The Research on the Plight of Chinese Mobile Game Development and the Development Direction in Future

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Abstract. As the rapid development of internet and mobile internet in China. Chinese game industry also once entered the rapid growth period. Meanwhile, the revenue of mobile game market is account for over 70% of all Chinese game industry, mobile game is the main part that various Chinese game companies are emphasis on. But growth rate of Chinese game industry has declined sharply after 2018, Chinese game firms' development is in the grip. Under this background, this paper aims to discuss the two main questions: (1) The current situation of Chinese mobile game market and enterprises. (2) Under this situation, explore the direction of development and make suggestions for Chinese mobile game companies. According to interview the two insiders of mobile game, combine with secondary data analyses. The disagreement of digital game from social mainstream view; the strict examining program from cultural product supervision department; the top companies control the most part of business resource in game market. The three points are the main reasons that why Chinese game market entered a depressed age. For the developing direction and suggestions: Beside the top and large companies, Chinese game companies should expand their product lines, try to launch multi-platform games; companies also can attempt to add Chinese culture related elements to games, it is helpful to pass the strict examining program; companies also can sell their games on oversea internet game shop (e.g., Steam, Epic) to skip the examining.

Keywords: Chinese Mobile Game · Game Industry · Culture Industry

1 Introduction

Based on the conclusions and data from the China Gaming Industry Report 2021 (launched by China Audio-video and Digital Publishing Association), Chinese game firms' revenue in domestic market was 255.82 billion US dollars during 2021, only 6.51% annual increase. Meanwhile, the domestic game users in China grew at only 0.22% of annual rate, which means the domestic game market tends to saturate [1].

In China, all the digital games need to be examined by the State Administration of Publication of the PRC to achieve publication number, then the game could be allowed to launch and online. According to the news report by South Daily in China, at the begging

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of the 2018, the administration paused the examining of game until December 2018. It means the plan of game firms to push out and operate new games had been hampered by stop lunching of publication number. In 2017, the number of games lunched and operated officially in China reached 9368. But there were only about 900 publication numbers has been lunched during 2019 to 2020 [2]. There has been a big reduction in the scale of the game quantity in recent years. Furthermore, censorship rules in China are not perfect, compare with the game ratings in other developed countries, the Entertainment Software Rating Board (ESRB) in US, the Computer Entertainment Rating Organization (CERO) in Japan [3], China does not own the specific and expressly stated ordinances about cultural products like films and games. It leads the process of examining are not transparent and clear, and the game firms need to face more risk and hazard about examining. The judgment criteria are more based on the subjective opinion of censors. Namely, game makers do not have a reference benchmarking to control the yardstick of their works. And it will lead the repeat and necessary modification work to enterprises and lost valuable time on selling.

The society existing a kind of calls that China should set game and film age rating system to relax the examining standard for adult and avoid the one-size-fits-all approach. According to People Daily Online, China Audio-video and Digital Publishing Association (CADPA) released the group standard of Net Game Age Hint in December 2020. There are three different age groups, above 8, above 12 and above 16. The report pointed out that the age hint is different from the age rating system in oversea, it does not mean Chinses government will not relax the examining standard. And it does not run counter to the goal of the practitioners and gamers [4].

2 Literature Review

In China, the overly strict examining to game products which influence the developing and profit of game firms. When negative regulations or policies about digital game industry are published, the stock price will decrease in the early window; even though the polices are positive for game firms, it also will impact the stock price of game enterprises with negative returns. And the possible reason and explanation could be the investors are show their concern of the uncertainty about the further policies, and this situation could be the possible reason for investors pause or limit their investment [5].

About the starting and developing of the digital game industry in China. Scholars gave the research details about the catch-up of Chinese game industry. Due to the strict game import policy in late 1990s, the foreign games could not direct publish in China. Chinese game firms could have the chance to copy the successful and famous foreign games and expanding domestic market in that period which less copyright awareness. After firms had developed and reached a certain scale, the firms used capital to do the M&A (purchased small-scale game firms or studios) to build experience and lure talents. At present, the imitation games had converted to research and design for Chinese firms [6].

If China is determined to become the development powerhouse of digital games in the world, the top priority is emphasizing the education with multiple methods. After comparative analyzing the game development powers – South Korea, establishing game design or digital arts department at university and training advanced digital developers which is necessary for China [7].

Comparing with other game platform (PC, Console etc.), mobile game (IOS, Android) has its own advantages. The smart device popular rate become higher and higher. The smart phone in current society retains amount is very large, and phyletic and various. It means the numbers of potential consumers which are considerable. The main operating systems are IOS and Android, which means the unique of platform could reduce the development difficulty of developers. Due to the mobile feature of smart phone, compare with PC or Video games, the user has more time to get in touch with devices. Apple and Alphabet Inc. Also provide development kits to help their developing games, and subsequent supporting service also can help game firms to reduce the operating cost. For example, the applications shops (AppStore or Google Play) and online payment system (Apple pay or Google pay) are solving the problems of lunching, download and fee charging for game firms [8].

Digital games, as a category of art. Chinese government still see it as a way to show the soft power of China. According to the Chenrui Liu, Hongshu Zhang, Chinese government has set preferential policy for Chinese culture products. Digital games have been seemed like the good carrier to express Chinese culture and stories. Under the support of government, many Chinses games have tried to incorporate Chinese elements for passing the examining of government easily [9].

The specific approach that mixing Chinese elements in the games, According to C Cui, Y Zhao, L Wang which has done the case research about the design of Chinese culture in domestic games. For the sample game, Hangshiji, which is a game of simulation of operation. The main theme is operating local restaurant in Chinese city - Hangzhou. To express the culture of Hangzhou. The character design is based on the local mythological figure; and the food in game is related to the Hangzhou dishes. All of these are shown as the comic style, which is easier to accept by the public, thereby achieving the goal of disseminate Chinese culture [10].

As popularization of smart phone, the issue of mobile games started coming into the sight of public. Various of research are emphases on the influences from games on children's education and society. There are fewer scholars to look at the issue from the anger of finance, economy, and industry. Nowadays, we can see a rapid development of Chinese game industry. For mobile games, the feature of easy developing is a chance for Chinese game enterprises to catch up the powers in the world. Therefore, game enterprises need the commercial related advises to support company running healthy and exploring market to realize the virtuous cycle. Analyzing the current plight of Chinese game industry, finding the reason and the solution for game enterprises to way out of the non-satisfied financial situation.

Chinese digital game market is already red sea market, beside the top game enterprises (Tencent, NetEase etc.), Chinese game market exist a big number of small and medium-sized enterprises. From 2015 to 2020H1, there are 83 new listed mobile companies listed in different stock exchanges. The pressure of Chinese mobile game can be inferred from this.

Expect the intertype competition, the strict censorship for digital game in China also is a big difficulty for Chinese game companies. Chinese game companies' stock price will be influenced when introducing new negative policies or reports. Meanwhile, game enterprises also face the issue that they cannot pushout their game products due to less the license key.

This paper is divided into two parts. The first part is emphasis on the plight of Chinese game firms. Analyse of the difficulties that Chinese mobile game firms met in different aspects. It includes the social environment and market environment. In the second part, the ways for Chinese mobile companies to get away from the plight and break the ice are discussed. Finally, the conclusion about this research is made.

3 Methodology

For methodology, this paper use literature research method (secondary data collecting), and interview to the industry insiders. According to collect related market analyze report, financial report from listed game firms, media reports, media interview and other academic related references, to know a general environment and situation about Chinese mobile games industry. Collect the annual financial reports in recent years, the range of reports are cover representative sample of companies. The range include the top companies (Tencent, NetEase), and the middle size companies (XD Inc, Yongshi). Annual reports can reflect the financial and operating situation about companies, the data can corroborate the degree of influence when companies meet the difficulties. But this method still exist flaw. In China, there are still a lot of game companies are not listed on market, many of which have lunched the topical game products (e.g., Genshin, lunched by Mihoyo; Arknights, lunched by HYPERGRYPH). To make up for the deficiency of data from annual report, collect the industry reports also is necessary. For the data source selecting of industry reports, it divided into two parts. For the first part, the reports are come from the government. At the end of each year, China Audio-video and Digital Publishing Association (CADPA) will lunch the Annual Chinese game industry report. It includes the aspect of types of games, financial situation, variation tendency etc. As supplementary, the industry reports from consulting companies also are collected. The consulting companies include iResearch Inc., Gamma research, Newzoo etc. At last, the reports about the important events (related to game industry), interview record, industry analyse from media also are collected to do future analyse. These evaluations from other media are used for secondary reference.

According to interview for game industry insider, supplement the information and opinion that missing in existing reference. Meanwhile, ask for the advises about the exploring direction of game industry, and compare the result with existing reports and references. Add the reliability and authenticity of the result and conclusion. The main objects of this interview which includes two employees of C company. C company is a new Chinese original game company. Their products involve platform of smartphone, PC, and game console. Their main and top product is an education simulation game on smartphone. The background of game is the Ming Dynasty in China. C company also involved the oversea business. Two interviewees are engaged with game operating, exploring, and public relationships for several years. Both of them express that C company also meet the difficulties in current, and company has planned to take a series of actions to out of stuck. Therefore, the answer from interview objects is high reference value.

For the data processing, according to collect the financial annual report, extract the important data changing from the report, when the negative events happened (e.g., introducing the new policy which is negative to game industry). Due to less financial data of the unlisted companies. The extracted data is just an auxiliary evidential material to argument results. For references and interview record, the text data divided into two basic aspect, environment level and market level. Then, encode the high frequency appear concept and words for lectures and interview records. Extract the general concept about the situation of current game industry.

4 Results and Discussion

According to collect financial annual reports and other secondary references, try to analyse the financial situation about 68 listed Chinese game companies. Until now, some listed companies still not reveal their 2021 annual report, and it led the data missing about a few companies. Therefore, the data in 2020 annual reports is used to ensure the universality of result and conclusion. Meanwhile, the financial information about unlisted companies which is unavailable, the result only can reflect the situation about listed companies, it cannot reflect the whole game industry in China.

Top companies have remained strong. For the 68 listed companies, 48 companies achieved profitability, 20 companies suffered losses. Tencent and NetEase, as the top two companies, which accounted for 55% of market share. There were 7 companies which accounted for over 1% market share, they accounted for about 68% of market share. For the 7 companies, they all achieved the revenue annual growth [11]. For Tencent and NetEase, the annual revenue are 156.1 billion Yuan and 54 billion Yuan, and they are only two companies that the annual revenue over 50 billion Yuan. After experienced the crisis of license number, Tencent changed the story background and name of PUGB Mobile and launch the new mobile game – Game for Peace. Game for Peace successfully achieved the license to operate online, due to the launching of new game and strong performance, add to the good market performance of other Tencent games (Honor of Kings, League of Legends etc.), Tencent can stay at the top position in market and keep growth.

But the situation of middle and small companies is different from the top companies. Most middle and small size companies shown the negative performance on finance. For the 20 deficit companies, 18 of them which annual revenue are lower than 5 billion Yuan; 11 of them which annual revenue are lower than 500 million yuan. According to previous interview to deficit companies, the main reason for deficit was their game products were not operating online at time as planned. Single product-line is the main feature of the middle and small companies, even if one game cannot lunch and operate at time, it also will lead the huge influence on the companies. Add to the pandemic of COVID-19, it led the developing project fall behind schedule, middle and small companies are easier affected by external environment factors compare with top companies, exploring project.

In conclusion, compare with 2019 financial year, the financial situation about Chinese game companies is more positive. It shows that game companies have recovered from the period of less game operating license number in 2019. Under this situation, the environment still tough for middle and small firms. The top companies still took up a huge amount market share, which shown the strong positive of head effect. Meanwhile, middle and small firms less the ability of anti-risk like large companies.

According to analyze the interview rerecord of two game industry practitioners, and combine with the secondary information (literatures, reports, evaluations of media etc.), the reasons lead companies get in the grip which can be divided into two kinds. The first one is social environment. In China, exist the strongly negative mainstream about digital games. As early as two decades ago, an article about the hazards of digital games which has entered the public. In this article, digital games have been described as the digital heroin to show the addiction of games. Up to now, teenager game addiction still is a hot topic. The interviewee X expressed the point that current game companies are already under the stress of carrying the policy of teens protection. Once teen's parents find the negative influence from game to their child, they usual report it to government, and let game companies rectify their games. Frequent amending would increase workload and let project fallen behind schedule. Moreover, most of complaint from parents are unreasonable demands, but the supervision department still put the blame to game firms. Furthermore, due to less the digital game age rating system, it means the operating game in China should be suitable for all age brackets. It would let the overcorrection of game products. For the example, the blood has been changed into green colour in PUBG and add more clothes to female characters to cover skin in Final Fantasy 15, which aim to avoid the violent and porn factors. This series of actions aroused dissatisfaction of gamer; they think the changing will deprive the right for adults to enjoy adult literature and deviate from the original core theme of games. The second is the policy and supervision in China. It is mentioned that the government would order the companies to adjust and rectify their game products. This situation is not uncommon in China, the unstable policy on game industry which also is one of the biggest problems to game firms. "One new lunching of policy could let the game companies' effort in vain", said by interviewee Y.

Take the example of PUBG mobile: As the popular of game PUBG (a PC game from South Korea), Tencent try to cooperate with Korea game firm to develop the mobile version. Digital games, as a kind of entertainment, Chinese government think game should play a role to improve cultural inheritance and value guidance. The story background of PUBG is a deadly game, 100 peoples to kill each other and fight for the position of last survival. It cannot be accepted by Chinese government and lead this game cannot achieve the license number. Therefore, Tencent only can operating the public beta vision to public nearly one year, charging content and charging faction also are not allowed before formal launching. It means Tencent cannot earn any profit in this one year.

Interviewee Y expresses that game companies always feel nervous about police and supervision, because the policies about game industry in China are always changing. And it is the main reason for Chinese game companies always take the conservative strategy to avoid lost.

Beside the external environment factors (policy and society), there still exiting the internal environment factors which could influence the performance of game companies. The first one is homogenization and less creativity. Under the current situation, Chinese game firms less the consciousness of innovation and spirit of adventure. Plagiarizing is a common situation in game industry, and it led theme, playing method are become similar, even in different game. Kantai Collection, which is a web game and developed by Japanese game firm in 2013. The theme of this game is warships personification. After the popular of Kantai, various of Chinese game firms follow it to launch the imitations

(Warship Girls, Abyss Horizon etc.). Many Chinese game firms imitate the core playing method of outstanding oversea games and use their own art resource to replace original one. A large number of similar games would lead the aesthetic fatigue of user, and this kind of games are hard to achieve the satisfied market reaction. Meanwhile, this kind of behaviour inspire the sluggishness of game firms and lead the vicious circle to game industry.

The second factor is the head effect still severe. Top companies still control most of industry resource, include interpersonal network and channel. For Tencent and NetEase, they own a large number of existing users of their communication products (WeChat, 163Email), it means these two companies born to have many potential users can developed as game users. Top companies also have more budget to do developing and promotion of their games. The above factors show that middle and small companies are harder to achieve enough attention and market reflect. Perhaps middle and small companies have no choice to join the top companies or accept their investment to use the business resources of top companies. Therefore, top companies can keep their market positions by purchase and invest share of small companies.

To solve the variety of problems that Chinese companies may meet under current situation. According to the secondary information and the record of interview, there are serval suggestions about future development for companies to reference:

4.1 Increase the Game Product Line

According to the 2021 game industry annual report, launched by China Audio-video and Digital Publishing Association (CADPA), mobile game is the main part for Chinese game companies. The revenue of mobile game which account for over 70% of whole game market. Although mobile game is the most popular, the mobile game market tends to saturation and become the red sea market. Various of mobile game companies try to push out the games which are suitable for other platforms. Genshin, a game lunched Mihoyo, which has been push out the version are suit for smartphone, PC and console. Interviewee X, which is the employee of C company, X also expresses that C company has finished the launching and operating the game on PC, mobile game is not the only one product line for C company.

4.2 Add the Chinese Related Elements into Games

Digital games, as a kind of cultural products, Chinese government think it is a channel to delivery the thought and value. Add the Chinese culture related element would help game firms to pass the examining program easily.

Black Myth Wukong, the game which is the developed by a Chinese company. This game is full of the element of horror, myth and violence. The character design is based on monkey king in Chinese traditional fairy literature - Journey to the West. Meanwhile, this game also shows the wonderland about the Eastern mythical world. At last, the supervision department thought that this game is regarded as a good example to spread Chinese culture and issued the license number. Another game, Arknights, the companies try to add the Chinese localism voice to the character in the game to emphasize the attribute of China. Nowadays, add Chinese culture related elements in game which is an unwritten rule for game companies to pass the strict examining program, said by interviewee Y.

4.3 Sell on Oversea Platform

Companies can choose the oversea internet game shop (e.g., Steam, Epic) to sale the game. These platforms are established by oversea game publisher. Most of these kinds of platforms are opened to Chinese users and support Chinese electronic payment method. Therefore, various of Chinese game firms are started to sell their game on oversea platforms. "These platforms are not as well-known as traditional sell channel, it means game companies may face the problem about losing the number of customers; and this kind of platform are still grey zone for China", warmed by Y.

5 Conclusions

Cultural industry is not the main industry in China, but the performance of mobile game industry is unexpectedly conspicuous. Although it is the former dazzling industry, it still needs to face various of problems. Especially the restrictions of license number, which let the game industry suffered a serious blow. This paper concludes three main points for Chinese mobile game companies under current situation. (1) Expand the product lines and launch muti-platform games; (2) attempt to add Chinese culture related elements to games, aim to pass the strict examining program easily; (3) partly turn to use oversea internet game shop to skip the examining. These suggestions and conclusions are concluded by the collected literatures and the record of interview to game industry insiders. Sincerely hope it can provide a useful reference to Chinese game companies and revive the market vitality of Chinese mobile game industry.

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