

**REPORT**  
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# Chinese game changers?

Potential risks associated with  
Chinese investments in the  
global video game industry

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## Summary

- This is the first report, to our knowledge, to provide a comprehensive overview of the potential risks associated with Chinese investments in the global video game industry across the political, economic and cultural domains. This study aims to increase knowledge about the global gaming industry's exposure to Chinese gaming companies and the potential risks that could arise.
- The report uses Sweden as an in-depth case study to examine the Chinese presence in the gaming industry and the potential risks associated with Chinese investments in that industry. While it is possible that these risks may also be applicable to nations other than Sweden, it cannot be ruled out that other countries may face additional risks or that the severity of the risks we discuss might vary.
- In the past decade, Tencent and NetEase have emerged as key players in the international games industry. Offshore investments have become increasingly important for Tencent and NetEase due to uncertainty in the Chinese domestic market and a weakening environment for large tech companies. Like many other significant tech companies, they have invested in or purchased foreign games studios, and many international Chinese-owned studios have expressed satisfaction over their partnership with Chinese investors.
- The formal ties between companies such as Tencent and NetEase and the Chinese government should not be underestimated. While it is difficult to determine how extensive these ties are, the Chinese government has an interest in Chinese game companies' expanding their global influence; for example, the CCP has named video games one of the export categories aimed at promoting Chinese culture by "telling China's story well".
- Chinese game companies could find themselves in a difficult position where they must balance commercial interests with government interference. Chinese gaming firms have occasionally promoted the interests of the Chinese state, such as by amplifying the Chinese government's notions about video game addiction and promising to restrict "politically harmful" content. Compliance with Chinese official ideology has become customary for Chinese gaming businesses. At the same time, however, these corporations are well aware that similar behaviour in upholding Chinese state ideals will not be tolerated in most other countries, particularly in Europe where Tencent has declared a desire to boost investment.
- At present, our perception is that the motivations for Chinese game companies increased international investments are mostly commercial. However, as China's political environment becomes increasingly authoritarian, there is a risk that these companies' commercial interests will be overshadowed by the Chinese government's political interests. Furthermore, a lack of transparency and official statistics makes it difficult to determine the size of Chinese investments in the global video game industry. To address these issues, we make the following recommendations:
  - Increase information sharing about the size, scope and potential effects of Chinese investments both between countries and between various entities in the gaming sector.
  - Increase guidance from government agencies worldwide on how games companies should respond to investment proposals from Chinese companies.

As the gaming industry is unique in straddling the technical and cultural worlds, incorporating various elements from frontier technologies to younger generations' worldviews that could be exploited and influenced, such guidance should not simply be a repeat of existing regulation of Chinese investments in general.

- Strengthen knowledge in the gaming industry, as well as among government agencies, about how data is collected and accessed through games developed by Chinese-owned companies, and what the possible consequences of such data gathering might be for the integrity of individuals.
- Increase international gaming companies' knowledge and understanding of China's political system, for example in terms of the role of the Chinese government and the influence it has on the private sector in China, and what this means in practice for international gaming companies that collaborate with or accept investments from Chinese companies

## Glossary

<b>Games</b>	Also video games. Available on console, computer or mobile devices
<b>Game developer</b>	Software developer that creates video games; self-funded developers are called indie game developers
<b>Gaming companies</b>	Companies that operate in the gaming industry, such as publishers, developers and investors
<b>Publisher</b>	Provides funding for games and assists with game production through marketing, staff recruitment and quality testing; releases the game for sale on completion
<b>Gamers</b>	Also players or users; all those who play games on a console, computer or mobile device
<b>Game revenue</b>	Raised from game sales and in-game sales
<b>Free-to-play</b>	Games that are free to download and play, usually financed through the option of in-game purchases
<b>Pay-to-win</b>	The possibility of paying for in-game assets that provide an advantage over those who do not pay for such assets
<b>IP</b>	Intellectual Property
<b>AI</b>	Artificial Intelligence
<b>VPN</b>	Virtual Private Network

## Introduction

The global video game industry has grown at an astounding rate over the past two decades. Around 3.2 billion people, or nearly four out of every ten people on the planet, play video games worldwide. In 2023 the global games market reached US\$ 184 billion in revenue.<sup>1</sup> The potential of the gaming industry has piqued the interest of some of the world's leading tech companies, including the Chinese media giant Tencent, which has risen to become the world's largest gaming company. Tencent's influence in the gaming industry goes beyond its home market. In the past decade, the company has made significant investments in overseas gaming studios such as Riot Games, Epic Games and Supercell.<sup>2</sup>

At the same time, concerns about the risks of Chinese investments have spread across the globe, particularly in North America and Europe. Such debates are typically driven by national security concerns and rarely consider Chinese interests in ostensibly less strategic areas, such as the gaming industry, possibly because the security implications of Chinese involvement in gaming are less obvious than in areas such as critical infrastructure.

In addition to commonly raised concerns about Chinese investments, such as intelligence gathering, industrial espionage and intellectual property theft, the gaming industry's diverse nature, which incorporates elements of both the creative and the technological domains, introduces additional features that could be exploited by malicious actors. For example, the gaming industry is the world's largest entertainment industry, generating greater revenues than the film and music industries combined.<sup>3</sup> This large global consumer base means that games have the potential to reach and influence a huge audience. Moreover, the shift from the physical purchase of games to online gaming has increased the number and size of adjacent gaming environments, such as communications forums and interactive platforms, which are used by both gamers and non-gamers. Furthermore, the gaming industry is a driving force for technological innovation, sometimes not only for entertainment purposes. For example, gaming has been used in military training and Artificial Intelligence (AI) has emerged as a viable component of game design to create a more immersive and entertaining gaming experience.<sup>4</sup> Given the vast number of people playing games and the tools that are used to develop and distribute games, the video games industry offer several advantages to malicious actors wishing to spread certain narratives to influence gamers.

Chinese gaming companies are not alone in their desire to have an impact on the global gaming industry. Other large companies, such as Microsoft, Sony and Nintendo, are also looking to invest in global gaming studios. However, investments by Chinese games companies could carry special risks due to their ties to an authoritarian state.

While prior research and reporting have identified a number of risks associated with Chinese investments in the global gaming industry, no study has to our knowledge attempted to provide a comprehensive overview of these risks across the political, economic and cultural domains.<sup>5</sup> Against this background, the aim of this paper is to raise awareness of the global gaming industry's exposure to Chinese gaming companies and the possible risks that could arise as a result. The report seeks to contribute to existing knowledge about the concerns associated with Chinese investments in general by focusing on the gaming industry in particular, since it encompasses not only national security risks but also risks related to censorship, propaganda, data gathering and intellectual property, to name just a few.

This report uses the Swedish gaming industry as a case study to examine the potential risks associated with Chinese investments in the industry. Sweden is a major force in the worldwide gaming industry, ranked among the top ten countries for video game development. Despite its modest size, Sweden has one of the five largest gaming industries in Europe in terms of number of employees, companies and revenue. Swedish-owned gaming studios also have a strong global presence, with operations in 45 countries.<sup>6</sup> As of 2022, three Swedish games companies were among Tencent's ten largest known investments in the gaming sector (see table 1). By examining the Chinese presence in the Swedish gaming industry, we hope to increase understanding of how a Chinese presence might manifest itself in other countries, in Europe but also beyond.

## **Definitions, method and outline of the report**

In this report, the term “video games” refers to all types of electronic games, from mobile games to personal computer (PC) games and console games. While the gaming industry encompasses various actors, including players, game developers, publishers and distributors, games companies refer to companies that work with the above-mentioned actors in the industry to some extent. “Risk” is in this report defined as a situation involving exposure to negative effects.

The report is partly based on news articles, games indexes and previous research. The report also draws on conversations with professionals from gaming associations, relevant government agencies and former employees at Chinese-owned gaming studios who have insight into the Swedish gaming industry.<sup>7</sup> We scheduled meetings with 13 professionals in the autumn of 2023 to gain their perspectives on previously highlighted concerns about Chinese investments and potential additional risks. Also, we reached out to several Swedish games companies that Chinese companies have invested in. However, none of these companies agreed to schedule a meeting with us; some of them declined the request, while others did not respond.

The report begins with an overview of the Chinese gaming industry, highlighting the Chinese state's influence over the industry and how state regulations could affect foreign games studios. We then describe Chinese overseas investments, with a focus on the country's two most prominent games companies, Tencent Games and NetEase Games.<sup>8</sup> There follows a case study of China's presence in the Swedish gaming industry. Thereafter, we present an overview of potential risks associated with Chinese investments based on previous literature as well as our discussions with professionals with industry insight. Finally, we offer some concluding remarks on our assessment of the potential risks connected with Chinese investments, as well as recommendations to entities within the video game industry and government agencies.

## China's games industry

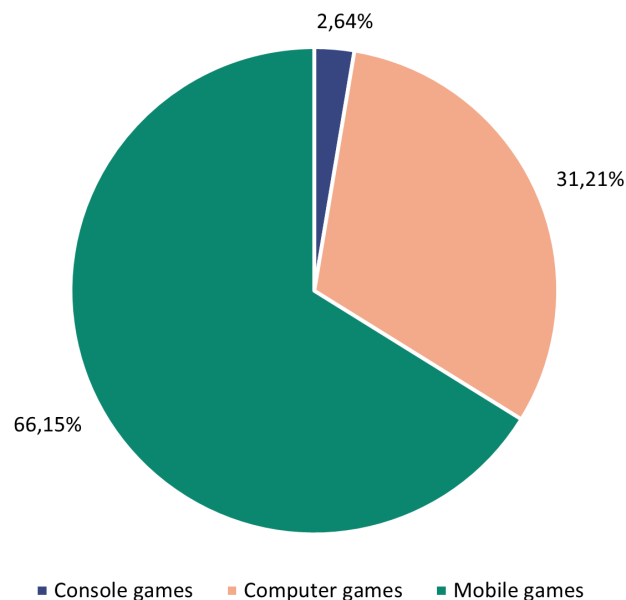
This section provides a brief overview of the Chinese gaming industry from a consumer and business perspective. It discusses the Chinese state's involvement in the industry and the difficulties foreign companies face when seeking to enter the Chinese market.

### Overview of the Chinese gaming industry

The Chinese games market is the largest in the world in terms of number of players and the second most profitable, just behind the US market.<sup>9</sup> In 2023, it earned US\$ 42.6 billion in revenue from 668 million paying gamers.<sup>10</sup> By 2027, it is estimated that the Chinese market will reach US\$ 56.7 billion and the user base will have grown to 730 million.<sup>11</sup> The Chinese tech giant Tencent boasts the highest revenue not only domestically, but also globally. According to Newzoo's 2023 global ranking of gaming companies' revenues, Tencent topped the list with US\$ 7.4 billion, while NetEase ranked fifth with US\$ 2.8 billion.<sup>12</sup> In the first half of 2022, Tencent comprised 44 percent of China's online gaming revenue, with domestic gaming revenue of US\$ 24.5 billion.<sup>13</sup>

The games industry can be divided into three categories: console games, PC games and mobile games. In China, console games comprise the smallest share of the games market with a revenue of US\$ 1.2 billion in 2022.<sup>14</sup> PC games are second with a revenue of US\$ 14.2 billion, while mobile games claim top place with a market value of US\$ 30.1 billion, and also account for 47 percent of total revenue in the global mobile games market.<sup>15</sup>

**Figure 1: Share of total video games revenue by platform in China, 2022**



Source: Niko Partners Reports.<sup>16</sup>

Following the launch of China's economic reforms and subsequent "opening up" in 1978, foreign home video game consoles entered the market. Parents voiced concerns about gaming addiction among children early on. In 2000, the Chinese government prohibited the manufacture and sale of foreign games consoles in China. The console ban, which was not lifted until 2015, had a long-lasting impact on Chinese gaming culture and continues to influence how gamers play video games today. Initially, the console ban shifted the market to PC games, which comprised nearly two-thirds of the Chinese games market in 2015. Gamers who did not have their own computer had to go to Internet cafes to game. This changed Chinese players' perceptions of game pricing. Buying games was out of the question because they already had to pay to use the computers at the Internet cafes. Instead, pay-to-win and free-to-play games, in which consumers purchase in-game content, became more common.<sup>17</sup> These concepts have remained popular but transitioned to mobile platforms, making them accessible to a vast proportion of the population.<sup>18</sup>

Switching to a free-to-play model also helped to combat the rampant piracy issues in China. As a symptom of the console ban, piracy became a frequent occurrence as official titles were unavailable on the Chinese market. Piracy, or copying game software and distributing it, meant that games became available to the public either free or very cheaply.<sup>19</sup> Chinese developers avoided a loss of revenue by anchoring the revenue in in-game features and transitioning to the free-to-play game model.<sup>20</sup> In the early 2010s, some considered China the world's leading infringer of Intellectual Property (IP), in both industrial and technological patents, while also disregarding international laws and rights on patents.<sup>21</sup> In 2015, the Japanese games giant Nintendo sued multiple Chinese companies over a mobile game allegedly developed using Nintendo IP. As of September 2022, the game was still available in app stores in China, among them stores run by Huawei Technologies Co and Tencent Holdings.<sup>22</sup>

China has improved its IP protection laws in recent years in order to spur innovation, protect its businesses and attract investment. However, IP registration is required for infringement protection in China, which works on a "first-to-file" basis and does not consider the original creator or user.<sup>23</sup> In 2022, almost 100 games developers in China called for the Chinese authorities to enforce stricter supervision of e-commerce platforms where unauthorized games were being sold. Between 2019 and 2021, Chinese media reports estimated that over 40 domestic developers would have lost CNY 180 million due to piracy.<sup>24</sup> Large numbers of IP violations have historically been observed in other countries as part of the economic development process, but China attracts attention due to its size and state-led economy. As Chinese innovation continues, IP protection laws are expected to grow stronger.<sup>25</sup> Nonetheless, the risks related to IP theft and copyright infringement remain very real for both Chinese and foreign games developers in China.

## Investment practices in the video game industry

Intellectual property (IP) is the primary motivator for financiers to purchase gaming assets; it is what adds value and drives growth.<sup>26</sup> The nature of the industry, which draws on both technology and creativity, allows for a broad definition of IP, which includes both copyright and design. This means that both the technological solutions used to produce games and the creative outcomes are covered by IP rights, which have a high market value because they grant exclusive use rights, as well as the right to modify and distribute the protected concepts.<sup>27</sup> In the gaming industry, IP can, for example, refer to a game concept, a specific game or a brand.

In the gaming industry, it might take years for a product to earn revenue. As a result, games developers rely heavily on financiers, especially in the early phases, and possessing strong IP that appeals to investors is vital to a game's success. For example, it is unique IP that has generated growth in the Swedish gaming industry and Swedish games developers have a reputation for being skilful at creating their own IP. Well-known Swedish IP includes Minecraft, Battlefield and Candy Crush.<sup>28</sup>

The gaming industry attracts a wide range of financiers. The two primary business models in the sector are publishers and investors. Publishers typically provide financial, marketing and distribution support to games developers. In return, the publishers usually get a cut of the game's profits as well as the exclusive right to publish the game. Investors contribute money in return for future earnings or an ownership share in the gaming company. Unlike publishers, investors receive a share of the company's equity, which might require the developer to relinquish some control over their IP or the company.<sup>29</sup>

## Ideological and economic pressure on the Chinese games market

The ending of the console ban in 2015 was not the end of government intervention in the Chinese gaming industry.<sup>30</sup> Concerns from both the public and the government over inappropriate content and addiction remained strong.<sup>31</sup> In 2018 the Chinese government halted all releases of new games, both Chinese and foreign. While no official reason was given, a Chinese games analyst suggests that parental concern over gaming addiction among children had a role in the decision. Other possible explanations for the game freeze involve the Chinese authorities trying to limit major tech companies' influence and power in the market. To combat video game addiction, China's video gaming industry association, China Game Industry Group Committee (CGIGC), along with 213 gaming companies, including Tencent and NetEase, pledged in 2021 to ban "unhealthy content" that was considered "politically harmful" and "historically nihilistic", and to boycott overseas platforms.<sup>32</sup>

During the freeze, content bans such as depictions of blood were introduced and an ethics committee was established to ensure games content followed the guidelines of the national propaganda organs.<sup>33</sup> For example, same-sex relationships, male characters who are not considered "masculine" enough, and excessive violence or sexual content are all prohibited.<sup>34</sup> Furthermore, terms such as "Tibet" and "Hong Kong" are censored, not only in games aimed at the Chinese market, but also in Chinese games accessible abroad. Although files of essentially forbidden terms circulate among companies, the government has not formally published them.<sup>35</sup>



In 2021, state-owned media called out Tencent for making money from “spiritual opium”, referring to video games.<sup>36</sup> Further measures were introduced to regulate the industry, which included restricting playing time for minors and prohibiting both cultural and political content that clashed with the official ideological values of the Chinese Communist Party (CCP).<sup>37</sup> The National Press and Publication Administration (NPPA), the Chinese government’s organ responsible for censorship of the media, suspended the licensing of new domestically developed video games between July 2021 and April 2022. This freeze coincided with the CCP issuing fines to major tech companies in July 2021, including Tencent, for failing to comply with Chinese monopoly laws.<sup>38</sup> When the freeze was lifted, the industry interpreted this as an indication that the authorities were relaxing their regulatory pressure on games developers. Surprisingly, however, the 45 title-long list of approved titles did not include any games from either Tencent or NetEase.<sup>39</sup> In August 2021, the Chinese state announced a five-year plan to overhaul the tech industry, which included breaking up monopolies in the Chinese market.<sup>40</sup> The exclusion of Tencent and NetEase might indicate state intervention to curb the companies’ dominance of the games market.

Following the licensing freeze, the Chinese games market shrank in 2022 for the first time since 2005, as sales fell by 10.33 percent year on year.<sup>41</sup> Furthermore, 14,000 Chinese games-related companies shut down because of waning revenues.<sup>42</sup> Amid the licensing freeze and pressure from censors, many Chinese gaming companies shifted their focus to releasing their games internationally. There are loopholes through which Chinese games developers can distribute games overseas using international online stores such as Steam and Epic Games Store.<sup>43</sup> If the games do not contain any prohibited content, the authorities do not interfere with their distribution abroad.

However, online gaming stores are also coming under increasing regulatory pressure. In December 2021, the main Steam website was blocked in China. While this has not totally prevented access to the service, it is currently inaccessible without a virtual private network (VPN). However, such connections are slow and Chinese players therefore often use game speed boosters to access the international multiplayer servers used in games such as Player Unknown’s Battlegrounds (PUBG) and League of Legends. Games boosters are legal but might also be on their way out. In April 2022, Tencent announced that its official games boosters would no longer support games that do not operate in mainland China. While there are alternatives to Tencent’s games boosters, there are concerns in the Chinese gaming community that they could be outlawed just as VPNs have been. Steam’s users in China were estimated at 30 million in 2018. Given the growth of the gaming industry over the years, it is safe to say that the Chinese user base’s absence would have a noticeable impact on global gaming studios that distribute their games via Steam.<sup>44</sup>

In October 2023, the Chinese government took another step to increase its control over the tech industry by acquiring “golden shares” in a Tencent domestic subsidiary through a government-controlled entity. These golden shares often amount to about 1 percent and sometimes involve a board seat or other advantages allowing the government insight into business activities and access to online data.<sup>45</sup> Government actions such as these have raised concerns among foreign governments about state intervention in private companies and surveillance of online data.<sup>46</sup>

## **Foreign games on the Chinese market**

To access the Chinese market, foreign games studios rely on the Chinese government to approve the sale of their games. They must therefore comply with the government's priorities. Since July 2020, foreign companies wishing to access the Chinese mobile games market have been required to apply for an International Standard Book Number (ISBN) to list their games in Chinese app stores. Several government agencies are involved in this application process, such as the Ministry of Industry and Information Technology (MIIT), the Copyright Protection Centre of China (CPCC) and the State Administration of Radio, Film and Television (SARFT), among others. To enter the market, foreign developers must then partner with a Chinese company on the registration and publication of their games, as foreign-invested enterprises (FIEs) are not allowed to directly publish games or obtain ISBNs.<sup>47</sup>

Foreign games were also affected by the above-mentioned licensing freeze, which ran from the middle of 2021 to the end of 2022 for international games. When the freeze was lifted, 44 imported games were approved for licensing on the Chinese market, some of which were to be licensed and published by Tencent and NetEase. By September 2023, the number of approved foreign-developed titles topped the total amount in the previous year at 58 approved titles.<sup>48</sup>

The CCP has a balance to strike between promoting the growth of the games sector and maintaining political control over it.<sup>49</sup> On the one hand, the CCP aims to use games to promote desirable values and behaviour, reaching a different audience than, for example, through newspapers. On the other hand, controlling games companies can hinder the development and profitability of the gaming industry, as shown by the closure of thousands of games companies in 2022.<sup>50</sup> At the same time, the CCP is constraining Tencent's and NetEase's market shares due to concerns about lack of competition in the gaming industry. The Chinese government has become wary of allowing monopolies in the tech industry and is increasing its influence by buying market shares in Tencent and encouraging other Chinese developers to compete in the industry. Nonetheless, the market continues to grow. In early 2024, the NPPA cleared more game titles for release than it had in the preceding 18 months; and both Tencent and NetEase announced a return to growth in 2023.<sup>51</sup>

## **China's overseas investments in the global games industry**

This section presents an overview of Chinese games companies' investments abroad, with a focus on Tencent and NetEase. It also describes how video games can be used as a means to achieve the Chinese state's ambitions.

### **Chinese games exports and investments abroad**

Chinese international investments have increased significantly in recent years. Tencent and NetEase have acquired shares in games companies of different sizes all over the world. Tighter controls on the Chinese gaming market and declining political relations with the US mean that Europe has emerged as the most appealing market. Tencent is said to be aiming for majority ownership of European games companies as part of its growth plan.<sup>52</sup>

Chinese games have been exported for many years, but only recently have they begun to gain major traction abroad. According to industry reports, Chinese-made game sales abroad amounted to US\$ 17.3 billion in 2022, down slightly from US\$ 18 billion in the previous

year.<sup>53</sup> Tencent's investments in overseas companies are on course to outpace its domestic investments, following minimal investments in China in 2022 compared to 27 overseas deals worth US\$ 3 billion.<sup>54</sup> The proportion of Tencent's income from international gaming markets grew from 10 percent in 2019 to 25 percent in 2022.<sup>55</sup> Tencent's goal is to source half of its total gaming revenue from outside China, but in 2023 its revenue from international markets fell by 5.65 percent to US\$ 16.3 billion.<sup>56</sup> While a decline in sales is something the video games markets at large is experiencing, Tencent's chief executive Pony Ma (Ma Huateng, 马化腾), expressed clear disappointment with the company's video games department. At an annual meeting in early 2024, Ma complained that competitors had continued to create new products, "leaving us feeling we have achieved nothing".<sup>57</sup>

## Tencent and NetEase corporate profiles

**Figure 2: Tencent company structure**



Source: Tencent<sup>58</sup>

Tencent is an investment company founded in Shenzhen in 1998 by its current chief executive, Pony Ma among others. Tencent provides a number of services in the technology sphere, such as social media, streaming and cloud services, e-commerce, video games, fintech, entertainment, and AI and technology solutions through its subsidiaries.

Tencent reports revenues in different business segments: value-added services, online advertising, fintech and business services, among others. Revenues from domestic and international gaming are included in value-added services together with social network services such as QQ and Weixin/WeChat.<sup>59</sup> The value-added service segment makes up the largest share of Tencent's revenue and domestic games is the largest contributor.<sup>60</sup>

Tencent Games was launched in 2003 as part of the Interactive Entertainment Group. It became the largest online gaming platform in China in 2009, and the world's largest online games developer and publisher by revenue in 2013.<sup>61</sup>

NetEase Inc. was founded by William Ding (Ding Lei, 丁磊) in 1997. NetEase is an Internet and gaming services provider that operates through four business segments: online gaming services, intelligent learning services, cloud music and innovation. Like Tencent, online games are the largest contributor to the company's revenue.<sup>62</sup>

In the international arena, Tencent and NetEase have typically acted as investors, purchasing stocks in global games companies. In 2021, Tencent launched a new international publishing brand, Level Infinite, which is responsible for promoting and releasing games from both Chinese and foreign Tencent-owned studios.<sup>63</sup> Tencent and NetEase are also known to have established games studios in the US and Europe. For example, Tencent launched the US studio LightSpeed LA in 2020, and NetEase opened Anchor Point in 2023, a studio founded by industry veterans in Barcelona.<sup>64</sup>

Tencent has built a solid presence in the global games market due to investments in market leaders such as Riot Games, Epic Games, Ubisoft, Krafton and Supercell.<sup>65</sup> As Tencent's investments at home come under the scrutiny of the government's anti-monopoly laws, it has frequently required venture capital partners to remove its name from press announcements and rarely discloses the total amount of its investments worldwide.<sup>66</sup> Table 1 lists a selection of Tencent's largest international investments.

**Table 1: Overview of Tencent's ten largest known investments in the gaming sector by share**

<b>Company name</b>	<b>Location</b>	<b>Size of Tencent's share</b>	<b>Investment latest confirmed</b>
Funcom	Norway	100%	2024 <sup>67</sup>
Leyou	Hong Kong	100%	2022 <sup>68</sup>
Riot Games	United States	100%	2024 <sup>69</sup>
Sharkmob	Sweden	100%	2023 <sup>70</sup>
Turtle Rock	United States	100%	2022 <sup>71</sup>
Supercell	Finland	84%	2022 <sup>72</sup>
Grinding Gear Games	New Zealand	80%	2022 <sup>73</sup>
Stunlock Studios	Sweden	>51%	2021 <sup>74</sup>
Fatshark	Sweden	>51%	2021 <sup>75</sup>
1 C entertainment	Poland	>51%	2022 <sup>76</sup>
Klei entertainment	Canada	>51%	2021 <sup>77</sup>
Techland	Poland	>51%	2023 <sup>78</sup>
Yager development	Germany	>51%	2024 <sup>79</sup>
10 Chambers Collective	Sweden	50.2%	2023 <sup>80</sup>
Dontnod Entertainment	France	41.9%	2023 <sup>81</sup>
Epic Games	United States	40%	2023 <sup>82</sup>
Pocket gems	Japan	38%	2022 <sup>83</sup>
Bloober team	Poland	20.1%	2023 <sup>84</sup>
Marvelous	Japan	20%	2022 <sup>85</sup>
Sea Limited (Garena)	Singapore	18.7%	2022 <sup>86</sup>

NetEase, which is less well known than Tencent outside China but still far from unknown in the industry, has thus far kept a lower profile. NetEase's gaming revenue is currently primarily local (90 percent vs Tencent's 73 percent), but the company's goal is to have nearly half of its gaming revenue generated outside China.<sup>87</sup> Since 2021, NetEase has strengthened its global operations and expanded into new markets, especially in the United States, Japan, Canada and the United Kingdom. Rather than investing on the same scale as Tencent, NetEase has traditionally focused on smaller and more creative studios.<sup>88</sup>

### **Video games as a means to achieve the Chinese state's ambitions**

In October 2021, the Central Propaganda Department of the CCP named video games one of the export categories aimed at promoting Chinese culture by “telling China's story well” (讲好中国的故事).<sup>89</sup> In addition, when Shanghai's propaganda department announced a support fund for cultural exports, “Chinese culture goes global” (中华文化走出去), five of the 58 projects selected for promotion were video games.<sup>90</sup> However, Chinese games face challenges in their global expansion, such as cultural differences and localization issues. Stricter privacy policies and the anti-tracking measures of different app stores to protect user data have also made it difficult for Chinese developers to analyse their userbase for marketing and development purposes.<sup>91</sup>

Moreover, as political tensions grow between the West and China, Chinese investments are increasingly viewed with scepticism by western authorities, especially in industries linked to the Chinese government's Made in China 2025 (MIC 2025) initiative. MIC 2025 is the CCP's strategy for reducing its reliance on other countries for its technological and industrial needs and to instead take a leading position in innovation and development globally.<sup>92</sup> According to the Swedish Defence Research Agency (FOI), games companies seem in most cases to be included in the MIC 2025 category “next generation information technology”.<sup>93</sup> While it is not certain that the Chinese state views games companies as part of the MIC 2025 initiative, it is clear that China is aiming to become the global leader in AI technology.<sup>94</sup> As AI becomes more widely used in the gaming industry, its applications become multi-faceted, such as learning player behaviour, conducting data mining, generating graphics or shaping entity behaviour and interactions. In terms of both surveillance and technological development, AI components of games could be of special interest to the Chinese state.

In order to thrive in China's ideologically charged economy, Chinese games companies must balance their commercial interests with protecting themselves from criticism for any possible immoral behaviour, such as promoting the “wrong” kinds of values in society. To remain in the state's favour, Tencent stated in 2023 that the company aimed not only to maximize profits through global expansion, but also to play a role in spreading Chinese culture through its games overseas, citing Call of Duty Mobile as an example where “cultural elements like Suzhou embroidery and paper-cutting” were part of the game.<sup>95</sup>

## Artificial intelligence in gaming

Artificial Intelligence (AI)<sup>96</sup> has been used in video games for over 70 years and serves a variety of purposes, including programming non-player characters (NPCs) and other entities to exhibit intelligent behaviour and make decisions, and making the game experience more realistic.<sup>97</sup> AI can also be used to assess large quantities of data and provide an analysis. For example, a company can use data-mining to collect information about player activity, including why they started playing their game, what aspects they use and enjoy most, and why they stopped playing.<sup>98</sup> AI can also conduct testing to detect errors in games, identify bugs and even suggest solutions, making the process more time and labour efficient.<sup>99</sup> Furthermore, AI can police players by detecting cheating in multiplayer games, which is detrimental to a positive gaming experience.<sup>100</sup> PUBG, the mobile version of which is published by Tencent, has introduced such anti-cheating measures, which has increased the number of account bans more than threefold, banning up to 100,000 accounts every week.<sup>101</sup>

While AI serves numerous purposes, there are worries about its application to the gaming industry, not least data privacy and the possible generation of offensive content. The latter is particularly true for generative AI, which is gaining traction in video games.

Generative AI is the next generation of AI. Unlike traditional AI, which focuses on accomplishing a certain task, it can generate something unique from the information it is given. In the gaming industry, generative AI has the ability to deliver more personalized and lifelike experiences. For example, generative AI might create individualized tales and objectives based on the player's previous data. Generative AI can also transform the development process by assisting game designers with monotonous tasks, allowing them to focus more on creative areas. In China, generative AI is used to make NPCs more dynamic and lifelike. NetEase, for example, uses ChatGPT to generate NPC talks, while Ubisoft's Chinese affiliate, La Forge China, has developed Ghostwriter, an AI tool that generates novel NPC dialogue.<sup>102</sup>

However, experts have warned that using generative AI can result in unanticipated narratives, giving game developers less control.<sup>103</sup> Furthermore, there are legal hurdles to deploying generative AI. For example, game makers must ensure that the data used to train the AI does not violate IP rights.<sup>104</sup>

## Chinese investment in the Swedish gaming industry

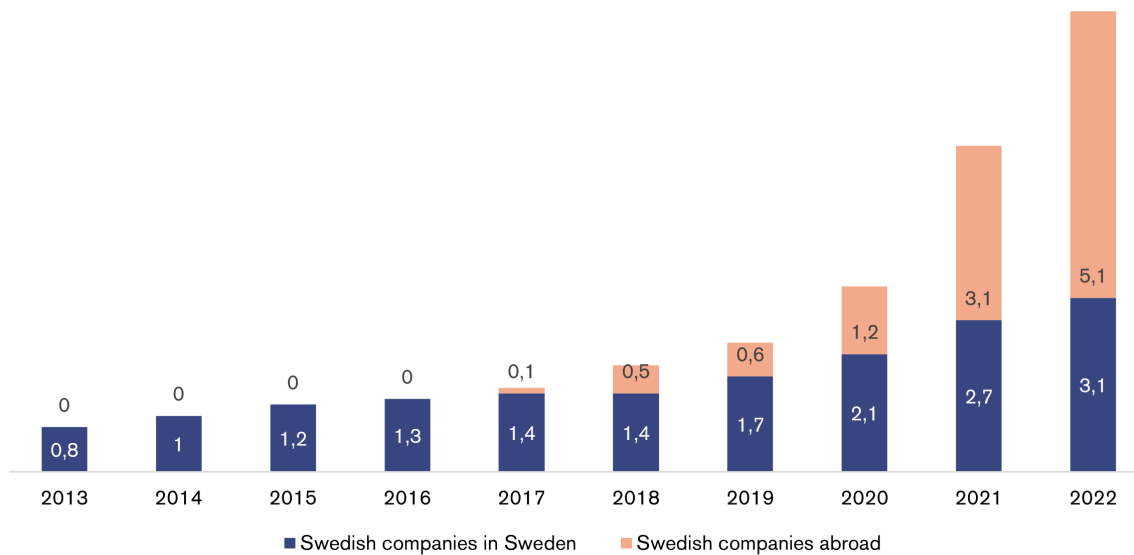
This section provides an overview of the Swedish gaming industry and Chinese investments in Swedish gaming studios.

### Overview of the Swedish gaming industry

The Swedish gaming industry is expanding fast. Turnover has increased by 50 percent in the past five years.<sup>105</sup> In 2022, Swedish games companies, including subsidiaries, had a combined turnover of €8.1 billion, outperforming traditional Swedish export industries such as iron ore, pulp and trucks.<sup>106</sup> In 2022, Sweden was home to 939 games companies employing 8445 workers. Together, these companies generated revenues of €3.1 billion, accounting for 0.5 percent of Sweden's gross domestic product (GDP), and profits of €1.8 billion.<sup>107</sup> In 2023, an estimated 6.7 million Swedes played games on various platforms, 4.1

million of whom were spending more money on games than the global average. Apart from its economic significance, the Swedish gaming industry has a strong international reputation. An estimated one in four people in the world has played a game developed by Swedes.<sup>108</sup> Swedish game developers are behind successful titles such as Candy Crush, Minecraft and Cities: Skylines; and Swedish-made games continue to be popular, reaching 7 billion downloads worldwide as of 2023.<sup>109</sup>

**Figure 3: Swedish games companies' revenue (€ billion)**



Source: Game Developer Index 2023.<sup>110</sup>

In 2021, Sweden was Europe's third-largest host to game development studios after France and the UK. The Swedish games industry was the sixth largest employer in European countries and had the fourth highest national turnover of games development studios and publishers.<sup>111</sup> Swedish games companies also have a strong international presence. In 2022, the Swedish games industry employed 16,494 people worldwide, earning €5.1 billion in revenue and €1.9 billion in profits.<sup>112</sup>

### Chinese presence in the Swedish gaming industry

Since 2016, Tencent and NetEase have taken both minority and majority stakes in a range of development studios, from small indie studios to large publicly listed companies (see table 2). While Chinese foreign direct investment (FDI) can be found in only a small fraction of Swedish games companies (six out of 939), the fact that the majority of Swedish gaming studios have been acquired by other domestic companies, and that FDI is uncommon in Sweden generally make these Chinese investments more noteworthy.<sup>113</sup> There could be a variety of reasons for studios accepting financing from Tencent and NetEase. In one recorded case, Tencent kept a company afloat in difficult times by providing financial resources that prevented it from going bankrupt.<sup>114</sup> In other cases, Swedish studios have collaborated with Tencent or NetEase to gain access to the Chinese market, where their games have demonstrated significant potential.<sup>115</sup>

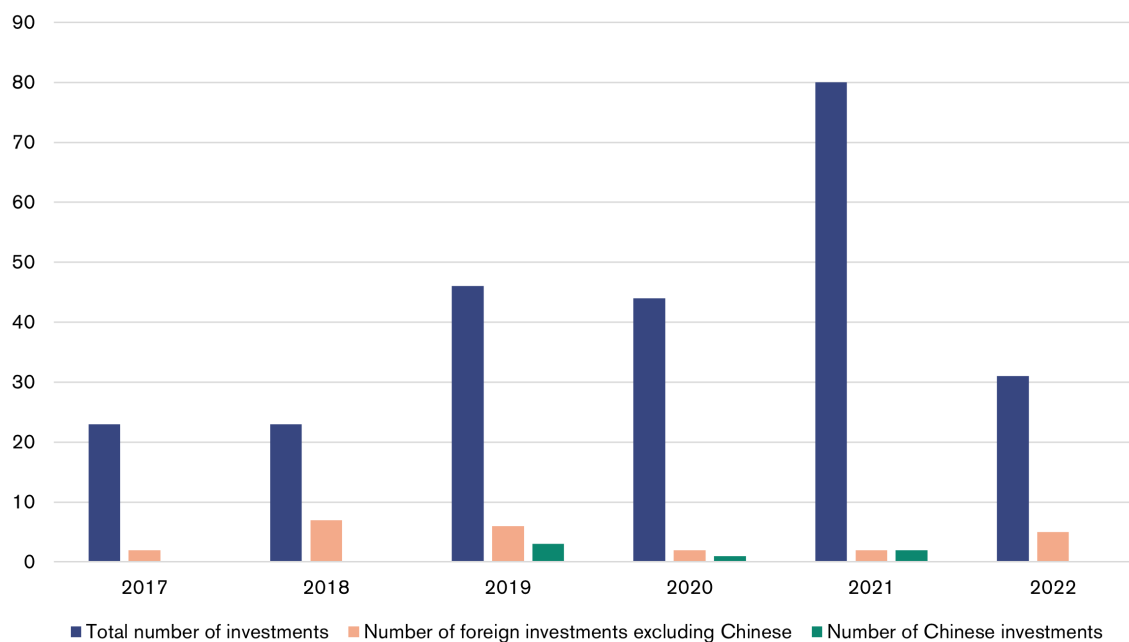
**Table 2: Chinese direct investments in Swedish gaming studios** <sup>116</sup>

Swedish company	Chinese investments
10 Chambers	Tencent has owned 50.2 percent since 2020
Fatshark	Tencent has had a majority stake since 2021
Liquid Swords	NetEase has had a minority stake since 2022
Sharkmob	Tencent acquired the studio in 2019
Stunlock Studios	Tencent has had a majority stake since 2021
Paradox Interactive	Tencent has owned 10.2 percent since 2016

Source: Swedish Defence Research Agency and media coverage.<sup>117</sup>  
 Note: In some cases, the exact size of the stake is not known.

The habit of large tech companies investing in games companies through different subsidiaries, many of which are privately owned, makes it increasingly difficult to track their global expansion. For example, the Norwegian games company Funcom, which is a wholly owned subsidiary of Tencent, acquired the Swedish studio The Outsiders in 2021.<sup>118</sup> Geopolitical tensions and increasingly negative views of China seem to have made many foreign governments, particularly in the West, more suspicious of Chinese investments. It is likely that Chinese games companies are seeking to avoid unfavourable publicity. Tencent Games, for example, has deleted “Tencent” from its global publishing label, Level Infinite, and, as stated above, has required venture capital partners to remove Tencent’s name from press releases.<sup>119</sup> Because of the difficulty in discovering investments, and the desire of Chinese corporations to keep out of the spotlight, it is likely that more Swedish studios than those shown in Table 2 have received investment from a Chinese company.

**Figure 4: Distribution of foreign and domestic investment in the Swedish gaming industry**



Source: Game Developer Index 2023.<sup>120</sup>



Swedish studios with a degree of Chinese ownership have expressed enthusiasm for Chinese funding in the Swedish media and argued that investments by Tencent and NetEase have had little impact on their operations. The studios claim that they retain their creative freedom and independence in terms of how they conduct their business and regarding the content of games.<sup>121</sup>

## Potential risks associated with Chinese investments in the global video game industry

This section presents an overview of concerns related to Chinese investments in the global gaming industry that have been raised in the western public debate. Such concerns are mainly linked to political and security issues, as well as cultural influence and the propaganda promoted by the CCP, censorship and self-censorship of content in games, and the collection of personal and geographic data. We also highlight concerns related to Chinese companies' business strategies, intellectual property rights and how commercial connections with Chinese actors might damage a company's image and reputation. The section also examines the potential risks posed by Chinese investments in the Swedish gaming industry, as reported by the professionals we have spoken to for this study. While some of these risks are consistent with the concerns highlighted in the western public discourse and could be applicable to nations other than Sweden, it cannot be ruled out that other countries face additional risks or that the severity of the risks discussed may vary.

**Table 3: Summary of potential risks and key take aways**

Potential risk	Hypothetical example	Key takeaway
<b>Cultural influence and propaganda by the Communist Party of China</b>	Chinese corporations attempt to disseminate Communist Party propaganda through games developed by international games companies that they have invested in.	Some experts argue that China has a long-term strategy in the video games industry, in which China can use games as a medium or platform for promoting a certain image of China abroad. However, other experts argue that since games characterized by propaganda tend to do poorly in the western marketplace, the likelihood of Chinese corporations disseminating Communist Party propaganda through international games companies seems quite small at the moment.

<p><b>Censorship and self-censorship of content in games</b></p>	<p>Western game developers adapt their games to comply with Chinese rules on censorship or cultural norms.</p>	<p>Studios in the West that want to enter the Chinese market generally adapt their original versions in line with Chinese censorship rules and cultural norms. As foreign games developers usually create two versions of the same game when aiming to enter the Chinese market, games available on the western market is rarely adapted to the Chinese censorship apparatus.</p>
<p><b>Data collection through games</b></p>	<p>Data collected through games, developed by Chinese-owned companies, is accessed and used by the Chinese authorities for intelligence gathering.</p>	<p>In recent years, a series of laws dealing with data and national security have been implemented in China, which raise concerns about the risk that data collected through games developed by Chinese-owned companies can be accessed and used by the Chinese government. The gathering of chat logs and geo tags, for example, can supplement other information gathered in refugee espionage, although it is difficult to determine the extent to which data collection through games is used for intelligence gathering.</p>
<p><b>Motives for Chinese investors' hands-off approach</b></p>	<p>A strategy to gain a foothold in the global gaming industry.</p>	<p>There are conflicting views on this approach. Some argue that it is a calculated strategy to increase Chinese influence in the global games industry, while others believe it is more genuine, suggesting that Chinese companies believe in the games companies they invest in and therefore has no interest in interfering.</p>
<p><b>Lack of transparency owing to fear of a public backlash</b></p>	<p>Fear of Chinese investments being at the centre of attention rather than the game leads games studios to conceal their funding sources.</p>	<p>Companies' lack of transparency through fear of reaction could become a larger issue for the industry, as it makes it more difficult to track Chinese investments.</p>

<b>Violation of intellectual property rights</b>	A local Chinese publisher exploit international games companies' intellectual property or use it as leverage.	This is mainly an issue for companies seeking to enter the Chinese market.
<b>Regulatory issues and geopolitical risk</b>	Increased regulations in the Chinese gaming industry, combined with Beijing's greater assertiveness over Taiwan, drain Chinese gaming companies' financial resources, forcing them to withdraw from overseas investment agreements.	As a result of the Chinese government's regulations on the gaming industry, a volatile economy and the tense political landscape, Chinese companies' investments are considered increasingly risky.

### **Cultural influence and propaganda by the Communist Party of China**

There have been instances of Chinese games companies collaborating with the Chinese government. In 2019, for example, Tencent cooperated with the *People's Daily*, the Chinese state newspaper and mouthpiece of the CCP, to release a game called "Homeland Dream". The purpose of this game was for players to develop cities which carried out policies that reflected important goals of the Chinese government, such as poverty alleviation.<sup>122</sup> This example highlights a recurring concern related to Chinese investments in the global gaming industry, often raised in the western public debate – the relationship between Chinese companies and China's political leadership. Such concerns are part of a wider debate that has been sparked in the West about whether Chinese investors of games studios in Europe and the US could influence the games they develop, for instance by promoting CCP values and propaganda, and thereby influencing the next generation of gamers.<sup>123</sup>

According to existing research, Tencent's investments in games companies outside of China offers Tencent the authority to enforce certain values and norms on non-Chinese players, which poses challenges to free speech, for instance by making western companies abide by Chinese censorship requirements.<sup>124</sup> Furthermore, some experts interviewed in western media outlets have stated that China can use games to spread certain ideals and shape the debate, for example by forbidding the discussion of subjects such as human rights and Taiwan's independence. However, other experts are sceptical about the risk of Chinese investors seeking to change games available on the western market, arguing that Chinese companies know from experience that games with certain features, including more or less obvious CCP propaganda, will not be successful in the West.<sup>125</sup> Along similar lines, some of the actors we spoke to for this study argue that although it is technically possible, the likelihood of Chinese corporations attempting to disseminate propaganda through Swedish games companies is currently quite small, since games characterized by propaganda tend to do poorly in the marketplace.<sup>126</sup> Nonetheless, some experts interviewed in western media assume that China could attempt to accomplish what Hollywood has done by propagating certain values globally through film. China could spread its messages and values through video games. For example, one feature that some believe could start to appear in games owned by Chinese companies is that the "good guy" would be Chinese while the "bad guy" would be from the West. One difference, however, would be that Chinese companies would

not be able to criticize the Chinese leadership in the same way as Hollywood has criticized Washington.<sup>127</sup>

Just as games promote and portray various realities and narratives in ways that can affect players' perceptions, they can also act as a platform or channel for cultural influence. According to an expert interviewed in western media, games are "the next generation's media properties", which Chinese companies can currently purchase with relatively little competition. If Tencent had purchased shares in newspapers, for instance, the reaction would almost certainly have been stronger. In western media, some assess that China is "playing the long game" in entering the gaming industry.<sup>128</sup> The idea of China having a long-term strategy resonates with the potential risks raised by several actors we spoke to for this study. Some claimed that games can be used as a medium or platform for promoting a certain image of China abroad. According to some of these actors, Chinese investments in the Swedish gaming industry could in the long run be used to exert influence or put pressure on Swedish companies to act in certain ways. Furthermore, by establishing relations over a long period of time, perhaps between 10 and 30 years, with Swedish gaming companies that have the potential to become highly valued in the future, Chinese investments in Swedish games companies could be used as a gateway to exert influence in other parts of society over time.<sup>129</sup> Some actors argue that given that some gaming environments are closely integrated with universities and large companies, long-term relationship building in the Swedish high-tech industry could result in vulnerabilities to influence in the university sector and business circles, and that data, innovation and competence could be gathered in these fields.<sup>130</sup>

Affecting the culture and worldview of young people through strategic communications using games as a platform is another potential risk raised by the actors we spoke to. Since the gaming industry is fairly young and games have not been around for very long, it is difficult to predict how this might take place. However, the culture and messages conveyed through games could potentially work in a similar way to how social media platforms such as TikTok shape culture and affect young people's worldviews. According to some of the actors we spoke to, certain narratives and messages inserted into games could potentially change players' perceptions and opinions on political topics, among other things. Similar messages and narratives to those being inserted into games could, according to this reasoning, also be communicated through other platforms, such as social media platforms that target the same audience. This could affect public opinion on these issues.<sup>131</sup> In addition, these young people could later obtain sensitive positions in business circles or as decision makers in the public sphere. This highlights another potential long-term security aspect of this risk, in the case of people's worldviews being influenced by CCP narratives.<sup>132</sup>

There have been instances where western games companies have been torn between freedom of expression, on the one hand, and their commercial interests in China, on the other. In 2019, Blizzard, a US games developer that had initiated a partnership with NetEase in 2008, excluded a professional gamer from Hong Kong from its global e-sports competition, Hearthstone. The reason for the exclusion was the gamer's comments after winning a game, in which he expressed support for the pro-democracy movement in Hong Kong, stating "Liberate Hong Kong, revolution of our times".<sup>133</sup> The official Hearthstone account on Weibo, a Chinese microblogging platform, repeated Blizzard's announcement in Mandarin, adding that it would "resolutely safeguard [China's] national dignity".<sup>134</sup> Blizzard withheld the gamer's winnings and prohibited him from participating professionally in Hearthstone e-sports for one year. Blizzard faced heavy criticism from players, business leaders and politicians, as well as

its own employees, prompting the company's president to apologize. The gamer received his prize money and his suspension was reduced to six months. Blizzard's president admitted that NetEase was involved in the conversation over expelling the gamer, even though he had at first claimed that Blizzard's ties with China were not a factor in the decision.<sup>135</sup>

There are also documented instances of failed attempts by China to exert influence over the gaming sector. For example, the Chinese government has tried to homogenize global video games. In 2021, China presented a motion at the International Organization for Standardization (ISO), suggesting that video games should be regulated in a similar way to other types of goods, such as car seats. The aim of this motion was said to be to treat video games solely as a technical, rather than an artistic, product. The trade association the Swedish Games Industry resisted the motion, arguing that video games are art, and that freedom of speech is needed for video games exports to be successful. According to the association's spokesperson, regulating games "in the same manner as lightbulbs would curtail the creators' freedom".<sup>136</sup> Although the motion was voted down, it caused concern about China's growing influence on the global gaming industry. For instance, before deciding to vote against the motion, one country's gaming association consulted with a member company's Chinese owners.<sup>137</sup>

### **Censorship and self-censorship of content in games**

With regard to the system of censorship in China, some rules are clear. Games that violate copyright or "endanger social morality or national cultural traditions", for instance, are prohibited, as well as those disclosing state secrets or "promoting cults and feudal superstitions".<sup>138</sup> In addition, since 2019, features such as blood, corpses and gambling are not allowed to be included in games as Chinese authorities worry about violence and gaming addictions among young people.<sup>139</sup> However, most of the guidelines are vague and ambiguous "unwritten" rules, such as that characters cannot rise from the dead, and that bones and ribs cannot be shown. This gives the censors a great deal of leeway in deciding what is permitted.<sup>140</sup> Hence, it can be difficult for foreign companies seeking to enter the Chinese games market to determine what is and is not acceptable. A game that has made it through the censors can also be removed from sale in China at a later stage. For instance, "Animal Crossing: New Horizons", a Nintendo Switch game, could no longer be purchased on websites in China after Hong Kong activists used the game to spread pro-democracy messages.<sup>141</sup>

The CCP has long censored content that it considers critical of the Chinese leadership in films, television, memes and websites, and video games are no exception.<sup>142</sup> Foreign games banned in China for political reasons generally contain content about political issues that is not in line with the CCP's view on issues such as Taiwan and Tibet.<sup>143</sup> Preventing foreign games from entering the Chinese market is not new. In 2004, China banned the video game "Hearts of Iron" by Sweden's Paradox Interactive for "distorting history and damaging China's sovereignty and territorial integrity".<sup>144</sup> The maps in the game featured Tibet, West Xinjiang and Manchuria as sovereign nations, and Taiwan was depicted as part of Japanese territory. According to the Chinese Ministry of Culture, this violated "China's gaming and Internet service regulations".<sup>145</sup> Around the same time, several other foreign video games were banned in China by the Chinese authorities for "intentionally blackening" or "smearing" China and the image of the Chinese army.<sup>146</sup>

Foreign companies seeking to enter the Chinese games market commonly censor features in their own games as a preventative measure.<sup>147</sup> Making adjustments to a game after it has been rejected for sale in China is both time-consuming and expensive. Foreign games developers are therefore often proactive in exercising self-censorship.<sup>148</sup> In the context of the gaming industry, self-censorship can be defined as “the practice of developers, publishers, or other industry stakeholders choosing to censor or restrict certain content in their games to avoid controversy or negative backlash”.<sup>149</sup> Examples of self-censorship include the removal of political or sexual themes as well as acts of violence. Self-censorship can be exercised to avoid censorship by governments or to prevent negative effects on players.<sup>150</sup> Studios in the West that want to enter the Chinese market therefore generally adapt their original versions in line with the censorship rules mentioned above.<sup>151</sup> According to some actors we spoke to, however, companies that aim to enter the Chinese market usually create two versions of the same game, instead of adapting the game available on the western market to the Chinese censorship apparatus.<sup>152</sup>

There have, however, also been instances of the international gaming community having criticized the availability of certain games on the western market with features that have been self-censored so that the game can be sold in China. For example, in 2018, the French gaming studio Ubisoft, in which Tencent has a 5 percent stake, changed some of the content of the game *Rainbow Six Siege* to make it suitable for the Chinese market. These changes included removing sexual content, blood and gambling symbolism from the game. This sparked a widespread backlash among players worldwide who criticized Ubisoft for censoring the game for all players to appease and appeal to China. Following this backlash, Ubisoft announced that the changes would be reinstated following a “conversation with our community”.<sup>153</sup> In a new update of the game in 2021, however, certain features were once again removed from the game, including blood, drugs and skulls. The decision sparked concern in the international gaming community about the risk of China influencing games globally.<sup>154</sup> In 2020, global users of the game *Genshin Impact*, developed by the Chinese company miHoYo and released globally that year, complained that the in-game chat had an automatic censorship function, as specific political terms such as “Taiwan”, “Falun Gong” and “Hong Kong” were prohibited.<sup>155</sup>

Localization is the process of modifying a game for publication in a different area or market. In addition to translating the game’s dialogue and text into other languages, localization entails customizing the game to suit regional and cultural norms, as well as marketing and promoting it appropriately for the target market.<sup>156</sup> However, localization also allows for censorship and information influencing.<sup>157</sup> Still, some of the actors we spoke to stated that removing certain features from a game, such as skulls, could be viewed as an adaptation to Chinese culture rather than as censorship. Such adaptations can be contrasted with obvious censorship, such as removing a feature of a game in which China is invaded. Some actors also argued that games companies are constantly adapting their products to make them fit their intended markets.<sup>158</sup>

### **Data collection through games**

Games frequently collect personal data, such as name, date of birth, and payment details, or capture audio samples.<sup>159</sup> Previous research has shown that gaming systems can record an extensive amount of data on activities on platforms and within games, since players frequently interact with the game for very long periods of time. As stated above, AI can also be used to collect and analyse various data by conducting data mining or Player Sentiment Analysis.

Player metrics can sometimes be shared with various actors, for instance, to improve a player's gaming experience. The main purposes of metrics are to guide business decisions and to optimize game design and technology. There are therefore potential advantages to player data mining for both developers and players. However, game designers and companies must also balance such aspects with respecting the consumers' right to privacy.<sup>160</sup>

In recent years, a series of laws dealing with data and national security have been implemented in China.<sup>161</sup> These laws raise concerns about increased control from the Chinese state not only in China but also abroad, for instance in terms of the risk that data collected through games developed by Chinese-owned companies can be accessed and used by the Chinese government. In this context, concerns about personal and geographic data gathered by Chinese-owned games companies have been addressed in the public debate. Such concerns are linked to a wider discussion about whether the Chinese government can access user data from social media platforms like TikTok and Chinese-owned video game companies.<sup>162</sup> One case in point is the so-called anti-cheat software, Vanguard, that is used to prevent cheating in games developed by Riot Games which is owned by Tencent. Players in the gaming community have raised concerns about the software running at all times, and thus interfering with users' privacy.<sup>163</sup> In 2020, Riot Games' chief information security officer claimed that Tencent had not asked for or attempted to obtain Riot Games' data, adding that Riot Games "would probably not allow it to happen" in the unlikely event that such a request were made.<sup>164</sup> Similarly, after discovering that Genshin Impact's anti-piracy software continued to function even after the game had been deleted, some gamers accused the developer of planting spyware on their computers. The developer argued that this was an error and released a fix.<sup>165</sup>

In 2021, Tencent began discussions with the Committee on Foreign Investment in the United States (CFIUS) about its holdings in the game developers Riot Games and Epic Games. The CFIUS had been looking into whether either company's handling of user data might pose a "national security risk" due to their Chinese ownership. If the committee believes there is a risk, it can ask Tencent to sell its US assets.<sup>166</sup>

Tencent has also invested in the South Korean company Krafton. Its game Battlegrounds Mobile India (BGMI) was banned by the Indian government in 2022 due to concerns about data sharing with China. BGMI was removed from the App Store and Google Play Store, among other online retailers. The removal of BGMI followed India's ban on PUBG in 2020, which was part of the country's ban of at least 100 mobile apps originating from China.<sup>167</sup>

Along similar lines, actors we spoke to for this study suggest that Chinese corporations could use games to gather personal and geographic data from users abroad. Other professionals in the field believe that data is mainly collected through platforms rather than from games developers, for example gaming distributors like Steam, adjacent chat platforms such as Discord and consoles such as XBOX. The data that game developers gather themselves is usually anonymized and stays in these developers' own databases. Some actors argue that user data is generally gathered for commercial reasons, such as merchandising. Data that is not accessible where it is logged can still be gathered through purchase.<sup>168</sup>

Some of the actors we spoke with pointed out the potential risk that data obtained through platforms could be used for illicit means, such as intelligence gathering. For example, the gathering of chat logs and geo tags can serve as a supplement to other information gathered through refugee espionage. Thus, games can be used to map and gather information about

certain actors or groups of people in Sweden, such as the Chinese diaspora. Actors also raised the risk of industrial espionage. Investments in a company can give the investor insights into that company's operations and business, as well as access to databases where a considerable amount of information is gathered. Even if investors do not currently intend to gather information, they could wish to do so in the future.<sup>169</sup>

### **Motives for Chinese investors' hands-off approach**

Financial resources are usually scarce in the gaming industry and according to the actors we spoke to for this study and the Research Institute of Sweden (RISE), access to capital has been identified as one of the industry's largest challenges, especially in the early stages of growing a new business.<sup>170</sup> For example, Swedish initiatives on financing are entirely private-sector run and Swedish actors in the gaming industry have complained about the lack of financial incentives such as tax breaks and finance structures to support Swedish start-ups to compete globally.<sup>171</sup> This gives leeway for foreign investors to acquire shares in Swedish games companies with little competition. Some of the actors we spoke to for this study argued that the gaming industry is often perceived as "immature", and many of those who run businesses are passionate gamers themselves rather than the most experienced executives.<sup>172</sup> One professional that we spoke with stated that "money is money" and many companies, especially in times when the industry is facing economic headwinds, will take any investment they can get, regardless of the possible downside.<sup>173</sup>

Among the professionals that we spoke to for this study, the overall perception was that Chinese companies' investment attitudes are quite unique in the sector; they contribute enormous financial resources, sometimes much more than companies ask for, while remaining fairly hands-off.<sup>174</sup> According to a former employee at a Swedish Chinese-owned game company, however, this could be a strategy to appear pleasant and easy to deal with at first in order to gain influence later on. For example, this person claimed that a Chinese company allowed a Swedish gaming studio to operate completely freely on projects that the studio was already running before the Chinese company came on board, but that in subsequent projects the Chinese company was interested in changing some of the components of the game, particularly those related to payment models.<sup>175</sup>

Gaming payment models are part of a wider conversation in the gaming industry about how cultural norms shape how video games make money. Whereas it is customary in western marketplaces to pay for a game when downloading it, "free-to-play" is the dominant payment model in Asian markets, particularly in China. This business model involves free games, while microtransactions such as in-game purchases are made with real money in exchange for extra features, and upgraded abilities, characters or content.<sup>176</sup> While microtransactions have recently gained some traction in western markets, they have also drawn a lot of criticism. Users commonly refer to this model as "pay-to-win", since it creates a distorted playing field in which people with more financial resources can pay to obtain benefits. Chinese companies aiming to push this model on companies they invest in might be seen as an example of how Chinese companies use their financial clout to create new standards in the global gaming industry.

While most of the actors we spoke to for this study agree on the hands-off approach, there has been media coverage of how Chinese regulatory measures have put pressure on Chinese companies, particularly Tencent, to intervene more and control the content of the games they publish. Tencent, for example, added an "anti-addiction system" to its mobile games after



the Chinese government raised concerns about gaming addiction among minors, declaring that Tencent would check users' identities and ages and limit children aged 12 or under to one hour of play daily.<sup>177</sup> This shift in perceptions of game makers' creative freedom has mostly impacted Chinese games developers. However, it shows how the large Chinese tech companies comply when the government wills it, and that the hands-off policy may swiftly become more invasive for foreign developers as well. Nonetheless, the actors we spoke with state that this would not be accepted by most western developers because if word spread that Chinese actors were attempting to change content or other features to comply with the Chinese government, Chinese companies could "kiss increased overseas investments goodbye".<sup>178</sup> However, as noted above, several actors we spoke with believe that Chinese corporations are playing the long game, and that the hands-off strategy will allow them to gain influence over global studios that they can later take advantage of.<sup>179</sup> In short, there appear to be conflicting views on the objectives behind this so-called hands-off policy and the potential risks it might entail. Some argue that it is a calculated strategy to increase Chinese influence in the global gaming industry, while others believe it is more genuine, signalling that the Chinese firms believe in developers and are allowing them to do what they do best.

### **Lack of transparency owing to fear of a public backlash**

Over the past decade, there has been much debate regarding how Hollywood has catered to Beijing's interests in order to profit from China's massive box office revenues. In 2012, for example, in *Red Dawn*, a retelling of the Cold War era, the invaders of the US were changed from Chinese to North Koreans.<sup>180</sup> More recently, in 2022, the Taiwanese and Japanese flags on Tom Cruise's bomber jacket in *Top Gun: Maverick* were replaced with other symbols. The flags were restored before the final release of the film, although the film never made it to China.<sup>181</sup> The shift in Hollywood's attitude to appeasing Beijing might be due to the fact that US films are no longer producing the high box office revenues in China that they did a few years ago.<sup>182</sup> Furthermore, heightened tensions between the US and China have increased the likelihood of a domestic backlash. Films that appear to change their content in reaction to or anticipation of a request from the Chinese government are sometimes denounced by both the public and politicians, who criticize Hollywood for "kowtowing" to China.<sup>183</sup>

The fear of a backlash in the home market when partnering with a Chinese company is something that applies to games developers as well. Several of the actors we spoke with raised concerns about how connections to a Chinese company might affect a Swedish company's brand and reputation among the gaming community. According to this reasoning, customer perceptions are vital to the industry and bad PR can destroy an entire game release.<sup>184</sup> As public attitudes to China in Sweden grow increasingly negative, some actors in the industry believe that the relationship with Chinese investors will become the centre of attention rather than the game.<sup>185</sup> However, according to the professionals we spoke with, customers do not seem to be sensitive about whether a game was made possible with Chinese financial resources, either because they are unaware or because they do not care.<sup>186</sup> This matches other industry experts' belief that as long as a game appeals to the market, players have grown less concerned about who created it.<sup>187</sup> Actors we spoke to have also pointed out that many of the most popular games in the global gaming sphere have been developed by gaming studios owned by Chinese companies. One expert claimed that the moral aspect disappears when there are no alternatives.<sup>188</sup>

The perception of Chinese investments as negative PR might also lead games companies to conceal the origins of their financing. Issues associated with self-censorship in the form of modifying content to avoid rejection by the Chinese censorship apparatus are discussed above. However, it seems that self-censorship as a result of Chinese investments is significantly more widespread. Most of the companies contacted for this study made it clear that they did not wish to discuss their commercial relationships with Chinese companies. Furthermore, in talks with gaming industry experts, it became clear that there are Swedish gaming firms that deliberately strive to conceal the fact that they are controlled by a Chinese company.

### **Violation of intellectual property rights**

IP is a hot topic in the gaming industry. If a game is a big hit, the IP has a lot of value, and whoever owns the IP has the right to profit from it, for example by generating a sequel or producing merchandise.<sup>189</sup> Clear regulations are needed to establish who has the right to use the IP. A recurring issue in the gaming industry is video game copying – a company identifies a popular game and copies the design to gain quick profits. This tactic is often seen in China, especially with games that are not available on the Chinese market. For example, in 2019, Tencent faced widespread criticism that its mobile game Let's Hunt Monsters appeared to be a rip-off of Pokémon Go.<sup>190</sup> Chinese developers have also created mobile games that appear to be heavily influenced by popular titles such as Overwatch, The Legend of Zelda and a number of games from the South Korean developer PUBG.<sup>191</sup>

Scholars have pointed out that China's copyright law has issues with regard to execution and uniformity, as well as difficult-to-meet demands for originality. This can be difficult for foreign corporations, which are obliged to litigate in Chinese courts.<sup>192</sup> Furthermore, as stated above, if non-Chinese companies want to publish their games in China, they must work with a local Chinese publisher that could reveal their intellectual property or use it as leverage. For example, Activision Blizzard's well-known games Overwatch, World of Warcraft and Diablo, among others, were available on the Chinese market through licensing agreements with NetEase.<sup>193</sup> Then, at the beginning of 2023, the 14-year partnership was ended by Blizzard. According to an anonymous source, NetEase had proposed structural changes to the partnership which would have affected Blizzard's control over its IP.<sup>194</sup> NetEase denied any claim that it had sought to control Blizzard's IP and responded by livestreaming NetEase dismantling a statue of an orc at a Blizzard office.<sup>195</sup>

Another potential issue is the royalties paid by firms when they use existing IP to create a franchise game. Typically, this is extremely costly, as royalties range from 15 to 20 percent of sales. According to recent reports, Tencent is seeking to reduce royalty costs to less than 10 percent of sales. A source familiar with the situation argues that this is a hint that Tencent is becoming more aggressive in negotiations and less charitable than it was in the past.<sup>196</sup>

Few of the actors we spoke to for this study mentioned intellectual property as a specific concern in relation to investments by Chinese game companies. However, some highlighted the history of game copying in China, noting that Swedish developers used to just register for patents in the US, but now apply in China as well, even if they have no intention of accessing the Chinese market.<sup>197</sup> While individual companies may not be concerned about having their intellectual property duplicated, the wider trend for Chinese corporations to expand the number and scale of investments in overseas markets could eventually assist Chinese companies to gain IP rights to increasingly popular games. Some claim that the

scavenger quest for foreign-developed IP is due in part to Beijing's suspension of approvals for foreign games in China, which forces Chinese companies to change strategy and attempt to take direct control of foreign games companies and their intellectual property.<sup>198</sup>

### **Regulatory issues and geopolitical risk**

Throughout this report we have shown examples of how the Chinese government has repeatedly cracked down on the domestic gaming industry. This ambiguous attitude to video games makes the Chinese gaming industry unpredictable and difficult to navigate. While regulation has primarily affected domestic companies, overseas companies seeking to enter the Chinese market or receive investment from a Chinese company could also be affected. Moreover, the fragile domestic market makes the future growth of Chinese games developers uncertain, indicating that Tencent and NetEase will wish to expand their global reach.

However, while Tencent has previously stated that it intends to invest in gaming companies worldwide, particularly in Europe, recent events indicate that it is beginning to cut back on its investments and liquidate a substantial proportion of its portfolio. In December 2023, Tencent closed one of its US studios, which had been viewed as a critical component of the company's strategy to boost its competitiveness in the western games market.<sup>199</sup> Furthermore, regulatory measures implemented at the end of 2023 effectively limited expenditure on online games, wiping out approximately US\$ 80 billion in market value from Tencent and NetEase.

<sup>200</sup>

The professionals we spoke to for this study claim that Beijing's regulatory restrictions harm Chinese company brands, hampering their drive into international markets. First, the uncertain clearance system for international games in China, as well as previous suspensions reduce the appeal of partnering with a Chinese company as a method for rapidly joining the Chinese market. Second, according to actors we spoke with, investments by Chinese companies are viewed as increasingly risky even if a company does not want to publish its game in China.<sup>201</sup> This is related not only to Beijing's gaming industry restrictions, but also to the overall political situation. Increased tensions between the West and China, as well as China's greater assertiveness over Taiwan, increase worries for overseas studios considering investment by Chinese companies. Some professionals we spoke to expressed concern about the likelihood of China invading Taiwan and how this would affect Chinese-owned Swedish games companies. One professional stated that this would not only affect the reputation of Swedish gaming companies as "being on China's side", but also increase insecurity for businesses because an invasion would undoubtedly impact Chinese gaming companies' financial resources, which could also affect the companies they have invested in.<sup>202</sup>

### **Concluding remarks**

This study shows that Chinese gaming companies are making progress in extending their footprint and establishing themselves as prominent names in the global gaming industry. At present, the incentives for expanded international investments by Chinese game companies appear to be mostly commercial. However, the relationship between Chinese gaming companies and the Chinese government should not be underestimated. As China's political environment becomes increasingly authoritarian, there is a risk that companies'

commercial interests will be overshadowed by the Chinese government's political interests, forcing Chinese gaming companies to align with government directives regardless of their own interests. This change would be likely to have a detrimental economic impact on these companies, making it more difficult for them to continue investing in international gaming companies. It could also force them to withdraw from their current investment arrangements.

When it comes to their investments in global games companies, Chinese companies appear to be increasingly interested in avoiding attention. At the same time, some international companies are unwilling to discuss their relationship with Chinese companies. This lack of transparency and official statistics makes it impossible to determine the true size of Chinese investments in the global gaming industry. It is also difficult to forecast how foreign gaming industries might be influenced by increased political control over Chinese games companies. At present, it is also difficult to determine the extent to which data collected through games is being used by the Chinese authorities, among other things, for intelligence gathering. To address these issues, we make the following recommendations.

- Increase information sharing about the size, scope and potential effects of Chinese investments both between countries and between various entities in the gaming sector.
- Increase guidance from government agencies worldwide on how games companies should respond to investment proposals from Chinese companies. As the gaming industry is unique in straddling the technical and cultural worlds, incorporating various elements from frontier technologies to younger generations' worldviews that could be exploited and influenced, such guidance should not simply be a repeat of existing regulation of Chinese investments in general.
- Strengthen knowledge in the gaming industry, as well as among government agencies about how data is collected and accessed through games developed by Chinese-owned companies, and what the possible consequences of such data gathering might be for the integrity of individuals.
- Increase international gaming companies' knowledge and understanding of China's political system, for example in terms of the role of the Chinese government and the influence it has on the private sector in China, and what this means in practice for international gaming companies that collaborate with or accept investments from Chinese companies.



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**About the Swedish National China Centre**

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