Monopoly or Competition: Market Concentration of China’s Online Games and Policies

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Abstract — This paper studies the current state of the gaming industry in China, using data from documented and case research, normative analysis, empirical and other research methods. We begin by discussing the relevant concepts by examining the market concentration of China’s online gaming industry to verify the belief that this belongs to the highly concentrated oligopoly market, i.e. a state of limited competition shared by a small number producers and sellers. At the same time, combining the western theories of industrial economics and China’s industrial practices, we point out that this market structure is reasonable, but should prevent monopoly. Finally we put forward suggestions for policy measures to provide references to policy makers.

Keywords - Monopoly, Online Game, Market Concentration, Policy

I. INTRODUCTION

At present, China’s culture industry has gradually attracted the attention of the whole society and government. The 17th 6 plenary session of the CCP Central Committee made a political decision which took the culture industry as one of the strategic pillar industry. Online game industry is an important part of the culture industry. According to the report of GPC, the sales income of the whole China’s online game in 2014 was 114.48 billion Yuan[1], much more than the traditional entertainment content industries, for example, movie industry, TV entertainment industry, audio and video products distribution, etc. The magic of online game attracts a large number of young people. The amount of the client online game user was 0.158 billion in 2014[2]. The export of China’s original online game was 3.076 billion dollars, up 69.02% over the last year[3]. Online game became a big-export culture industry, and was highly concerned by the authority of the mainstream media. In addition, the pulling effect of online game industry to related industries, such as telecom, IT, media, advertising, exhibition, training, was powerful. In 2011, online game industry contributed 46.6 billion Yuan to telecom industry, 15.54 billion Yuan to IT industry, 11.18 billion Yuan to press and media industry[4]. Different with the media and press companies, most online game companies are private companies. So the success of the online game industry has a special significance. This paper begins with discussing the concept of online game, judges this industry’s degree of monopoly or competition by the market concentration index, and provides references for government departments’ policies formulation or adjustment.

II. DEVELOPING CONCEPT OF ONLINE GAME

We often mention the online game in daily life, but it is difficult to strictly define this concept. Firstly, different people have different understanding about what is the “online” term means. Secondly, developing of technology makes this concept have different extension in different periods. In July 21st 2005, Ministry Of Culture and Ministry Of Information Industry jointly published “Some Views On The Online Game Development And Management”. It said, “Online game is a kind of interactive entertainment which is communicated and actualized by information net, and a industry combines the net and culture.” With regard to this concept, some people explained that the information net includes Telecom Net, Mobile Internet, Cable TV Net, Satellite Communication, Microwave Communication, Optic Fiber, etc.[5]. Some people thinks that “online game is a kind of electronic game which multi players take part in, and supported by Internet and LAN. It includes Net Game and Online Game. [6]” Some researchers emphasize the game framework. For example, “Online game is a kind of game framework which consists of net server and user’s PC, and can create a character and figure, or control a existing figure in game, and the figure can grow up, change even die as time goes on. [7]” Game Working Committee Of Publishers Association Of China(GPC) is the important industry organization. It published several annual reports of the game industry from 2003 to now. The online game concept in these reports were different. In 2008 it said, “Taking PC as platform, making use of TCP/IP agreement, getting support from Internet, online game is an approach of game which aims to provide entertainment for interactive multi players. [8]” In 2012 the concept changed, “Taking PC, Pad, Smart Phone as platform, game operation company’s server as processor, Internet as data transmission media, online game should use WAN to ensure multi players controlling the character and scene in game to communicate and amuse. [9]” The development of the
mobile internet made the terminals extend to PAD, Smart Phone, and some other smart mobile terminals.

In short, we can define the online game by synthesizing several concepts above. In broad terms, making use of different kinds of intelligent network, taking PC, Smart Phone, Pad, Interactive TV, Video Console as platform, online game is a kind of electronic game which can achieve interactive entertainment. In a narrow sense, making use of Internet, taking PC as platform, taking game operation company's server and user's PC as framework, online game is a kind of electronic game and can achieve interactive entertainment.

III. MARKET CONCENTRATION OF CHINA’S ONLINE GAME

China’s online game industry is only more than ten years, but emerges a number of cost-effective public companies. Extending market shares with their own advantages, these companies make the concentration of online game industry high. As everyone knows, concentration (CRn) is the share which the relevant numbers, can be output, production, sales, number of employees, total assets, accounts for the entire market. It is the important index which measures the degree of market competition or monopoly. The author made this table below according to the public data.

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We learn from the table that SNDA and NTES were always the first group from 2005 to 2008, but Tencent has been the No. 1 from 2009 as a upstart, and constantly widen its advantages. SOHU and Perfect have been in the TOP5 since 2009, GA was the NO. 3 in 2007, but has always been the NO. 6 since 2009. Kingsoft always been in TOP10 as an old game company, Qihu has been in TOP10 since 2012 as a new come. According to the data from the table above, the author computed the CR4 and CR8 of online game market concentration, and made the chart below.

According to Bain’s division standard judging competition and monopoly[18], we think China’s online game market is highly concentrated oligopoly market. That is the main public companies hold the most market share. For example, in 2011 the first 4 companies held 76. 6% market share, the first 8 companies held 92. 1% market share. And the top10 companies can be divided into 4 groups. The first group is Tencent. Relying on QQ's huge user resources and flexible operation methods, Tencent always topped the first place recent years and widened its advantages. The second group is SNDA and NTES. They matched each other, but SNDA's performance wasn't as good as before. The third group is SOHU, Perfect and GA. Each one has its good points. The fourth group is KingSoft and QIHU. They were in TOP10, but their market share was small. Of course, there will be the possibility which...
some new comes rank into the top10, or the fourth group gets into the second group even the first group.

According to the general understanding, the allocation of resources is more reasonable in competition market, but it is unreasonable in monopoly market. As mentioned above, China’s online game market belongs to highly concentrated oligopoly market. Does this market construction help the industry to develop? The culture industry is different from general industry, so we can not use the western economics theory, but concretely analyze combining China’s reality, the author thinks.

Firstly, development of China’s culture industry needs the large enterprises to lead and promote[19]. Some famous huge culture enterprises in other countries, for example, Time Warner, Viacom, Disney, Sony, Dentsu, Vivendi, News Corporation, Bertelsmann, operate in the worldwide, produce best-selling culture products, earn considerable profits while output their culture values and enhance their country's soft power. The China’s culture enterprises like Tencent be likely the worldwide famous enterprise, so we can’t prevent their development on the grounds of possible monopoly.

Secondly, large online game enterprises help exerting scale economy and scope economy effects. For example, the reason that Tencent can succeed is largely the scale economy contributed by its huge user resources. Therefore, this industry needs huge enterprise which holds a large market share from the view of online game's development.

Lastly, all this existing large online game companies are private ones, encouraging and protecting their development has a special significance. The reality in China is that the huge culture enterprises concentrate in the field of media and publishing, and are state-owned, small private culture companies are difficult to share the market. It is rare that there are several big and cost-effective private companies in online game field. So the society and government should encourage and accommodate their development. Of course, encouragement and accommodation don’t mean that we should don’t prevent the emergence of monopoly. This is only the topic below.

IV. CHINA’S ONLINE GAME POLICIES STATUS AND COUNTERMEASURES

The government departments which published online game policies include State Council, League Central Committee, State Administration of Press, Publication, Radio, Film and TV, Ministry of culture, State Administration for Industry and Commerce, Ministry of Industry and Information Technology, Ministry of Public Security, etc. According to the author’s statistics, the government departments published about 180 online game policies (no including the policies published by local governments) from 1990s to now. They involved national online game supporting, internet bar, online game content regulatory, virtual property protection, plug-in and private server publishing, online game centralized management, online game market access, online game player rights protection, youth protection, etc. But there were no policies referring to online game market monopoly. For dealing with the real monopoly, the author thinks that the government departments should take these countermeasures below.

Firstly, relevant government departments should draw the “Red Line” according to “The people's Republic of China anti monopoly law” and online game industry's actual development situation. Only publishing reasonable policies can guide the market’s development correctly, regulate oligarch’s market behaviors, play its industry pulling effect and limit its negative market behaviors.

Secondly, encourage the development of those small and medium online game companies which have some potentials. Although those huge online game companies can meet people’s interactive entertainment consumption demand, we also need some excellent small and medium companies. Thus can emerge the good enterprise ecosystem which all kinds of companies can grow harmoniously.
Thirdly, encourage development of new products and opening up foreign market. If there are no new products, the market consumption can not be inspired; if only be limited in the domestic market, the total market can not be expanded and current market structure can not be changed. Some mobile games like Wang Xian, Shen Xian Dao, and Da Zhang Men, which went online in 2012, earned more than 10 million Yuan monthly. We can imagine that there will be more and more excellent mobile games can reach this level with the popular of smart phone and formation of player’s paying habit. In the export aspect, China’s online game companies succeeded over the past few years, but we should pay more attentions on the international market, especially the southeast Asian market.

V. CONCLUSIONS

China’s online game industry developed very fast in recent years. And its concept also changed constantly. According to western traditional economics calculation, China’s online game market belongs to the highly concentrated oligopoly market. However, we cannot copy western theory totally. On the contrary, we should encourage those large online game enterprises' development because culture industry is special. Of course, policy subjects should also take some measures to prevent monopoly, for example, draw the monopoly Red Line and encourage the development of those small and medium online game companies and the opening up of foreign market, etc.

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REFERENCES