-oriented”*(Paula Bastos, 2001) Imitation is not the only passive strategy, but also the companies’ assimilation of knowledge from other better companies. The companies can achieve their goals if they get enough experience through imitation. (Paula Bastos, 2001) Innovation is the most important function of organizations. Companies have often been known to find the best solutions through the absorption of information from other organizations and companies. Companies can build competitive strength in long periods by maintaining innovative activities. (Paula Bastos, 2001) The process of innovation depends on the capabilities of each company - a company draws knowledge from its use of technologies and imitation. Resulting in the development of their knowledge, finally gaining advantages in new technologies.(Paula Bastos, 2001) One successful example of innovation is the modifying of the organizations’ technologies from experiences, which companies get from organization learning in the market. We can measure the willingness of Shanzhai manufacturers toward innovations from imitation to search for improvements and changes in the current Shanzhai industry. (Paula Bastos, 2001) This is particularly important for the innovation of Shanzhai industry such as Shanzhai mobile phone manufacturers.

Hypothesis 1: Shanzhai industry learns innovation through integration of industrial chains, so the Shanzhai manufacturers perform better in the mobile phone market.

“Imitation-turned-versatile parts are being gathered and assembled by numerous companies and this is different from a full-fledged integrating architecture based on a carefully worked-out plan as seen in various digital products made by American companies”.(FUJIMOTO Takahiro, 2002) In the theoretical background, the innovation by integrating the industry chain provides a new approach in the analysis of organization strategies. The analysis of Shanzhai innovative architecture suggests that it is the most suitable approach in investigating this phenomenon in the Shanzhai industry.

Hypothesis 2: Shanzhai industry learns innovation through imitation, so Shanzhai manufacturers perform better in their low-cost competitive strategies.

According to the theoretical background, in early stages, imitation is indispensable just like lowering the technology barrier. Having gained necessary experience through the imitation of different technologies, Shanzhai manufacturers can develop their own competitive strengths. Along with the imitation, Shanzhai manufacturers can make their own modification and adaptation to various goods’ production. At later stages, Shanzhai manufacturers can compete with other big companies not only by means of low cost, but also because of their innovative modifications.

3. Methodology---Case study

3.1 The Industrial Chain Integration

Shanzhai’s innovative architecture is a new concept. The case of the Industry chain of Shanzhai industry is presented here to answer the key question raised. By studying the outcome of Shanzhai mobile phone industrial collaborations, we tested whether they are successful for product co-development. The best way to assess the effect is by their results.

Since the emergence of MediaTek, the Shanzhai mobile phone industry is growing rapidly, and MediaTek also gets considerable benefits from the fast-growing

Shanzhai mobile phone. MediaTek launched the “Turn-Key” mode in the mobile phone chip area, and created a business model. By 2004, before MediaTek launched the “Turn-Key” mode, it was mainly big international companies, such as Qualcomm, Infineon or some South Korean chip companies, that provided the hardware platform to the Chinese mobile phone industry. In order to complete the finished product of the whole process from chip platform to mobile phones, mobile phone companies could not choose to research their products, and had to outsource from other mobile phone design companies. It would increase cost, prolonged the product research cycle, and delay the reflection of manufacturers in the market’s continuous changes. MediaTek offered a “one-step program” solution that integrated hardware and software technology to multimedia application in a single chip. Almost 70%-80% of mobile phone R&D work was completed by acquiring the “one-step program” solution. (Lei Ni, 2009) In that way, mobile companies not only reduced research cost, but also significantly reduced the production cycle. This solution met the demands required by small local manufacturers in China.

Most Shanzhai mobile phone manufacturers are located in Shenzhen and innovation in terms of design is the most important advantage of the Shanzhai mobile phone. At least more than 1000 small private design companies are presently operating in Shenzhen. However, most of them are studying, researching, and copying design from big companies, the so-called “copy mode” companies. The biggest local mobile phone design company in Shenzhen is Ginwave Technologies. More than 280 people are working in its R&D team, and their entire services go to Shanzhai production. (山寨手机产业链分析 [*Analysis of shanzhai value chain*], 2009, http://marscui.blog.hexun.com/35586630_d.html)

Shanzhai production is flourishing in Shenzhen. This is due to the resource advantage in the Pearl River Delta area, such as the strong demands by downstream organizations, support by upstream organizations and service capabilities. Owing to their proximity and thus easier access to resources, Shanzhai mobile phone producers in Shenzhen have a unique geographical advantage for seeking customers,

components suppliers, and technical supporting. (Lei Ni, 2009)

After the design program is completed, mobile phone manufacturers start to produce Shanzhai mobile phones. The main profit model of Shanzhai mobile phone manufacturers is dumping sales. Profits of a single cell phone are low, but the overall profit is considerable on a large scale.

(山寨手机产业链分析 [*Analysis of shanzhai value chain*], 2009, http://marscui.blog.hexun.com/35586630_d.html)

The commercial channels of Shanzhai mobile phones are everywhere around the country with the distributors' own sales network of mobile phones, which even handles export to overseas countries, such as South America, the Middle East and Africa. The core competencies of distributors are the distribution network that they preside over as well as financing. (山寨手机产业链分析 [*Analysis of shanzhai value chain*], 2009, http://marscui.blog.hexun.com/35586630_d.html) Understanding the local law and policy is imperative when selling abroad. Some regional policies will affect the Shanzhai mobile phone sales, because a part of Shanzhai mobile phones is copycatting goods.

Finally, consumers get Shanzhai mobile phones from their sales dealer. The sales dealers can be as large as big digital product shopping malls, such as Gome, Suning and Dixon, and as small as tiny booths in the street. In big shopping malls, Shanzhai mobile phones will be wrapped up in beautiful packaging and be highly recommended by the salesperson. In contrast, tiny shops in the street sell naked Shanzhai mobile phones without packaging and instructions. (山寨手机产业链分析 [*Analysis of shanzhai value chain*], 2009, http://marscui.blog.hexun.com/35586630_d.html)

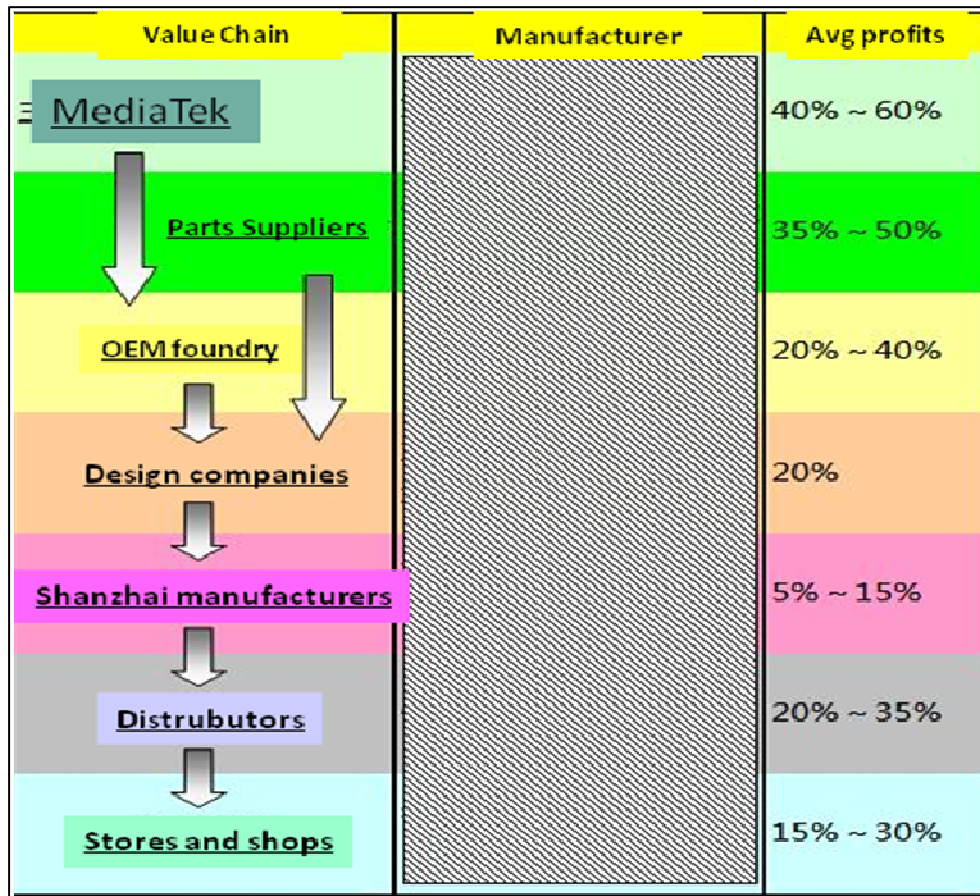


Figure 3-1: The industry Chain of Shanzhai industry

Source: Analysis of shanzhai value chain, 2009

A bunch of high-tech manufacturing parts and components were transferred to Shanzhai mobile phones through the software package. In the Industry chain, we can find that the chip designers and sales dealers enjoyed the highest profit. This is also driving the industry ahead of the source motivation. The development of Shanzhai mobile phones totally depend on the “turn-key solution” program of the chip design company. If a new chip platform is released, then Shanzhai mobile phones have to be upgraded. The camera pixels of mobile phone were from 300 thousand to 2 million and a handwritten screen was used, because the mobile phone chip was continuously being upgraded. This phenomenon also reflects the mass responses and different demands in Shanzhai industry. On the point of sales, the dealers eliminate some disadvantages of Shanzhai products by packing and promotion skills, whereby they attract consumers to purchase Shanzhai products. The big sales volume continues to stimulate investment and upgrading in the Shanzhai Industry chain. Shanzhai phones

manufacturers usually do not provide after-sales service, because there is no supporting technology; another reason is that some lawbreaking merchants only want to make quick money.

(山寨手机产业链分析 [*Analysis of shanzhai value chain*],2009, http://marscui.blog.hexun.com/35586630_d.html)

According to the above analysis of Shanzhai industry chain, we found that, the core innovation of Shanzhai industry is the new production division in the industry chain. The Shanzhai industry gets its competitive strength from the markets demands. Depending on the different market demands, time, or place, the new Shanzhai industry supplies the right products to meet the customer's demands. It is providing the new technologies to the grassroots consumers with low-cost. In addition, in the business aspect, the innovation of the Shanzhai industry chain is the new Operation Principle and practices especially for the small, local manufacturers because they can share the innovation cost with other manufacturers, although the disadvantages are obvious. If one Shanzhai brand were destroyed, manufacturers would create a new Shanzhai brand, and then enter the mobile phone market again. Thus, the purchase of a poor quality mobile phone can turn out to be very inconvenient.

3.2 The Innovation from the Imitation in Shanzhai Industry

Confronted with the challenges of multinational companies who provide the better products, Shanzhai manufacturers have to opt for a low-cost strategy. The low-cost competitive strategy should be implemented through mass production or copied components. The imitation of Shanzhai industry contributes to the development of Shanzhai industry's innovation.

From an institutional point of view, Chinese industrialization started in the early 1980s but accelerated during the 1990s. Due to lack a strong industrial base, path-dependency is much lower than that in developed countries. Chinese manufacturers are not locked into a particular product architecture or organizational

pattern. (Sheng Ya, Jiang Yao, 2010) In addition, because of the technological constraints, imitation of a small number of popular models produced by foreign competitors have become the most viable solution.

Initially, Shanzhai always refers to Chinese knockoff goods, brands piracy and fake goods, particularly electronics such as MP3, and the cell phone, but these kinds of goods are widely sought after around the country. By combining large-scale production, low-cost, vitality and efficiency, the Shanzhai model caters are rapidly changing consumer electronics and enabling small vendors to compete with big brands. After the development of Shanzhai mobile industry, although the price of Shanzhai mobile phones is low, they are not completely low-end goods. In the functional aspect, almost all of Shanzhai mobile phones contain a 2 million pixels camera and Bluetooth. Some Shanzhai factories launched a low price smart mobile phone, which contains Wi-Fi function, QVGA touch-screen and Windows Mobile operating system, but costs less than 172.3Euros (USD 150). (Zhao Yangyang, 2009, <http://www.shanzhaiji.cn/talk/20081202/6216.html>) Low-cost is not the only advantage of the Shanzhai mobile phone. Another major competitive advantage is its innovation factor. Since the majority of the owners of Shanzhai mobile phone manufacturers are veterans in mobile phone industry, most Shanzhai producers and designers have a solid professional background, having worked for licensed manufacturers, and thus they are very sensitive to changes and respond instantly to market demand by producing new cell phone models every one or two months. Even if the potential market is not large, Shanzhai mobile phone makers also provide relevant products as soon as possible.

Another good example is the Chinese Automobile industry. The world automobile industry is dominated by Japan, USA, and Europe. Geely overcame the barriers, then, become the number 32 carmaker in the world in 2006. Before, Geely was just a Shanzhai company led by a grass-roots entrepreneur. Initially, around 70% of components were purchased directly from other chinese car manufacturers. For example, purchasing the bumper from Citroen in Guangzhou and the head lights of

VW in Shanghai. Geely also bought the car engines from Toyota. During the late 1990s, Geely was developed into a multi-structured organization and put money in innovation research. Geely used their experience from the imitation to integrate its own design with Toyota engine technologies. In 2005 Geely could produce its own quality engines and established their own R&D institute. (Sheng Ya, Jiang Yao, 2010) Today Geely organization also includes decoration, trading, real estate, hotels, tourism and higher education. Finally yet importantly, Geely took over the famous Swedish carmaker – VOLVO, because they desired the advanced technologies from the developed country. According to the above analysis, the low prices of Shanzhai Industry are the key to a competitive strategy to get market shares, but it still requires the Shanzhai manufacturers to develop their products through imitation and transformation for further survive. However, Shanzhai products are not always legitimate. At present, some executives lost their professional ethics, and only want to gain maximum return with minimum investment. Shanzhai economy makes use of legal loopholes to imitate and steal scientific technology in order to achieve maximize profit.

3.3 Government Attitudes

In the opening ceremony of the CPPCC 2009 in Shenzhen, the Shenzhen government mentioned the very hot word “Shanzhai”. Shenzhen local government will support Shanzhai electronic products industry and help Shanzhai to get onto an independent innovation road. The “Shanzhai army” is expected to become a base of Chinese electronic information industry. The role of Shanzhai electronic products cannot be ignored in the process of Chinese electronic information industry. (Zhong Liang, 18th-Feb-2009, <http://wireless.people.com.cn/GB/145644/145645/8895943.html>) The government will guide Shanzhai products and support them to increase investment in the technical innovation. Through the international technical cooperation, the international cooperation, and the corporate acquisitions strategy, the government will support Shanzhai manufacturers to declare their own invention patents. The

government will also support Shanzhai manufacturers to develop their own brands, own technology, and finally increase domestic market shares in the electronic information market. The key for the government consists in how to guide them to build their own brands. For the struggle of these grassroots Shanzhai manufacturers, it is necessary to lay the ground to innovation. First, the government supported the technology of innovation for Shanzhai enterprises. Secondly, the government helps the Shanzhai industry to use its price advantage to support its own brands. Thirdly, the government helps shanzhai industry to make use of their cost effectiveness, speed technological upgrading advantages of Shanzhai products to compete with foreign brand, and then to occupy the domestic market.

4. Shanzhai Culture --- extension of Shanzhai innovation

Shanzhai phenomenon swept through the whole of China since 2008. Whether in the streets or on an internet platform, we can find traces of the Shanzhai phenomenon. Shanzhai culture is very popular and accepted by the public, especially the grassroots class. By searching the keyword “Shanzhai” in Google, more than 34,700,000 relevant articles will be shown in WebPages. “Shanzhai” used to describe copycatting cheap mobile phones. At present, “Shanzhai” has become one of the most popular words in China; Shanzhai TV play series, Shanzhai news, Shanzhai street, Shanzhai star and Shanzhai festival ceremony have emerged one after the other.

4.1 Theoretical Background of “Shanzhai culture”

“Shanzhai” was first used to indicate copycatting low-cost products without any independent innovation factors and a pure imitation of other brands with the aim of achieving its market goals. The Shanzhai phenomenon initially took hold in the Chinese low-end domestic mobile phone market, which were sought after by Chinese grassroots consumers. After “Shanzhai” became widely diffused around the internet, it came to be applied to many industries such as the electronics industry, entertainment and other social industries. People began to use “Shanzhai culture” to

represent Shanzhai phenomenon in all sectors of society. (Xiaofei Li, 2-2009)

We can classify Shanzhai culture into three categories:

(1) The first part is a material aspect, which is Shanzhai products, which include Shanzhai mobile phones, Shanzhai digital cameras, Shanzhai MP3, and other Shanzhai products. These kinds of Shanzhai, such as the Shanzhai mobile phone, imitate the appearance and functions of Nokia and Samsung. Some Shanzhai brands are even called Nokla or Samsing, imitating the original features. (Xiaofei Li, 2-2009) In this manner, Shanzhai mobile phone manufacturers copy the design of brand products, and thus save R&D cost. Thus, the price of Shanzhai mobile phone is only half or less of brands product. Even though the quality of Shanzhai mobile phone is poor, the low-end sector of society and grassroots consumers still opts for its purchase. It is through this that the Shanzhai industry is constantly growing.

(2) The second part is the spiritual aspect for understanding Shanzhai culture, as a kind of spiritual cultural phenomenon. Shanzhai culture reflects current public social psychology, aesthetic orientation, and emergence of a novel public value system. This spiritual aspect is the core of Shanzhai culture. (Xiaofei Li, 2-2009) Through the understanding of this part, we can appreciate what Shanzhai culture brings to us and how Shanzhai affects Chinese mainstream culture.

(3) The third part is the behavioral aspect, including specific Shanzhai acts, the copy style of Shanzhai culture from mainstream culture as well as evasion of relevant laws or regulations. (Xiaofei Li, 2-2009)

4.2 Causes of Shanzhai culture

People at the grassroots level within a modern society, where expanded economy allows greater freedom of speech, are more inclined to rebel against the privileged few. No longer willing to accede to the moral standards laid down by their social superiors, they refuse to be told how to behave, and demand their cultural say and the right to their own values and tastes. Shanzhai epitomizes this social trend. (FANG

Xudong, WANG Shengli,, 2009)

Any culture reflects, at some stage, the epitome of the contemporary society. As a cultural paradigm for fashion, Shanzhai culture definitely reflects current Chinese culture. After the reform and Open-Door-Policy in China, the communication technology is developing very fast in a globalized economy with a market economy background; the media market flourishes. Mass media knows how to please its audience and tends to choose a cultural style loved by the general public. Shanzhai culture is a part of public culture, it became prosperous because of the promotion of mass media. (FANG Xudong, WANG Shengli,, 2-2009) Why do popular arts become popular? The cause is mass media; also, popular arts have created the demand of mass media and promoted mass media's development and refinement. Mass media sends copied information to the public by mass production, thus the public enjoys the same product, same kind of thinking and same style of life. On the other hand, the public accepts the same information, watches the same show, and talks about the same topic, such as the Shanzhai phenomenon. Shanzhai culture also relies on imitation and copy. The core of Shanzhai culture is original simulation. (FANG Xudong, WANG Shengli,, 2009) For example, the Chinese TV drama "Ugly Wudi" totally imitates the US-drama "Ugly Betty" in terms of the background story, roles setting, and the characters. As the main communication vehicle of Shanzhai culture, mass media gives full play to its own replication features. Paper-based media, especially online media, reports uninterruptedly on the Shanzhai phenomenon, so that Shanzhai acts surround people's life and become the object of public discussion. The copying character of mass media and imitation character of Shanzhai are promoting Shanzhai phenomenon in tandem. (FANG Xudong, WANG Shengli,, 2009)

The internet technology has been developing for more than 10 years in China and become an important communications media. More and more people choose the internet platform to explore facts, participate in public affairs and express their cultural perspectives. The internet offers platform on which grassroots levels can express their points of view. Because of the development of network technology,

Shanzhai culture was immediately welcomed. When the public avail of the internet as a convenient and less expensive communication platform, the emergence of Shanzhai culture could have been seen as inevitable. (FANG Xudong, WANG Shengli., 2009) Over the past, mass media has been dominated by the mainstream. After commercialization, market-oriented policy began to dominate mass media. However, because of the internet emergence and Shanzhai culture, the grassroots -oriented culture finally had space to transmit its own views. This phenomenon was almost impossible in the past. In the virtual world of the internet, Shanzhai acts continue to appear. Meanwhile, the focus of online media has the effect that Shanzhai culture intensifies. When private behavior turns into group behavior, the focusing effect appears more clearly and its strength becomes more powerful as well. Because market-oriented approaches dominate mass media, the public culture becomes more commercial, and tends toward utilitarianism, consumerism and hedonism. As a result, supreme happiness becomes the principle of public culture. Shanzhai culture is simple, rough, and peripheral, but it can bring people happiness with a strong secular spirit; in this way the tendency of Shanzhai culture is to join forces with the secularization of Chinese culture. (Xiaofei Li., 2-2009)

In this information age, the fashion is often relying on the High-Tech products. The upgrading of E-Products has already become a part of the fashionable culture such as the mobile phone and the mp3 player. The emergence of Shanzhai culture appeared first time was in the Shanzhai mobile phone's industry. The development of High-Tech, the personalized design and the various function accelerated the upgrading of mobile phone, and then this trend became the way in which people pursuit their fashion. (FANG Xudong, WANG Shengli., 2009) However, not all people can afford this kind of fashion. Along with the development of the high-tech fashion, the costs of fashion become higher and higher, because of the technology monopoly. Thus, the copycat mobile phone industry was emerged to meet the people's demands of the material wealth worship.

4.3 Analysis of Shanzhai culture

We should use a dialectical perspective to analyze the social functions of Shanzhai culture from both positive and negative aspects. When we look at Shanzhai culture, we may notice that it promotes the social culture's development, but should not ignore that it also has negative effects on society by breeding tendencies such as vulgarness and piracy. Shanzhai culture as a specific cultural paradigm is bred from the soil, and thus an inevitable by-product of Chinese popular culture. (Xiaofei Li, 2-2009)

First, Shanzhai culture creators originate in the grassroots, which changes the situation that only the "elite" creates "culture. Shanzhai culture is popular among the public, because it provides entertainment and a venue for spontaneous participation. By participating in Shanzhai culture, people's enthusiasm is stimulated and cultural self-awareness is also increased. Secondly, because of its anti-authority, anti-monopoly, and anti-elitist characters, the public finds it easy to accept Shanzhai culture. (Lishuang Chen, 2009) For example, the Shanzhai mobile phone is a common competitive good that rebels against technological monopoly, brand monopoly, and market control in the globalized competitive market. Shanzhai culture opposes Chinese mainstream culture, because mainstream culture industry is lacking in creativity. Along with the emergence of Shanzhai culture, we notice that culture should be close to the common people, should respect grassroots cultural rights and absorb creativity from popular culture.

On the other hand, we also should pay attention to the negative effects of Shanzhai culture. Firstly, Shanzhai culture originates in a specific economic activity: small-capital manufacturers produce Shanzhai products. Secondly, most of Shanzhai culture is imitation from elite culture, it lacks its own independent innovation. (Lishuang Chen, 2009) Because Shanzhai culture is born with the grassroots, it is unrefined and lacks self-restraint. This applies especially to Shanzhai culture that integrates with internet, for it facilitates its tendency to become cheap and vulgar entertainment.

5. Shanzhai in the Intellectual Property Rights

The limitation of Shanzhai, which involves intellectual property issues of legal competition. The trademark infringement is a very big problem of international brands in China. If there were no patents or copyright protection among the competitors, the infringing acts would break the business ethics and rules of competition in market. The infringing acts of some Shanzhai products are very clear, for example making the market confusion, infringing the patents or copyrights. (Zhiwen Liang, 2009) Therefore, the next study of “How to protect intellectual property rights” is very important for the Shanzhai products. The good protection of Intellectual Property Rights can help Shanzhai achieve healthy development. Whether Shanzhai is protected by intellectual property or not is a hotly debated topic in a broad public discussion.

5.1 Review of Legal Regulation of Shanzhai

When facing the complicated Shanzhai phenomenon, it can be regulated within the legal framework of intellectual property. Currently, the existing intellectual property right system of China can adjust the Shanzhai phenomenon. It can judged in each case by the current regulation whether it is infringement or not.

With regard to Shanzhai products, the current regulation of intellectual property includes:

- (1) Shanzhai brand such as SONNY digital products, HIPHONE mobile phone, and NLKE shoes are mostly fake goods. These kinds of goods confuse consumers and disrupt the market order, and then they must be punished according to the Chinese Trademark Law and Anti-Unfair Competition Law. (Long Ying, 2009)
- (2) Some Shanzhai products imitate the appearance of brand products, especially some Shanzhai cheap electronic products such as mobile phones and MP3 that are not only similar in appearance of brand goods, but also have functions very similar to

brand goods. Fashion-oriented young consumers with low-income, such as students and young men in rural areas, like to buy these kinds of Shanzhai goods, but these kinds of Shanzhai products infringe upon protected patents and must be fined according to Intellectual Property Regulation. (Long Ying, 2009)

(3) Pirated software and music installed into Shanzhai products. There is no doubt that it is a case of copyright infringement when Shanzhai manufacturers install software and music into their products without authorization. (Long Ying, 2009)

The “Shanzhai Star” is a specific case. Generally, the “Shanzhai star” will not be sued as portrait infringement. It is very difficult to follow up the responsibility of businesses and imitators. If the Shanzhai star intended to confuse and mislead the public to achieve their own commercial purposes, then this behavior will constitute consumer fraud and unfair competition. In this regard, European legislation provides for “personal image rights” to protect the stars, their actions and signatures. Chinese legislation can refer to foreign-related legislation, and focus on improving the aspects of the right person and norms in the legal system. (Long Ying, 2009) The “Shanzhai culture” undoubtedly has populace characters with anti-authority, anti-monopoly and anti-elite. On the other hand, Shanzhai culture subverts the existing social order. Government and media should guide, standardize Shanzhai culture, carry forward the spirit of innovation, respect others’ intellectual property rights and establish an integrated social value system.

In addition, as for Shanzhai products, there is a considerable amount sold through the Internet, especially Shanzhai electronic products and Shanzhai clothing. The question though is whether Taobao, eBay and other C2C websites have the right to sell Shanzhai products and whether they have the dealership. There is no exact answer yet. (Jian Wang 2009) On March 10, 2009, the French cosmetics giant –L’Oreal sued eBay for selling counterfeit products. At the same time, L’Oreal has already prosecuted eBay in other five European countries. L’Oreal criticized eBay for not taking full measures in preventing counterfeit products from being sold on its website, but eBay argued that it didn’t need to bear the relevant responsibility for

selling counterfeit because its website just provided for its customers a trading platform to buy or sell their goods. In the end, L'Oreal lost this lawsuit case while other dealers and retailers won similar cases. (Jian Wang 2009)

5.2 The Protection Methods---Case study

5.2.1 The trademark rights protection on the Internet

It is a fact that some Shanzhai phenomenon infringes the trademark rights, but we cannot leap to the conclusion that it is essential to resist all the Shanzhai behaviors just because of the trademark protection. Shanzhai also has a positive side. By means of legislation on this issue, Shanzhai can be redirected into the right pathway. The rules and obligations of the competitive market will decide the fate of Shanzhai. (Yang Zhihuang, 2009) If the Shanzhai product doesn't fit in the current market environment, it will be faded out. If Shanzhai manufacturers' behaviors break current laws and market regulations, they should be prosecuted. Since there is no clear definition of "Shanzhai" yet, we should accept positive factors and restrict or prohibit its negative factors.

So far, there are no a specific laws or regulations for online trademark infringement in China. In fact, most cases of Internet trademark infringement are based on the traditional trademark law. Therefore, it is necessary to classify the behavior of internet trademark and put them into appropriate categories of laws. Because the Internet plays a leading role in the Shanzhai phenomenon, we also need to enhance online management to protect the trademark right while using the traditional legal governance.

For example, the Internets C2C websites such as eBay and Amazon should hold fault liability, but different cases need different analyses. In general, the monitoring obligations of the C2C websites include two aspects:

- (1) The prior review responsibility. The C2C websites initiatively examine the legality of existing Shanzhai information before the infringement selling. (Jian Wang, Yin

Nie, 2009)

- (2) The post-control responsibility. The C2C website should remove or delete the existing infringement Shanzhai information quickly to prevent the spread of illegal selling information. (Jian Wang, Yin Nie, 2009) In fact, the Internet selling agencies already have the capability of monitoring, so it is unfair to shift the responsibility onto websites.

Conversely, the trademark owners should strengthen the self-awareness of trademark protection. (Jian Wang, Yin Nie, 2009) For example, the usual reason that causes the trademark complication is that other organizations or people as the leader in the internet domain have regarded the organization's trademark. Thus, in order to prevent enterprise's own trademark or self-benefits, organizations or companies should register their trademark as soon as possible.

5.2.2 The Protection of Well-known Brands

In the market economy, many executives and companies want to get a “free ride” from brand products. They imitate the names and packaging of brand products, to attract more consumers to buy their products. These kinds of business behaviors must infringe upon the businesses' reputation, also threatening the interests of consumers. In addition, these behaviors will disturb the market order of fair competition and jeopardize the social interests. (Tao Liu, 2009) Therefore, in the legislation aspect, it is the general rules of market development that protect brand products. Meanwhile, through the legal protection of brand products, it can improve the brand awareness of consumers and create brand equity, thereby stimulating the economic development.

Thus, the legal protection of well-known brands reflects the constraints for the unfair competition behavior in the market. The basement of legal system is to protect the fair competition and to keep the market in order. (Tao Liu, 2009) Otherwise, if the business system violates the general rules of the market competition, it is impossible to promote the development of the market economy.

Whether Shanzhai is legal or not depends on its imitation behaviors. We should estimate this imitation behavior, whether it breaks the copyright, patent, trademark or other intellectual property rights. Moreover, we cannot say that these Shanzhai acts are legal, if the Shanzhai acts are not the infringement of a certain intellectual's property rights. The principle of Anti-piracy is an important limitation for the unfair competition in markets. The legitimacy of Shanzhai depends on imitation behaviors which is either legal or not. (Zhiwen Liang, 2009) If the legality problem of Shanzhai could be resolved reasonably under China's current legal system, the appropriate regulation would help Shanzhai to get rid of original imitation, finally to guide Shanzhai towards the real independent innovation direction.

6. Results

6.1 New Shanzhai Industry Chain

Shanzhai mobile phones first appeared in China in 2004. Thus, so far, it has enjoyed 5 years of development history. At the same time, MediaTek mobile phone manufacturers developed the baseband chip successfully and introduced it to the market. Meanwhile, 2004 was a very important watershed for the development of Chinese domestic mobile phones. (Zhao Yangyang, 2009) Along with the upgrading of mobile technology, that year saw a restructuring of famous brands and channels, and a new series of low-end products were launched to enter the market. The disadvantages of Chinese domestic brands were quickly exposed as lack of core technology; subsequently, the market share of domestic brands began to decline.

At this point, MediaTek launched a multimedia mobile phone – the iMobile. Meanwhile, MediaTek promoted the so-called “turn-key” mode, which bundled together a mobile phone chip, software platform and a third-party application, and provided mobile phone manufacturers with a “one-step program” solution. As a mobile phone chip supplier, MediaTek lacked support by the main Chinese domestic brands; at first, only a small number of Shanzhai mobile phone manufacturers

responded to its innovation. However, the result was unexpected; after a short period of 3 or 4 years, the Chinese Shanzhai mobile phone industry was developing rapidly. The current annual production of Shanzhai mobile phones is more than 150 million units, and the majority of sales occur in rural areas. (Zhao Yangyang, 2009) In addition, a large-scale unit of Shanzhai mobile phones began to export to foreign markets, such as Africa, Eastern Europe, and South America. The development trend was, in fact, better than with well-known brands.

At present, private investment in the Shanzhai mobile phone industry is common in Guangdong. The mature value chain of the Shanzhai mobile phones has been built completely. According to the Shenzhen Trade and Industry Bureau statistics, only in Shenzhen city, the total number of factories and stores exceed 10 thousand. New companies are continually being created and simultaneously old companies are continuously being closed down. About 20 million employees are working in the Shanzhai mobile phone industry. The annual output value of the Shanzhai mobile phone is at least 40 million Euros. (Zhao Yangyang, 2009)

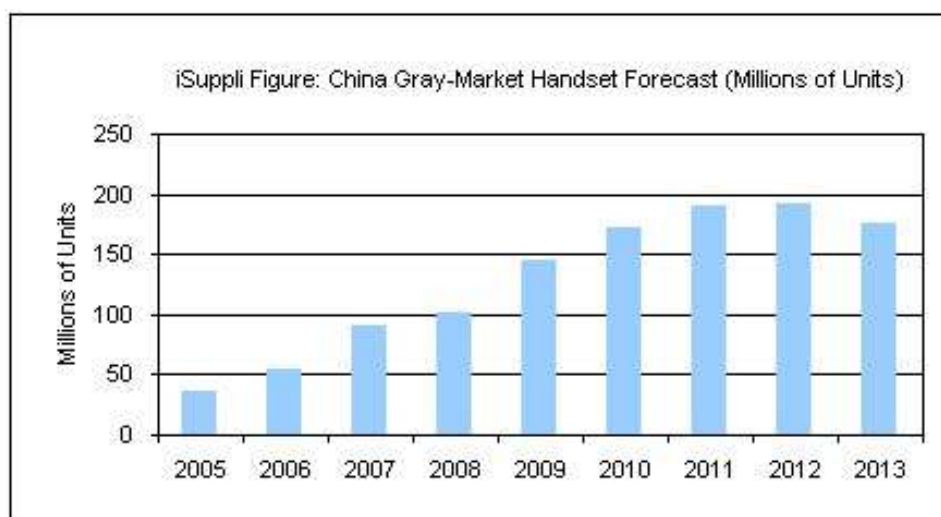


Figure 6-1: Forecast shipment volume of Shanzhai mobilephone

Source: Cell Phone Industry's Dirty Little Secret: China's 145 Million Unit Gray Market, 2009

According to the figure 6-1, we can estimate how big the size of the Shanzhai mobile phone market is, and see how fast it grows. The shipment of China's Shanzhai mobile phones was 145 million in 2009, which was about 43.6 percent more than that

in 2008. The Shanzhai mobile phones account for 12.9 percent in the global market shares, where there are 1.13 billion units of legitimate cell phones. The shipment of Shanzhai mobile phones will increase to 175 million in 2010, while the worldwide shipment of legal cell phones will decline by 8 percent. According to the data, the average annual growth rate is estimated to be 11.7 percent in the period from 2008 until 2013. That means the legal cell phone market will be only 4.4 percent at that time, and the peak of Shanzhai mobile phone shipment will appear in 2012, around 192 million units. (*Cell Phone Industry's Dirty Little Secret: China's 145 Million Unit Gray Market*, 2009, <http://www.isuppli.com>) Nowadays, in developed countries and developing countries, more and more international consumers begin to accept Chinese Shanzhai mobile phones.

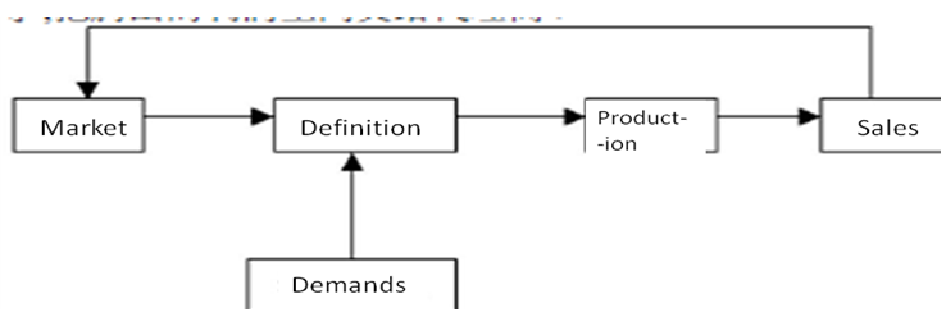


Figure 6-2: New industry innovation model of Shanzhai manufacturers

Source: Research on Shanzhai model and traditional enterprise model, 2009

According to Figure 6-2, once a new idea of the Shanzhai mobile phone industry is conceived that it can meet consumers demands directly, what should be done next will be quite simple. Since there are many ready-made programs already developed by Shanzhai products design companies, which can provide a variety of choices. That is why the next step seems like a piece of cake, as long as the plans are finalized. It is known from the example selected from a mature industrial chain in Guangdong that it takes no more than 1.5 or 2 months for the whole process from conceptual design to the final volume production. (Yixuan Ma, Xiaojing Shen, 2009) The rapid process of Shanzhai mobile phones' production is therefore a significant advantage for the manufacturers. In addition, by purchasing low-cost components and sharing the design cost with others, they are able to cut down the costs of production as well as other expenses. As the mobile phone market currently becomes increasingly

competitive and nearly saturated, so it is very easy to transform the low-cost advantage into a significant competitive advantage in the competitive market. Hence, Shanzhai mobile phone makers maintain a strong competitive strength enabling them to compete with branded mobile phones producers domestically or abroad.

6.2 Innovation from imitation

The innovation is come from imitation with regard to Shanzhai mobile phones includes two aspects worth considering more closely:

(1) The appearance of innovation: the appearance of innovation reflected imitation and adaptation from popular products of well-known brands. However, another appearance of innovation is the keen self-innovation by Shanzhai makers, such as watch-mobile phone, car-phones, binocular-phones, cigarette case-phones, and Olympic concept-phones. These kinds of innovation are very bold and entertaining; domestic brands and international brands are unable or unwilling to try out such features, but it potentially attracts customers.

(2) Functionality: in terms of functional innovation, Shanzhai mobile phone makers are doing their utmost. Shanzhai mobile phones have all the functions that brand mobile phones have. Some Shanzhai mobile phones are even equipped with functions that well-know brand mobile phones are not. For example, during the 2008 Beijing Olympic Games, Shanzhai manufacturers launched a broadcast TV functional mobile phone, such as the CMMB TV mobile phone. It was the most popular Shanzhai mobile phone in Shenzhen, Beijing and other big cities during the games. Through its bold innovation and flexible business model, Shanzhai mobile phones keep their “entertainment” factors in the competitive market.



Figure 6-3: New type of Shanzhai mobile phone

Relying on the transformation from imitation to innovation, Geely enjoys the fact that its production capacity was 204,000 vehicles and 204,300 passenger cars in 2006, and four new additional assembling plants are ready to open in 2010 or 2011. For Geely, the first focused on low-price competitive strategy, which was built with low-end segment of the market. Next, Geely started to expand its target market from low-end market to the middle-end market after gaining needed experiences of manufacturing. Its goal is that the total manufacturing capacity can reach 2 million in 2015.

According to the example of Geely organization, it is clearly shown that the core of the success for Shanzhai manufacturers is the pursuit for the innovation infinitely from its initial imitation. With the help of the formers' experiences, new Shanzhai manufacturers can develop most efficient productive models from imitation in short time. They can, in later stages, learn more advanced technology from better companies, and then transfer it. With accumulating innovation knowledge and experiences, Shanzhai manufacturers can start their investment in their own innovation research as well as the establishment of their own brand image.

Table 1 Ranking of automobile sales in China (2006).

Ranking	All types of vehicles			Passenger cars		
	By automobile group	Volume of sales	Market share (%)	By carmaker	Volume of sales	Market share (%)
1	SAIC	1,224,000	17.0	Shanghai GM ^a	356,400	9.3
2	FAW	1,165,700	16.2	FAW VW ^a	341,200	8.9
3	DFM	932,300	12.9	Shanghai VW ^a	340,600	8.9
4	Chang'an	708,700	9.8	Chery ^b	272,400	7.1
5	Beijing Auto	685,100	9.5	Beijing Hyundai ^a	261,800	6.8
6	Guangzhou Auto	352,300	4.9	Guangzhou Honda ^a	224,300	5.9
7	Chery	302,500	4.2	Faw Toyota ^a	210,400	5.5
8	Hafei	266,800	3.7	Geely ^b	204,300	5.3
9	Brilliance	210,200	2.9	DFM Citroën ^a	201,300	5.3
10	Geely	204,400	2.8	DFM Nissan ^a	198,900	5.2
	Sub total	6,052,000	83.9	Sub total	2,590,600	67.7
	Rest	1,164,000	16.1	Rest	1,238,285	32.3
	Total	7,216,000	100.0	Total	3,828,885	100.0

Source: China Automotive Industry Yearbook, 2007

SAIC Shanghai Automotive Industry Corporation and DFM Dongfeng Motors

^a Sino-foreign joint venture

^b Independent Chinese companies without foreign capital participation

Figure 6-4: Ranking of automobile sales in China (2006)

Every standard of industry is built on very powerful industrial foundations. The production strength of numerous Shanzhai manufacturers can help the government to implement national standards of Chinese manufacturer industry. On these bases, the legal Shanzhai manufacturers benefit the nation and the people, which lead to a healthy development of the Shanzhai industry.

6.3 Innovation in Shanzhai culture

After Shanzhai was discussed in the news of the Chinese National Channel CCTV, the “Shanzhai phenomenon” has become a native entertainment culture from being a simply economic activity. Shanzhai has already penetrated into the social culture and life aspects from an initially purely material aspect.

Through the above analysis of Shanzhai culture, we can see that the innovation of Shanzhai culture has its own rationality; it could not disappear in the short term. On the other hand, Shanzhai culture cannot possibly replace the high-tech or mainstream culture. Shanzhai products only influence some immature markets in China. Relevant

specifications should undoubtedly be issued to restrict intellectual property infringement by Shanzhai products. (Xiaofei Li, 2-2009) The innovation of Shanzhai culture is mostly imitation from elite culture. Following the development of Chinese economy, Chinese people will get more educated and the quality of life will improve. Consequently, people will give up low-end Shanzhai culture and pursue high-level mainstream culture. On the other hand, mass media retains its neutral attitude, guides public rationality, and exerts to its guidance the effects of mainstream culture.

7. Discussion

Although the core of Shanzhai is imitation, if we asserted that Shanzhai was merely piracy and infringement, the conclusion would be narrow and subjective.

Firstly, the growth process needs a development process through the imitation of the innovation. In terms of manufacturing, it is a good policy that manufacturers move to primitive accumulation by “imitation” at the early stage. For example, OEM (materials processing, sample processing, component assembly, compensation trade)

Secondly, “Shanzhai” is not actually “copy” in the sense that Shanzhai includes creative elements and innovation elements. A truly original innovation is important, but also very difficult and rare, but the ways of integrated innovation, introduction, assimilation, and re-innovation are much more realistic. The development of Shanzhai products is just from simple imitation, and then the manufacturers put their own wisdom elements into the innovation. Shanzhai concept also involves creative ideas in some aspects. For example, the MediaTek mobile phone manufacture led to the formation of the Shanzhai industrial chain in the mobile phone market. Therefore, these positive creative factors of Shanzhai should be affirmed by the community.

Thirdly, it can be said of Shanzhai to be creative among Chinese grassroots; it is a channel through which the grassroots can exert their imagination. In addition, it is a platform on which grassroots improved their own creation and vitality. In addition, the advantage of Shanzhai is its own way of using existing resources to make another

totally new product. (Long Ying, 2009) We should maintain the toughness and flexibility on Shanzhai. Shanzhai as a social phenomenon which is jeering current society; this is progressive representation for social development. Shanzhai is not only imitation, it has its own creation. Shanzhai phenomenon is a direct result, which was born from the open market and economic prosperity.

Shanzhai was named “Shanzhai”, indicating that it has been gradually organized and enlarged in an unauthorized fashion. Moreover, Shanzhai’s expansion indicates that technology is underdeveloped in Chinese industry, and that the intellectual property protection system should be improved in China. However, if Shanzhai products completely copy or imitate brand products, they undoubtedly infringe upon other brand trademarks, patent and related interests. Although some Shanzhai manufacturers do not use the others’ trademark, they may use others’ patent, and thereby violate others’ Intellectual Property Rights and the Intellectual Property laws cannot totally do away with illegal behavior in commercial transaction. Even though Shanzhai is a process from imitation to innovation, it is still contrary to property rights and the core values of brand products. The widespread diffusion of Shanzhai culture indicates that Chinese people lack awareness of intellectual property and relevant regulations are defective. Although some Shanzhai products express creativity and novelty, the essence of Shanzhai manufacturers are low-cost business operations and tax evasion, which damages the long-term development of the Shanzhai industry. Perhaps it can be said that creativity is the spirit of Shanzhai, but many Shanzhai manufacturers are only copying, imitating, and the quality of some Shanzhai products become poorer and poorer. (Long Ying, 2009) However, as Shanzhai imitates brand manufacturers, the cost is low and risk is minimized. Shanzhai products meet the demands of consumers, in particular the grassroots class, but it also works against the interests of intellectual property holders. If the economy were developing without the protection of intellectual property, the innovation abilities would be gradually lost; then, ultimately, the long-term interests would be damaged, whether for common consumers or country.

However, we have a neutral attitude to Shanzhai. We can focus more objectively on the Shanzhai innovation by treating it as a social-cultural phenomenon. As Shanzhai innovation, it exemplifies Chinese native culture in comparison with Western and foreign Culture. It is also grassroots culture, which is contrary to mainstream culture. In addition, in comparison to creative culture, Shanzhai culture is imitation culture. The Chinese government has not exerted pressure on Shanzhai products, because they differ from the fake goods of the past. Shanzhai phenomenon has positive aspects, but also has negative aspects. The bottom line of the Shanzhai culture is that Shanzhai in most cases does not infringe upon others' intellectual property. For example, the Shanzhai panda was simply grassroots self-entertainment reflecting social progress, which should not be restricted by the community. The rules in the competitive market should decide the fate of Shanzhai culture. If Shanzhai product does not fit in the current market environment, then it will be faded out. In addition, we can prosecute Shanzhai manufacturers if Shanzhai breaks current laws and market regulations. There is no clear definition of "Shanzhai", so we should accept positive factors and restrict or prohibit its negative factors.

8. Conclusion

This paper presents, according to cases study, that the innovation is one of the driving forces of Shanzhai manufacturer's competitive strategy, with the thorough examination of Shanzhai's development. The findings are analyzed with theoretical and empirical implications. In terms of theoretical view, the study is classified as three points such as Shanzhai manufacturers, culture, and legislation. In empirical terms, the paper describes how the innovation emerges in Shanzhai industry, as well as what Chinese culture reflects from and influences on Shanzhai. For one, the low-cost competitive strategy is successfully implemented in the manufacture of new products. For the other one, more and more people are getting used to Shanzhai culture at the same time.

The Shanzhai industrial development began with imitation, which can be traced

back to the examples in Korea and Japan. Toyota Kiichiro was typical one, who had invested \$130,000 in the automobile industry in 1930. For the lack of technology, Toyota did a deep research on American vehicle making process, and applied many car components of Ford and Chevrolet into assembling Japanese cars. (Sheng Ya, Jiang Yao, 2010) Samsung is another useful case. Samsung was a Korean vision of Shanzhai manufacturer in its early time, and its products were synonymous with low-price goods with low qualities. From 1993, Samsung decided to change its destiny by imitating Japanese and U.S companies, which made it succeed.

Therefore, in terms of manufacturing, it is a good policy for manufacturers to move forward from primitive accumulation in an early stage. As the matter of fact, in the low-end consumption market, the foreign products tend to be over-designed. Thus, a large number of domestic supplier and demands emerge which results in a heated competition on prices. It can push Shanzhai industry to develop. (Sheng Ya, Jiang Yao, 2010) Shanzhai manufacturing is not only an innovation of products, but also an innovation for industry chain and new business model. As for most of the Chinese small private companies, they feel it is difficult to survive in current social market economy. Therefore, Shanzhai manufacturers have to produce recreation products through imitation, and then undergo the rapid change from imitation to innovation.

Currently, the GINI coefficient is very high in China's society, with the real consumerism having been supported by a small number of high-income groups in China. Under this background, some luxurious goods are used to show off, while most common people cannot afford them. On the other hand, more and more ordinary people who want luxurious goods to prove their tasteful lifestyle and their own values. So they are dreaming to buy as many luxurious goods as they can. (Chen Xi, Huang Pin, 2000) That makes the emergence of Shanzhai inevitable.

Why do consumers like to or have to buy Shanzhai products? What is the real logic behind Shanzhai phenomenon? What can be reflected behind China's society and its culture? Perhaps the poverty gap holds the answer, the unequal distribution of wealth in Chinese society, or perhaps it is something that remains unexplored, uncertified and unproven.

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