

control. In China, the development of an asymmetrical power relationship between transnational capital and domestic private capital is attributed to the strong intervention of the state at different levels (Zhao 2008). This asymmetrical power dynamic challenges global media companies that apply a standardized strategy in their global business markets. For instance, global advertising agencies still prefer to partner with large Chinese companies simply because global agencies need local knowledge to access the very disparate market conditions in different parts of China (Sinclair 2008).

Fung's research on the transnational media corporations in China further explains the complexity of power play between transnational media corporations and the Chinese state. In his book, *Global Capital, Local Culture*, Fung (2008) considers the aforementioned asymmetrical power relationship as a cycle of globalization to glocalization that sees transnational media corporations adopting localization strategies in order to connect to the political and economic system in China. Different from popular discourse of globalization that emphasizes the power of the global players, Fung argues that the Chinese state plays a crucial role in the commercialization of media industries in China. An analysis of the state-market relationship in the media industries of music, movie, and television confirms Fung's statement that Chinese authorities have gradually loosened their policy control when global media players work within the rule of state and party sensors. The collaborative effort between the local state and global players also opens up hybrid space to allow major national media to rise as global players in China's media globalization. National media such as CCTV and Phoenix TV are seen adopting internationalization strategies under the support of the Chinese government in order to compete with Western transnational media players in the world market.

In *Brands and Culture*, Sinclair (2011) explains how branding culture can establish barriers to entry that allow a well-branded company to maintain a competitive advantage over others. In the global corporate world, a company expands its business network by capitalizing its "brand equity" to create market differentiation. According to Sinclair, a successful brand image has a personality by which it can attract the loyalty of consumers. This branding culture discourages competitors from entering a market head-on due to the relative high costs that new entrants have to invest in order to match the quality and brand recognition of existing brands. However, Sinclair also argues that downward brand extension can happen in niche markets where consumers prefer cheaply formulated versions of premium brands. Transnational companies sometimes inspire an imitation strategy that Chinese companies use to catch up their lag in technological innovation (Sinclair 2008). This downward brand extension

explains the rise of China in the global economy. With new corporate players emerging from China and India, global media domination is no longer exclusive to current industry players—the Western transnational media companies. Media globalization, therefore, needs a new definition as emerging new players in the global market—such as China Mobile, Tencent, and Huawei—successfully participate in the economic expansion of their business networks.

China's online game industry is an example of this type of innovation—a by-consequence of negotiations and interactions among global media companies, the Chinese state, and local game companies. With such innovation, China has developed a unique business culture that shows a genuine rise of nationalism among the young generation (Kshetri 2010). The Chinese government has successfully formed policies to cultivate patriotic feelings among the youth (Forney 2008). Consequently, young gamers in China have used online games as one Internet platform to express their nationalistic and patriotic longing.

One example is the online demonstration that young gamers organized in order to protest the use of the Rising Sun Flag (Japanese flag) in one game narrative in *Fantasy Westward Journey* (Jenkins 2006). The anti-Japanese sentiment among young gamers drew an online gathering of 80,000 players on the first day of the protest. The online protest event created tensions among the gamers who stood by the right of protesting against Japan, and the game company NetEase, which tried to stop the massive gathering in its online game, whose servers were accustomed to only 20,000 simultaneous users. Henry Jenkins describes this phenomenon in his blog as an act of participatory democracy among the digital generation of China.

At the market level, the support of Chinese games represents a branding culture that Chinese gamers identify with as national and Chinese. At the state level, the state also promotes the indigenous content through the policies of "healthy online games." These policies enforce an antiaddiction, antigambling, and real-name registration rule to "naturalize" the state's intervention into the operation of online games in China (Cao and Downing 2008; Ernkqvist and Ström 2008).

Industry Structure

Internet Growth in China

With the rise of broadband penetration, the number of Internet users in China grew from 23 million in 2000 to 457 million in 2010 (CNNIC

2011a). As of December 2010, 34 percent of China had Internet access, representing 23 percent of the 1.8 billion Internet users worldwide (see table 11.1). Comparatively, in 2010, the Internet penetration rate of the United States, Japan, and Korea was 74 percent, 78 percent, and 81 percent, respectively. Table 11.1 below highlights the rapid growth of Internet access from 2000 to 2010, increasing 6 percent every year after 2007. This increase indicates a rapid technological expansion that supported the growth of e-commerce in China's domestic digital economy. In mid-2008, China surpassed the United States as the world's largest Internet market (Internet World Statistics 2011). The fact that China's Internet penetration is 34 percent of its population indicates that considerable space for growth remains.

However, as *The 2010 Internet Report* shows, Internet development in China has suffered unequal geographic expansion and thus indicates a market that is still volatile. China is currently divided into three echelons according to Internet penetration rates (CNNIC 2011a). The first echelon covers the eastern coastal regions that have a high growth rate of 40 percent. The second echelon is the municipal cities in western and north-eastern provinces. The third echelon includes distant provinces such as Inner Mongolia, Tibet, and Gansu where minorities reside. The Internet population is strongly divided between urban and rural users: 27 percent live in rural areas and 73 percent reside in the urban districts (CNNIC 2011a). The big gap among echelons illustrates the potential growth of the online market in rural areas, as 72 percent of the gamers play games online through an Internet connection at home (CNNIC 2011b).

Table 11.1 The growth of Internet users and Internet penetration in China from 2000 to 2010

Year	Total number of Internet users (in millions)	Internet penetration rate (%)
2000	22	1
2001	33	2
2002	59	4
2003	79	6
2004	94	7
2005	111	8
2006	137	10
2007	210	16
2008	298	22
2009	384	28
2010	457	34

Source: CNNIC 2011a

Table 11.2 The growth of the online game market in China from 2006 to 2010

Year	Online Game Market Revenue (US\$ in millions)	Online gamers (US\$ in millions)
2006	763	26
2007	1,545	40
2008	2,687	49
2009	3,801	68
2010	5,321	86

Source: PricewaterhouseCoopers, 2011.

Online gaming is the most profitable Internet market in China. The online game market grew from US\$0.7 billion in 2006 to US\$5 billion in 2010 (see table 11.2), which accounted for 11 percent of worldwide video game market revenues (US\$58 billion total in 2010). China is currently the largest online game market in the world and represents 89 percent of the market in Asia (PricewaterhouseCoopers 2011). The number of online gamers in China grew by three times between 2006 (26 million) and 2010 (86 million). Gamer-based consumption has become popular; it is estimated that the purchase of virtual goods in China reached about US\$5 billion in 2009 (Boykoff 2010).

Online Games in China

As of December 2009, there were a total of 361 large-scale online games in China. Among the 499 game publishers in the market, 12 companies, including Tencent (腾讯), Shanda (盛大), NetEase (网易), Chang You (搜狐畅游), Perfect World (完美时空), Giant Entertainment (巨人), NineYou (久游), Guanyu Huaxia (光宇华夏), The9 (九城), Kingsoft (金山), NetDragon (网龙), and Tiancity (世纪天成), occupied 87.8 percent of the total market share. These top-tier online game companies competed fiercely to the point where the market was nearly saturated, but second-tier and new companies were able to occupy smaller, niche markets to compete with top-tier companies. In 2011, the top-three companies still maintained their dominance, owning more than 60 percent of the total market share (Song 2011).

Two government agencies, General Administration of Press and Publications (GAPP) and the Ministry of Culture (MOC), maintain political control over the online gaming industry despite the fact that their role and jurisdiction are sometimes in conflict. In general, the GAPP has power to censor and ban any publication, whether the publication is a book, a DVD, or an online game. The GAPP takes charge of the game

industry by examining the qualification of Chinese game operators seeking license approval. The MOC has policed the content of film and other performing arts, literary and audiovisual works, and games. The Content Censorship Commission (CCC) from the MOC reviews the content of games, aimed at protecting minors and promoting a healthy online game culture. Our talks with these government agencies and game companies revealed that, before a foreign game is released in the Chinese market, game companies have to receive dual approval from these two agencies. Such approvals appear quite straightforward, but in fact, big game companies have teams of lawyers and personnel to lobby the government agencies.

In 2010, the MOC applied new online gaming regulations to tighten content control in online games. Effective from March 2011, it is compulsory for game publishers to observe the parental supervision project initiated by the government. This regulation stipulates that parents can submit an application to the online game operating units in order to limit the time their children can play online games. Should cases of addiction be detected, children can be banned from playing games indefinitely ("Chinese Government to Promote" 2011). In addition, new policy that promotes a healthy game culture allows the MOC to ban online advertising that contains gambling, or obscene and violent acts. For instance, the MOC banned games such as *Godfather*, *Gangster*, and *Mafioso Hitman*. These games were deemed "socially disruptive" because their content was accused of glorifying organized crime (Jacobs 2009).

Table 11.3 China's top-ten online games in 2010

Rank	Game	Developer	Country
1	CrossFire	Smile Gate (operated by Tencent)	South Korea
2	Asktao	G-Gits Networks	China
3	DNF	Neople/Nexon (operated by Tencent)	South Korea
4	Westward Journey Fantasy	NetEase	China
5	Tialongbabu2	Changyou.com Ltd	China
6	Dragon Nest	Eyedentity Games (operated by Shanda)	South Korea
7	Tian Xia 2	NetEase	China
8	World of Warcraft	Blizzard Entertainment (operated by NetEase)	United States
9	Zhu Xian 2	Perfect World Co, Ltd	China
10	Zui Xiao Yao	Shanghai Greenshore Network	China

Source: <http://games.qq.com/wyfyb/2010fyb/top10all.htm>.

Table 11.3 below shows the top-ten online games in China in 2010, suggesting that Chinese gamers prefer locally produced games over foreign games. Six of the games listed are produced by Chinese game companies, three games are developed by Korean companies, and *World of Warcraft* is the only game from the United States. Games such as *Asktao*, *Westward Journey Fantasy*, *Tialongbabu 2*, *Tian Xia 2*, *Xu Xian 2*, and *Zui Xiao Yao* are Massively Multiplayer Online Role Playing (MMORPG) games that reflect the Kong Fu genre. Chinese gamers prefer narratives that contain Chinese historical themes and Oriental visual images in their games.

The National Branding Process

A study of the branding activities that shapes China's online gaming industry value chain shows the integration of globalization and localization at the national level. Cayla and Eckhardt (2007) argue that Asian brands do not possess the resources to establish a global presence. Rather, Asian marketers borrow from emerging cultural flows to shape Asian brands at the regional level. In the case of China, Chinese online game developers and publishers use global cultural references to establish the brand equity of their online games. These companies reflect a "home region-oriented strategy" that connects a foreign branding culture to mass consumption in Chinese society.

The Developing Sector

State and local game companies and transnational game companies can be regarded as the tripartite forces that collectively shape the branding process of the industry in the developing sector. At the state level, the Chinese government sets up boundaries of creative production in game development. Media censorship and the government's quota system have created a restricted environment that prioritizes the political interest of the Chinese Communist Party (CCP) over other interests. This political influence indirectly creates a preference for particular game genres. For example, Chinese authorities require games to foster a healthy gaming culture, which thus encourages game companies to produce games with Chinese historical or epic themes. Once a game concept has met the state's requirement for national development, local game companies feel it is "safer" to produce similar games.

In 2004, the GAPP released The National Online Game Publishing Project, which encourages local game developers to adopt popular literature that reflects Chinese histories and traditions and use those stories

as the backbone or plot for games, in particular, for players under the age of 18. This government policy influence is seen in the development of the thriller MMORPG *The Ghost Blows Out the Candle* (鬼吹灯), which uses the narrative from a popular online novel in China. This game, among others, demonstrated that top-tier game companies were responding to the state's policy on "games as a form of literature" and, at the same time, addressed another policy agenda to position online game as a profitable industry sector for the creative and cultural industry in China.

Another site of influence lies at the level of local game developer. Game development in China is strongly influenced by foreign game companies, in particular those from Korea, one of the earliest successful players in Asia. Chinese online game companies adopted an imitation strategy that became a standard practice of game development in China and largely defined the market. This strategy helped Chinese game companies build a competitive advantage over foreign games in the local market. One example is the development of the game *The World of Legend* produced by China's top-tier game company, Shanda. This game company replicated the Korean production *Legend of Mir*. As the local publisher of the Korean *Legend of Mir* game in China, Shanda had established a recognizable position in the market. With the release of *World of Legend*, however, Shanda broke the dominance of the Korean-created game and achieved a leadership position as local game developer.

Consequently, as repetition and imitation have become a standardization strategy for Chinese game companies, the freedom that Chinese online game companies enjoy shaped a branding process that pushed game development to become more productive and competitive. For example, the numerous MMORPG games that are relevant to the stories of *The West King* and *The Three Kingdoms*. The manager from a second-tier game company commented on the imitation strategy and its influence to the Chinese online gaming industry,

We need to differentiate our product in order to become competitive. Starting from last year, local game developers tended to rush to produce games that resembled the games of *Legend of Three Kingdoms* or *Xianxia*... But the truth is that not all of gamers play Kung fu games. What if we are developing Wuxia game and 20 other developers also rush to develop Wuxia games? We better change our strategy and produce something that has the element of a fantasy game. We want to enter international market so going beyond the imitation strategy is the only chance for us to succeed. (Mr. Pan, Interview on July 10, 2009)

The game *Tianlongbabu* is another example. The interviewee from one top-tier game company comments on the imitation process of game development in the following discussion:

During the developing phase of *Tianlongbabu* in 2007, the programmer, designers and artists were asked to adopt elements from *World of Warcraft*. The director of this project explicitly mentioned that he would like to see everything that appeared in *WoW* has in their own game. (Mr. Han, Interview on April 5, 2011)

In all, the standardization strategy of imitation reflects the attempt of local game companies to use popular game genres to maintain profit in their commercial operation. Local games are not actively standardizing their products compared to the systematic marketing promotion that transnational game companies use to promote in their global operation. Rather, local game companies refer to wuxia and other Chinese epic stories that the population understands, to reach audiences. Local game companies use these stories in their core game as a "safety valve." All big game companies have at least one of these safe popular games, while they also produce diversified products that carry more risks than core games.

"Downward branding" is also a factor that influences game development at the local company level. Most of the top-tier online game companies create lower quality games compared to foreign games. The reason for this downward branding is to meet the technical capability of computers owned by most gamers. The market success of the 2D game *Zhengtu*, developed by Giant Entertainment, is an example. Giant Entertainment benefited from the influence of owner, Shi Yuzhu, who started the company as one of the first developers to make games for Chinese Internet users. When other game companies at that time still relied on publishing foreign games to earn a profit, Yuzhu focused on developing lower quality games for gamers in second- and third-tier cities in China. The quality of the game was partially due to the less advanced computer facility that is available in these geographic areas. Since it was established in 2004, Giant Entertainment has become one of China's top-tier game companies. The company is listed in the New York Stock Exchange and has maintained success by operating only one game, *Zhengtu*. By 2008, the company's annual revenues topped RMB\$11 billion (US\$1.6 billion). The CEO from a second-tier game development company comments on Giant's model of servicing lower quality games in a competitive market that

when we design a game, we are always making a game that will become popular two years later. Gamers in China have not reached the degree of sophistication like western games. In this situation we do not develop an advanced game. I am a Chinese. I understand my culture. So I make games for the Chinese market. It does not matter if the production is 2D or 3D. (Mr. Chen, Interview on June 23, 2009)

Transnational game companies exercise their influence on the Chinese online gaming industry by establishing outsourcing studios to produce products for international markets. Game design is the weakest link in the Chinese games industry, and thus when an international game company sets up an outsourcing studio in China, they play a significant role in transferring high development skills to the local workforce. Ren and Hardwick (2009) point out that talent exodus has become a common problem in most Chinese online game companies. Because of the lack of proper management and other companies' heavy investment in talent recruitment, employees change jobs frequently. A similar situation also exists in international game companies that set up outsourcing studios in China. A middle ranked manager from an international game company in Shanghai describes his company as a training camp for Chinese game professionals, commenting on the degree of internationalization that employees are able to experience that

our company has the reputation of in-house production in all of our game development. We see game production as a form of high tech art... The problem of game development in this area [China] is that game developers lack the mind to identify an international culture. They focus on *wuxia*, Chinese culture... Regional culture rarely dominates the world. We are an international company. Our products do not aim for a specific region even though the game is developed in our studio in China. (Mr. Wang, Interview on July 4, 2009)

An example of a successful international game production from China is the development of *Tom Clancy's End War* from Ubisoft's Shanghai studio. This real-time strategy game was created for the global PC and console market, and released in 2008 across multiple platforms including the Nintendo DS, PS3, and Xbox 360 in the United States, Canada, and Europe. The story is about a conflict among the United States, the European Federation, and Russia over a worldwide energy shortage that triggers World War III. The game contains scenes of the White House and Eiffel Tower exploding. While Chinese regulation of particular content remains restrictive—for instance, depicting the explosion of the Forbidden City is prohibited, Ubisoft was able to maintain its creative freedom working with

its Shanghai studio to create a high production quality game. While *Tom Clancy's End War* reflects more on the value of a global corporation than the efforts of local talent, it also reveals how globalized production relies upon the transfer of corporate knowledge to local teams—an investment that resulted in the development of a regional studio, Ubisoft Shanghai.

The globalization of design skills and game content that benefits local development in China does come at a cost, however, in terms of the representation of Chinese culture. One example is the development of *Genghis Khan*, an MMORPG game that features the story of the ancient leader of the Mongol empire and his adventure to conquer the West. The game was well received, winning China's top-ten best online game competition in 2009. However, the game presents a fairly superficial view of the Mongol empire, its people, and history, as entertainment is the core value for game development and mass consumption. Furthermore, the visual aesthetic of the game heavily references Japanese conceptual art, and represents Mongol characters, like Genghis Khan, in globally recognizable Japanese animation forms. This game illustrates how the imitation strategy common among Chinese game companies used to build brand equity often requires removing or diluting the cultural origins of a Chinese story in order to adopt the look of a Korean or Japanese game and appeal to a global audience.

The Publishing Sector

China's state-controlled economy leads to a particular form of branding in the game: the publishing sector. Market competition among local game publishers is fierce since companies often compete with very similar products. While there is a gradual shift toward promoting games through online advertising, Internet and cybercafés are still the major distribution and promotion channels in China. These venues allow publishers to localize their marketing campaigns both for games from top-tier companies and from small and emerging companies.

The top-tier online game publishers dominate 87 percent of the national market, and their promotion strategies are often large scale, nationwide endeavors. For instance, the company Giant Entertainment promoted its game *Zhengtu* by hiring 2,000 marketers for a national grassroots campaign. The Public Relations (PR) manager describes the company's promotion strategy as follows:

We have a total of 300 offices in the country. We hired about 2,000 people from these offices to promote our game nationwide. These marketers are responsible for distributing flyers in Internet cafes around the whole