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Winter is Still: An Analysis of the Chinese Game Industry

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WINTER IS STILL:

AN ANALYSIS OF THE CHINESE GAME INDUSTRY

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Abstract

This capstone essay aims to analyze the current situation of the game industry in China. Most of the data has been collected from databases, newspapers, interviews, journals and governments reports. This essay especially addresses China's current game industry strengths and limitations to position it for the future. This essay clarifies the challenges of game industry in innovation based on the scale of companies. My perspective also considers the continuous development of China's game industry as well as the conflict between the teenagers and government restriction towards games. Meanwhile, the opportunities of the game industry are based on two unique aspects – the government restriction can help to control the amount of China-made games shifting from quantity to quality; and the rising live-streaming platform that can be used as a new promotion channel. Chinese game industry is still in its initial stage of development and has insufficient competitiveness with foreign game industries. However, the huge population market and the renewal of ideas that have made this industry still have great value and room for growth. The essay will help to fill in the blanks of a comprehensive conclusion of game industry in China, which helps the game developers, game lovers and related scholars to have a new respective to analyze on the games industry.

Keywords: Game Industry, Government Restrictions, Webcast, Y Generation, Tencent, Indie Game

Introduction

About twenty years ago in China, the computer had just begun to spread between ordinary families, and there were not many people talking about video games. In fact, because of the cost of buying a PC and parents' stereotypes about playing games, the development of the video games industry in China was in an intermittent phase at that time. Maybe, limiting children's gaming time and persuading them to put more attention on study is the major job for parents in China or the west, but there is no way that you

can imagine that how bad the impression of video games was in Chinese family and government – like floods and monsters – until today.

Although parents are still strict, things are extremely different today in China. There are more and more kids, as young adults and even the middle and aged citizens are

playing the video games. It is a quite usual circumstance that you can see in today's Chinese street that wherever you are walking or waiting for someone, at home or on the job, people are always staring at the screen of their iPhones or portable consoles and playing or watching about the video games.

Why have the video games suddenly become so popular in China? Is it because the carrier of video games has become more diversified and easier to carry from PC to portable consoles to mobile phones? Is it because the revenue of professional e-sports players has become higher that makes the parents start to consider that playing or mastering the video game may not be a bad job option for future? Is it because the video games industry is making more money for the state that makes government become more tolerant of the games? Well, this is a tricky question that is hard to answer now, but this paper will help you have a further understanding about the Chinese video games industry and the social impact of its administration, players, and government minders.

This paper will analyze the current situation of Chinese video games industry based on government, public and media reports. Meanwhile, the paper will mainly focus on assessing deficiencies and advantages of the game industry, as well as the prospects of China-made video games. By reviewing all this data, readers will come to understand the future of Chinese video games and their possible international reach.

It Is the Best of Times, It Is the Worst of Times: Analysis of the Current Situation of the Chinese Game Industry

With the greatest population and strong purchasing power, it is no doubt that almost all the industries related to China will take a huge share of the market in the world. According to "2018 China Game Industry Report"[1](hereafter referred to as "the Report") publish by China Game Publishers Association Publications Committee (GPC) and Gamma Data (CNG), the actual sales revenue of the Chinese game market in 2018 reached 214.44 billion yuan (about 31.96 billion US dollars), which accounts for 23.6% of the global game market. Compared with 31.5 billion US dollar and 17.7 billion US dollar in the United States and Japan[2], it seems like China has done a very good job in the total revenue of the game industry in 2018. However, the Report also emphasizes that the overall income growth of the Chinese game industry has slowed significantly to 5.3% in 2018, compared with 23.0% in 2017 and 17.7% in 2016, which means that the Chinese

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[1] China Game Publishers Association Publications Committee, *2018 China Game Industry Report*.
[2] Newzoo, "Top 100 Countries/Markets by Game Revenues."

game industry officially bids farewell to the era of high-speed growth.

(Source: GPC)

For the Chinese video game industry, the view of most people is that the expansion and shrinkage occur in parallel, as mentioned in the title of this section – it's the best of times, it's the worst of times. The scale of the game industry continues to expand, but the days of game developers and publishers are getting worse.

In fact, from the perspective of business model, China's video game industry has always been ahead of the world. The free operating model greatly reduces the barriers for gamers to enter, and many people who are not interested in the games become gamers.[3]

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[3] Peichi Chung, "Game Industry Online," 134.

This makes the Chinese market develop into the world's largest game market, which is the victory of the business model. With China's population base and economic scale, there is no doubt that the Chinese game market will remain the NO.1 position in the world for a long time.

However, although the scale is the world's first, the industry is still very immature. The growth cycle of users and vendors is too short. A large number of users lack the ability to distinguish the quality of the game. The choice of the game basically depends on the advertisements and friend's recommendations. Therefore, in the Chinese game industry, the promotion channel accounts for a large proportion. This has led to too much discourse power in the promotion channel, and products that are not favored by the channel are almost impossible to project. The products also do not focus on gameplay but on the design of social and paid modes. Homogenization is the most serious problem among all the products. Game products heavily rely on promotion channels and social media, while the professional game media has no influence[4]. In addition, China's game companies are basically transformed from Internet companies and there are only a handful of original game companies, which leads to the situation that the amateur but not the expert is leading the entire industry.

At the same time, the product development capabilities of Chinese game

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[4] The reason why professional game media has weak influence is because the Chinese game media is still in its infancy and most of gamers can not accept its authority but regards it as a business model to make money.

companies are very poor. The low development ability mentioned here has nothing to do with the programming and art level of the practitioners. The main problem lies in the vision, product design and project management of practitioners, which combines with the factor of promotion channel. The Matthew effect in the game industry is particularly obvious. Although the market is huge, most of the income is taken away by several leading products, and more than half of the money is earned by the large companies. This trend will become more and more obvious in the next few years.

Since 2015, the Chinese game industry has entered the shuffling period, and a large number of small and medium-sized game companies have closed down. More and more employees with decades of work experience choose to leave the game industry. Big companies, despite making money, only can offer limited jobs. And for big companies earning half money of the market is not equal to have the ability to feed half of the industry.

The market is getting bigger and bigger, and the road is getting narrower and narrower. This is almost a portrayal of the Chinese game industry. The growing game aesthetics of gamers and the generally low development capabilities of game companies are also the main reasons for the current industry dilemma. The variety of games and the technological advancement of various software and hardware have given the players have the opportunity to choose games based on their own preferences. Coupled with the

promotion cost, many relatively low-quality game products have no market at all.

Many foreign game companies are also staring at the Chinese market and waiting to seize market share. In many game exhibitions this year, more and more foreign game companies have released their own Sinicization policies, which means that more and more foreign game products will come with Chinese subtitle or even Chinese dubbing. Under the protection of previous trade policies, Chinese game companies are like flowers in greenhouses. But now, the ban has been lifted[5] and the flowers have to expose their fragile nature. The game industry has three major sectors which are the PC games, console games and mobile games. In PC games and console games, Chinese game companies have no competition at all compared to foreign game companies. Therefore, the Chinese game industry is basically the mobile game industry, which means the activity space of Chinese game companies has become smaller and smaller.

In general, this phenomenon is happening because Chinese game companies have not developed a system and a concept of making games for gamers for many years. The free operating model has made the game market bigger, but the cultivated users have no loyalty[6], which can not support the long-term development of a company or industry.

In the case of weak competitiveness of Chinese game products, publishers will

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[5] The ban here refers to the early government restriction to limit the import of audiovisual products (including games) to China, because Chinese government thinks there are many violent, sexual or propaganda contents in the foreign game.

[6] Most of the online games created by Chinese game companies only focus on the short-term plan by using free model to attract more customers but not in long-term plan like producing the sequels or game series.

tend to represent higher quality foreign games. Some big, wealthy companies simply buy foreign cheap game production teams, for example, Tencent. This has also led to the further deterioration of the development of Chinese game companies.

However, there are also good aspects in the Chinese game industry. First, with the economic development, the Chinese people's awareness of copyright has gradually awakened and China has more players who are willing to pay for genuine excellent games. Steam, a company that sells platform for genuine games, now has about 30 million registered users in China. This huge user base means that there is already a soil for high quality paid games to survive in China. If there is a market, there will be the product, and China will develop high-quality games that meet the tastes of Chinese people someday.

Second, with lifting the ban of console game, excellent foreign console games can officially enter the Chinese market, which can also serve as a good demonstration for educating Chinese market and users. China's excellent games also have a mature platform to choose from. For developers with the ability, this means there are more development routes.

Third, Chinese indie games (short for independent video game) began to develop. This is also due to the development of the game platform, allowing independent games to have their own space. Many game companies and teams have seen the potential of indie

games and have begun to introduce policies and programs to support the indie games like NextStudio and Coconut Island.

Loneliness and Frustration: The Cause of the Popularity of Online Games

In order to have a further understanding of Chinese game market, it is important to figure out which kinds of video games are that Chinese players like most. In terms of game types, Chinese players prefer to play mobile games and online games, while European and American players prefer console games. The Report also shows that the actual sales revenues of mobile games and client games (also be simply understood as online games) accounts for the majority of the total revenue, which are 62.5% and 28.9%, respectively.[7] So why do Chinese players prefer to play mobile games and online games? What is lacking in Chinese players' lives that makes them choose the online games and mobile games? What qualities are there in online games and mobile games that satisfies the needs of these people?

In fact, most online games have created a virtual world that is close to reality. This special virtual environment has several characteristics, compared to the real world, making it seem more attractive, and interesting than the real world; the cost of entertainment is relatively cheaper; it is easier to achieve a sense of accomplishment than

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[7] China Game Publishers Association Publications Committee, *2018 China Game industry Report*.

reality. All of these characteristics could be known as the advantages of online games but also make people easily addicted to them. Interesting and cheap entertainment attracts people to online games, and a sense of accomplishment requires a certain amount of time and effort. Therefore, people unwittingly spend a lot of time to pursue the sense of satisfaction that is not easily obtained in reality. Mobile games also have the similar qualities to online games, meanwhile they supply the service to simplify the complex quests and process by using money recharge to exchange the time and effort, which makes the players easier to get the sense of satisfaction, not to mention the "play-anywhere-and-anytime" characteristic of it.

The main users of online games are composed of post-'80s and post-'90s. These two generations are the "poor puppies" under the one-child policy, who have no brothers or sisters since being children. As the only child in family, most of the kids are over-loved and easily become a self-interested person. Under this kind of experience, it is difficult for them to have true close friends and gives them a deep sense of loneliness. The timely emergence of online games has become a new platform for young people. Because it is a virtual world, people don't need to cover up and they can say anything they really want to say by opening their hearts, which helps them to make friends or even boy/girlfriend. A survey had shown that "making friends" is the most important element for the players as

a goal to play online games, which is up to 63.4%.

("Because my parents only have me." Source: Sohu.com)

Another benefit that online games bring is to release the pressure. Everyone in these two generation are shouldering heavy responsibilities. "You are the only child in the family, you are the only hope." If people in post-'80s and post-'90s can recall their past, this sentence would be repeated over and over again for many times in their memory. Since childhood, parents used their horrible education theory to force the kids to pay fully attention on study. Otherwise the kids would lose the chance to go to a good school, and a good school means a good diploma, a decent job and rich salary. Facing the pressure of going to school, job recruitment, and marriage, kids had to make choices, which they

didn't like and even they didn't know why, over and over again. They gradually lose the talent of creativity during this process. The only thing that the heavy pressure left is the endless frustration. The emergence of online games helps them feel a little comfort and find a long-lost sense of accomplishment and satisfaction. Although it also requires effort, energy and time, online games can at least let you have the hope, compared to the cruelty of real life. People finally find a way to release themselves and become unconsciously addicted to online games.

Compared to the Chinese game players, it doesn't mean that the American players don't like to make friends via online games or they don't have the pressure coming from the family and the society. In fact, the different culture and education make the westerners more casual and simple when playing the game. Chinese online game players are just too lonely and tired. "I just want to make some friends and find a place where people can admit that I am excellent", said by someone who was addicted to the video games.

Obstruction and Opportunity: The Analysis of Government Restriction

Policy restrictions and prejudice by government and the mainstream media have always been important factors restricting the development of China's game industry. The word "electronic opium" or "electronic heroin" first appeared in a news "Computer

games, the 'electronic heroin' aiming at children" of *Guangming Daily* on May 9th, 2000,

and then became the special term for government, mainstream media and parents on the

video games. The term "electronic heroin" is both a metaphor and a judgement.[8] Video

games are equated with drugs, at least as dangerous as drugs, with extremely negative

effects that are addictive and obtrusive. The gamers who are addicted to the game and the

addicts who are addicted to drugs are no different in the mainstream society. They

represent the uncontrollable self and the failed life.

(Documentary "Web Junkie in China", 2013)

Internet addiction is accused of ruining the morality of young people. This stigma

is often accomplished through a series of metaphors: comparing the Internet to mental

drugs and excluding Internet addiction is considered a war. The mass media is keen to

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[8] Chang Shi, "The Disappearance of Panic: From 'Electronic Heroin' to E-sports," *Cultural Research* 32, no.1 (Spring 2018): 134-165.

explore the tragic story of the game teenagers and repeatedly cite the assertions of some authoritative sources. The rigorous picture that the media and experts have built together has made parents more uneasy. Parents are afraid that their children will delay their studies, and the mainstream society is afraid that the players will become criminals someday.

The proliferation of video games is often blamed on the lack of supervision by government departments, so critics often call on government forces to strictly control game operations. In response, the official measures taken on the game premises are mostly disciplinary. At first, in the early 90s the government mainly cracked down on illegal activities such as "using a game console to engage in gambling or disguised gambling." After the internet cafe was hot in 1998, the government began a series of regulatory storms on computer games nationwide.

On August 30th, 2018, "Integrated Prevention and Control of Children and Adolescents Myopia Implementation Plan"[9] was published by the government. This plan does not seem to be specifically targeted at video games but it is with approval of the State Council and jointly issued by eight departments of government, including the Ministry of Education, the National Health and Health Commission, the State Sports General Administration, the Ministry of Finance, the Ministry of Human Resources and

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[9] China Ministry of Education and China National Health and Health Commission, *Integrated Prevention and Control of Children and Adolescents Myopia Implementation Plan*.

Social Security, the State Administration of Markets, the State Press and Publication

Administration, and the State Administration of Radio and Television.

Many people can't believe how the teenage myopia protection could be related to

the control of the number of online games. However, the plan clearly: shows the

implementation of the total amount of online games control; controls the number of new

online games online operations; explores the age-appropriate reminder system in line

with national conditions; and takes measures to limit the use of minors.

It is worth mentioning that online games mainly include but are not limited to:

massively multiplayer online role-playing games (MMORPG), web games, casual games,

online download of console games, games with networking functions, networked game

platforms, mobile online games, and foreign imported games.

The plan is designed to limit the use of online time by primary and secondary

school students, and correctly guide the use of the network to cultivate reasonable and

scientific eye habits. The implication is that young people go online, mainly focusing on

the experience of online games. In fact, the length of the game required to control

primary and secondary school students is no longer news, but the control of the number

of games is unpredictable.

In fact, the impact of the regulation of the total number of online games on the

Chinese game industry can be both opportunities and challenges. Many game companies

that only focus on improving game quantity rather than game quality and seek to earn "quick money" will be difficult to sustain in such an environment. Although the restriction will slow down the current game market growth, in the long run, after the industry has suffered, it will often usher in new opportunities. For example, under the strict control of the policy, the threshold for domestic game entrepreneurship will increase, and the game will develop in a less but more refined way. The regulation will help to force the game company cutting the quantity of game development and extending the development time, thereby improving the quality of the game works. On the other hand, accelerating the expansion into overseas markets will become another direction for domestic game companies to save the market, but the diversity and uncertainty of the international market will become a new challenge for Chinese game companies.

In general, the Chinese government's policy restrictions on video games have always been stubborn, biased and non-objective. For the Chinese government, it is important to face up to the problem of Internet addiction as a social issue rather than a problem within the industry itself. By understanding the psychological state of adolescents and analyzing the real reasons why teenagers love to play video games, the government could really develop reasonable and effective policy measures. Meanwhile, working with the education facilities and parents to strengthen the mental health of adolescents, and standardizing the game grading system, is the next step on which the

government should really focus.

Competition and Acquisition: Classification of Chinese Game Companies

The profit of today's Chinese game market belongs to only a small number of people. There are thousands of game companies in China, but it is easy to see that some companies no longer appear in people's sight after becoming famous for a while. And there are many reasons behind this, but most of them are inseparable from one of the current situations of Chinese game market – the monopoly.

Based on the scale of the company, the Chinese game companies can be simply divided into two categories, the big companies and the small companies. For big game companies like Tencent and Netease, they dominate the market. Tencent, for example, has over 1 billion monthly active users from Wechat which is only one product of "Tencent family bucket".[10] Back to the game, how does Tencent manage this one billion users base? They just take a simple but effective mean that the users can use their Wechat account to log into any online games or mobile games of Tencent. And Tencent is also tireless to popularize their games by the notifications in Wechat. Through these two methods, every time a game is announced, Tencent users are willing to try because they do not need to do redundant registration but a simple clicking. The products of Tencent

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[10] Statista, *Number of monthly active WeChat users from 4th quarter 2011 to 4th quarter 2018*.

are various and cover a wide range of fields like social media, news, online cinema,

instant messaging, and so on, which almost penetrate every corner of people's life and

provides a steady stream of users.

(The Wechat Universe)

Each coin has two sides. When you are dominating the market, you may become

arrogant. Thanks for the success, the brand and reputation of big game companies are

mature, and they have many loyal customers paying their bills, which leads to a situation

that the profit is enough and it is not necessary for innovation. Innovation is risky. If the

new games developed independently by the big companies cannot meet expectations, this

may affect their brand and reputation. So, what they usually do, especially for Tencent, is to buy the small companies or teams if someone has developed a well-known and brand-new game in the market, then money finally goes into their pocket again and they are still strong. And for some foreign games that they can not buy, they can help to import the games as an agent or copy the idea of these games to produce similar "Chinese version" of them. Money is so easy to earn, therefore, for big game companies, almost nobody cares about the innovation.

For small game companies, the situation may become more complicated. The small game companies can be divided into two types – the profit-driven companies and dream-driven companies. Dream-driven companies are usually in forms of a team with some ambitious college students who want to make a famous Chinese independent idle game to make difference, and they are also the most creative of all game companies. However, when the game is finally accepted by the market or becomes famous, the dream-driven companies usually face two options – make a new game to keep the honor or be acquired by a big company. Most of the dream-driven companies lack brand awareness or the ability to brand their games, so they often choose to be acquired. Finally, the dream-driven companies become mediocre when the next generation game is a failure, or they become a part of big game companies and obey the "rule of success" of big companies.

Making money is the only purpose of the profit-driven companies, but this is not the reason why they are called "cancers" in the market. The reason is they want to make quick money by any means, regardless of whether the game is defective. The best option for them is to develop gambling mobile games, because the gambling mobile games are designed to continue to play only if the users keep recharging. The idea of reselling gambling games occupies many people's brains and intensifies money laundering corruption.[11]

And another option for profit-driven companies is the web games. Most of the web games take the "item charging" mode which means the game companies will sell the items inside the games and most of the items can either make your character look fashionable to show off, or stronger to beat other's in PvP mode (Player versus player). Meanwhile, the web games will also have so called "built-in game battle value leaderboard" which is just the simple summation of the level of items in the games. In order to keep your character in position of first rank, the users must keep recharging and purchasing the item over and over again. Surely, the profit-driven companies will not let you become the rank first easily. In fact, there is a common scenario in these kinds of games that people usually will find a character that is so close to your ranking that you will lose your position in next second if you can not promote the level of your items. And

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[11] Sun Tao, "Comment on the Traditional Chess Game Market."

most of these "competitors" are the robots created by the game companies. However, these are still not the worst things. Most web games still stay at the production level of 10 years or even 20 years ago, and the game engine, painting style and content design are quite old. People are quick to lose interest, but the profit-driven companies have already earned a lot of money, so they can shutdown the server immediately and announce a new game using exact the same programing but under a different name.

In general, most of the gambling games and web games created by the profit-driven companies have illegal behaviors so it will be eliminated by the market or government someday. Coupled with the dream-driven companies which are gradually being acquired by the big game companies, the Chinese game market is on a path of monopoly, which increasingly makes the China-made games lack innovation.

Promotion and Explosion: The Rising of Live-streaming Platform

The 2016 is called as the rising year of China's online live webcast.[12] It is understood that in 2016, China's webcast users have exceeded 300 million and more than 47.1% of internet users have joined or experienced the live webcast, which has created revenue of roughly 2 billion US dollar. The live-steaming platforms like Douyu.tv and Huya.tv have attracted thousands of people watching the webcast everyday which cover a

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[12] Xiaohong Wang and Wanhong Cao, *China Network Video Annual Case Study* (Beijing: Communication University of China Press, 2017), 12.

variety of fields including entertainment, education, lifestyle and so on.

Gaming, as an important part of webcast, has made huge gains for both live-streaming platforms and game companies, because the rising of live-streaming platforms has created a new channel for game promotion. Playerunknown's Battlegrounds (PUBG), as a success story for webcast, has made miracles of 1.36 million simultaneous views in a single Chinese live-streaming channel,[13] and 11million US dollars sale's revenue in 3 days[14]. Even Woonghee, the commercial director of Bluehole (publisher of PUBG), once said: "the production team knew it from the beginning that the audience from webcast would be one of the main consumer groups, so we have invested a lot in the live-streaming platform. The explosive attention also confirmed this after PUBG was released." Meanwhile, there are also two China-made games called "The Scroll of Taiwu" and "The Invisible Guardians" both becoming popular because of the promotion of live-streaming platform. And before that, these three games were all really "unknown" games.

High cost performance, good conversion rate and word-of-mouth basis let the live-streaming platform become the mainstream promotion method for games, and it is also the most direct and efficient way to experience the game for the gamers. In the past, the perceptions of games for people mainly came from the demos of the producers, media

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[13] E-sports Dragon, "PUBG: The viewers of Gucun's webcast channel is as high as 1.37 million."
[14] RangerNet, "PUBG: Three days of income over $11 million US dollars."

information and friends' recommendations. With the accelerated pace of life, people often

don't have time and energy to try new games or learn about game-related materials.

Especially, they are too lazy to download the games, not to mention to play the games

themselves. At the same time, due to the rapid development of the game industry, people

need to face more and more new games and new content, of which the quality of game is

also uneven. That's why watching webcast is becoming a new way for people to

understand a game.

(Jun-jie Lin in webcast)

The internet celebrity effects have a huge impact on the game selling. Fans like to

watch their idols playing the games or imitating the behavior of the idols. During the

webcast, whether the webcast anchors play well or bad, people think about what they will

do if they play the game themselves, and they are willing to buy the game and experience

it after the end of the webcast.

Conclusion

From being regarded as floods and monsters, and then to countless myths of riches, the game industry in China is described as a fun and profitable career in the eyes of most people. However, with the influx of capital, there are more and more defective products taking place in the game market, and the Chinese game industry has finally been ushered into the cold winter.

From the perspective of historical development, people's suppressed spiritual needs are constantly being released. From kids to adults and to the elders, it is now an era of entertainment for all Chinese people and video games are one of the most entertaining ways to bring people a sense of accomplishment.

From the perspective of policy, whatever the looser regulation of oversea game imports or the more serious restriction on the quantities of China-made games, it is no doubt that there will be more and more outstanding games with high quality in the Chinese game market.

From the perspective of globalization, the strict geographical boundaries will no longer exist in the future, but the threshold of localization is still there. China is a huge emerging market for games with a hugely significant purchasing power. Compared with

foreign game companies, the Chinese game companies will have the great advantages of localization. No matter which angle to look at, the game market in China has more potential than any other market in the world.

All in all, whether the development of the Chinese game industry is good or not is not decided by the analysis of external factors. The gamer only focuses on one thing which is whether the game is playful or not. So, only the games with high quality and innovation can survive in this cold winter.

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