China:

Game Sector
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Summary of general developments and opportunities for the Dutch gaming sector

In its 12th Five Year Plan, the Chinese government has elevated the creative industry to the key industry and its further development will be ensured of government support. However, the Five Year Plan doesn't stipulate a specific strategy for an important sector of the creative industry, namely the gaming industry.

The gaming market is divided in console gaming and online gaming. The latter one represents a relatively big market which is expanding at a fast rate, much faster than the console gaming market. Despite its fast rate of expansion it is a difficult market to operate in, as a foreign company, due to legal restrictions for foreign companies. Even foreign companies with established local rep offices, face various difficulties when it comes to acquiring the right license for expanding their activities.

The Chinese perception of foreign gaming companies is, that the USA is the main party in terms of cooperation and that France the main European party is.

1.1 Chinese government: investment and development plans

• The creative industry has the extra attention of the Central government. This is manifested in the 12th Five Year Plan by marking it as a key industry, thus receiving extra government stimulus.
• Local governments have transformed this central policy into local development, creating jobs by innovation and creative thinking with focus on domestic consumption.
• Defining the creative industry in government policy in China is different from the way it is defined in some other countries. Creative industry is an overall definition in Chinese policy and it also includes animation. Accordingly 'gaming business' is categorized as being a part of animation. There are no signs of differentiating the gaming sector as such.
• Many creative industry (software) parks are being developed in different areas throughout China (mostly around the big cities). In the south for example these kind of new parks (Dongguan, Zhuhai) have a hard time competing with big software parks in Shenzhen and Guangzhou with superior infrastructure; this, in spite of the local governmental support.

1.2 Chinese companies: local businesses and development plans

The China Gaming Industrial Association (CGIA), part of the China Software Industrial Association, is the main all-covering institution regarding the gaming industry on mainland China. The CGIA is responsible for the coordination and communication with the Chinese government. The CGIA has a number of regional branches and therefore it is a very useful organization in terms of regional fact-finding and information gathering.

China’s game companies are mostly geared to ‘online gaming’; online games like ‘mahjong’ are very popular and companies face fierce competition in this field.
1.3 Investment and development plans of companies that want to develop business in China

- The majority of the Chinese game market consists of so called free-to-play PC games with micro transactions. Currently there are only a few Dutch companies that specialize in this kind of games.
- The Dutch Game association (DGA) did an enquiry under its members with specific questions on internationalization; of all respondents 20% has indicated to be interested in China. A number of respondents has stated to be interested in China as an opportunity for outsourcing.
- The gaming industry offers many opportunities in terms of outsourcing of software produced for the local market.
- In light if the increasing use of 3G mobile technology, mobile gaming is a fast expanding market with a lot of opportunities for companies in R&D.
- The console gaming market in China will keep pace with the technological computer-development and is therefore an ever expanding market.
- However, profit margins are decreasing in the console gaming branch due to increasing competition. High specialization and well defined market-niche-focused business development are the only way to survive the aggressive market competition.
- Different levels of Dutch government have enhanced the idea of active support in tapping China market opportunities. The Province of Utrecht, one of the main concentration areas of the Dutch so called ‘serious gaming’ industry, has developed official ties with the Province of Guangdong. The gaming industry is one of four top policy priorities of the provincial government of Utrecht. The gaming industry in Guangdong Province has generated 10, 4 billion RMB in 2009. Recent figures are estimated to be even higher.

1.4 Chinese government: incentives and other measures

- The creative industry has been elevated to key industry in the 12th Five Year Plan, the key policy guide of the central government.
- The central government’s policy will manifest itself in a continuation of stimulating packages through local authorities.
- A specific game industry development strategy has not been stipulated in the central government policy and there are no signs of any change in the near future. This is because of the governments consideration that the game industry is only a small segment of the entire creative industry in China.
- There are limits to government incentives. For example, South-Korea invites Dutch companies to share expertise and build platforms for cooperation, eventhough South-Korea pays all travel costs for the Dutch participating companies. But so far such ‘generous’ government incentives are not heard of in China.

1.5 Image of the NL

- The image of the Netherlands as a country with a creative knowledge of designing games is still fairly unknown in China, especially in comparison with US etc. This offers further opportunities to brand the NL gaming sector in China.
•During the World Expo in Shanghai a gaming industry delegation of the Province of Utrecht presented itself at the Dutch Pavilion under the title ‘Meet the masters of Dutch Games’.

•In recent years, China has been taking over several big game companies in the USA and China is eager to enter the EU market. Chinese investors do not see, in terms of Dutch business development services, any added value, but the Chinese are conscious of their weakness in design and creativity and these are areas where the image of Dutch game designers can be of much value.

•Dutch gaming companies are good in so-called Serious Gaming (applied games); the Dutch Games Association has developed a special working group on this trend. For companies developing applied games, the situation in China is relatively good compared to the other branches.

1.6 Information about legislation

•The online gaming market is bigger than the console gaming market, however more restricted in terms of rules and regulations. Companies face many difficulties in acquiring the right documents and certificates required by creative sector legislation. In terms of administration, gaming falls under cultural industries. Cultural industries are heavily restricted / ‘protected’ from foreign influence. China hasn’t signed the WTO agreement on opening cultural industries.

•The Publication Administrative Regulations, which has been revised recently, constitute the main guidebook for the gaming industry in China. Every year there is a conference organized by the General Bureau of Press and Publication. This conference is the most important event in terms of opportunity for acquiring the right information about legislation concerning the animation/game industry.

•Business case: Blue Marlin, a small gaming start-up in Chengdu

*Based on interview with CEO Walter Tak*

Blue Marlin is a very ‘young’ company in China develops internet-based games for desktop (Flash), mobile (iPhone, Android) and tablets (iPad, Android). Their clients are in the US and Europe. Walter Tak took four years of gaming software development experience and 15 years of general Internet and IT development experience to Chengdu when he started to work there for another Dutch IT company in 2010. One year later, fascinated by the speed, the dynamics, IT developments and opportunities, he decided to start his own company ‘Blue Marlin’ in Chengdu. The first step for him was to formally set up the company. Blue Marlin is registered as a Wholly Foreign Owned Enterprise (WFOE), which is the most popular and common form nowadays for foreign investments in China. ¹ To be able to understand the local market conditions enough Walter cooperates with a Chinese business partner. His business partner was a former colleague who has a valuable local business network and understands how to get things

¹ The WFOE give a foreign investor 100% control of the company, which is the reason why it is mostly preferred by the investors. However, for some sectors the WFOE structure is not allow (like for example in telecom), in that case foreign investors are forces to work with a local Chinese partner and set up a Joint Venture.
Walter and his business partner did as much as possible themselves. It took them four months to get their business license. "With hindsight I would outsource more", Walter says. Walter set up a holding company based in Hong Kong. It was easy to deal with the HK laws (based on the British law), when compared by the Chinese laws. “Chinese law is hard to understand. Very often different interpretations are possible, which can make operating in China risky.”

The second step was recruiting employees. Blue Marlin uses the internet to find their candidates. There are many websites that you can use, such as www.zhaopin.com and www.51job.com. Chinese people expect the recruitment process to be fast and thorough as people find jobs within a week time. We have to invite at least 10 to 15 people for one vacancy to be able to hire one person. Although on paper all the candidates look qualified for the job in practice this in not the case. You definitely need to check their technical skills during the interview. The employee turnover rate is high, so you constantly have to be able to temporarily take over someone else’s job, if they leave unexpectedly. However, working with Chinese employees also has its advantages: (i) in general the people are highly educated, (ii) wages are much lower when compared to NL (normally about four times lower than in the Netherlands, about 50% lower for top-talents), and (iii) Chinese are more ambitious.

Blue Marlin’s two future goals are: (i) gradually grow the company to around 20-30 employees and (ii) start serving the Chinese domestic market. For the second goal Blue Marlin already needs to review the ‘business scope’ as registered by the Chinese authorities of the company, since WFOE’s do not automatically have the right to distribute their products in mainland China. It will probably be another difficult bureaucratic process before this will be possible.

1.7 Market trends and developments

The number of Chinese companies outsourcing the development of software for new markets is increasing at a relatively fast rate. There are opportunities in the field of shared R&D, especially for Japan, USA and Europe, as these countries are viewed as the main markets. As has been stipulated before, the increased use of 3G mobile technology makes mobile gaming an important new market sector with many opportunities for specialized R&D gaming companies. Due to the heavy competitiveness of companies operating in these markets, the profit margins are decreasing. Dutch companies will have to strategize market opportunities based on their own USP’s or other strategies (outsourcing).

1.8 Projects and tenders

In the EU and in the Netherlands there are game tenders given out on specific projects. For example, the EU project Enercities or the game tender in the Netherlands on safety for (SBIR) for first-aid services. However, when it comes to China, there seem to be no tender projects involving the Dutch gaming industry.
1.9 DESTEP factors (demographic, economic, social, technological, and political)

- The modernization of the Chinese economy causes young generations to travel more and spend more time behind computers and on cellphones. This creates huge market opportunities for game industries focused on cellphone games. The young urban generation’s online-identity is becoming an important feature of their lives; a situation that increasingly resembling that of South-Korea.
- When approaching the Chinese market one needs to keep an eye on cultural and social differences between China and NL. Many games have some form of ‘sexual content’; what is allowed in other countries, is in some cases, heavily censored in mainland China.
- Online gaming in China is sometimes unpredictable. In some cases, game-websites have suddenly been blocked.
- Cyber-piracy and IPR violation is a very common problem that foreign game developers deal with on a daily basis. The main form of discontent is caused by the fact, that some legal online gaming websites, use illegally acquired games and earn a major revenue from legally renting advertisement space on the same webpage.

1.10 Technology

- In NL hardware/consoles are being developed by TU’s and Art Academies, but these developments are mostly carried out on experimental basis. They are hardly fit for commercial use. The power of the Dutch gaming industry is the use of applying technological knowledge and creativity to (already existing) hardware.
- In NL the gaming world is a relatively small world where most industry players know each other, however on a global scale this network is not a big player and to overcome this hurdle there is still much to be done.

1.11 Regional input

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Beijing/Tianjin

NBSO Tianjin

Tianjin -The gaming industry in the region Tianjin has developed relatively early. However, in the nineties the industry could not keep up with the rapid development in Shenzhen, Chengdu and Shanghai. In 2010 Tianjin had about 200 animation/gaming companies employing more than 20.000 people. The local government seems determined to turn Tianjin into a new hub of animation/gaming industries.

Organisations & Special Parks:
- State-level Cartoon & Gaming Demonstration Park
  Established in July 2012, Tianjin Binhai New Area. The park covers 1 km² and currently this area counts for more than 40 animation/gaming companies, including Sanda Interactive Entertainment Co. Ltd, the biggest internet gaming provider in China.
- State-level Video & Internet Cartoon & Gaming Experimental Park & Institute

More than 40 companies are established in the park. The Tianjin government has a yearly fund of 50 million RMB available for the development of the animation/gaming industry in the park.

### Shanghai

**CG Shanghai**

Shanghai region

Shanghai has taken a leading position in China’s gaming industry (especially online game) for a long period. The China Digital Entertainment Expo & Conference (Chinajoy) which is the No.1 game expo in Asia, has been permanently located in Shanghai. In 2004, the Shanghai online gaming industry has reached the peak which accounted for more than 70% market share of whole China. Nowadays, the development of gaming industry in Shanghai has been slowing down. For instance, Shanghai accounted for a market share of less 50% in the online gaming industry in 2010. Cities like Beijing, Guangzhou and Shenzhen have already caught up.

Many leading gaming companies are located in Shanghai. International giants include Ubisoft, EA and Blizzard. Local market leaders include Shanda, The 9 and Giant (all NASDAQ listed). The output value was about 12 billion RMB in 2010. Most gaming companies choose to locate in Zhangjiang High Tech Park in Pudong District due to advantage of human resource and policy support.

In order to promote the development of animation and game industry in Shanghai, Shanghai Media Television Council formulated incentives in 2010 to support the development of the Shanghai animation and game industry. Under this approach, SMG Television Bureau of Shanghai set up a special annual award fund in order to support the animation game, the excellent animation and game companies.

### Chengdu Region

**NBSO Wuhan**

Chengdu region

Gaming is strongly developed in Chengdu. Most of the activities take place in the High-tech zone. Chengdu now has 30,000 people working in the digital media technology industry, mainly in digital gaming. The city is part of a major national strategic plan to inject vitality into the animation and gaming sector. In light of this, the city strives to realize, by 2012, 10 billion RMB in value output of the digital gaming and animation sector, based on a composite annual growth rate of over 30% and employing 50,000 people in the industry.

Digital gaming & animation sector

Being the national base of the digital media technology industry Chengdu, now has 30,000 people working in the sector, mainly in digital gaming. And, in line with its significant scale and constantly expanding business and products clusters, the city is now part of a major national...
strategic plan to strongly support the animation and gaming sector, digital media technology industrialization, and the development of Internet gaming. In light of this, the city strives to realize 10 billion RMB in value output of the digital gaming and animation sector by 2012, based on a composite annual growth rate of over 30%; bring in or cultivate 15 enterprises with annual production value exceeding 100 million RMB individually; and aims to have one company with production value of over 1 billion RMB; and employ 50,000 people in the industry, thus creating an original gaming and animation base, outsourcing service center, core technology platform and an operation service hub.

Key development trends and investment promotion focus in the digital gaming and animation sector of Chengdu: attract multinational and industry-leading companies by concentrating on development of internet gaming, video gaming and mobile phone gaming. Source: 2010 Chengdu Investment Guide.

In the ‘traditional’ gaming sector, the US, Korea and Japan are the top-3 players. However in the new area of mobile games, everybody is a newcomer where every country has the chance to become an important player. China (Chengdu) would like to become one of these main players.

In 2010, "Chengdu East Village" (the comprehensive functional zone for the cultural and creative industry in the Eastern New City), covering an area of 41 square km was built. In this area, apart from several companies, there are 3 universities that offer studies related to the gaming sector.

In Chengdu East Village there are a lot of opportunities for foreign/Dutch companies. Main focus is to attract international companies to set up a so-called game park in the village. The main benefit they receive is land at low cost. Apart from that, the main benefits are
- low cost talent (40% cheaper when compared to SH)
- huge HR-pool close-by (due to proximity of several universities).

Small companies will be introduced to the county level. They can receive office rental subsidies and tax benefits. The Dutch government is cordially invited to set up a Dutch Game Park in the village.
## References

### Main companies South-China

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<tr>
<th>Company Name</th>
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### Organizations South-China

**Guangzhou Animation and Cartoon Association (Guangzhou)**

http://www.gaca.cc/
2 Dutch Government Economic Network
The Dutch Government Economic Network consists of the Economic Department of the Embassy, Consulates and the Netherlands Business Support Offices. The network supports Dutch companies and other organizations to find their way to do good business in the Chinese market or help with the preparation for a market entry. All the services are provided uniquely to Dutch organizations/companies, free of charge.

The Dutch Government Economic Network provides the following services to Dutch companies:
- Provide industry and market information (from small request to larger individual Market Scans)
- Support in the match making of trade missions
- Provide connections with the right partners in China to do business
- Support in connecting with local authorities
- Identification of market opportunities
- Trade promotion

For more information on the services and the activities of the Dutch Government Economic Network: http://business.hollandinchina.org

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