
Mainland China changes domestic regulation for game consoles

In 2000, the General Office of the State Council of the People's Republic of China issued "the Notice on Launching a Special Campaign against Illegal Electronic Game Rooms"(國務院辦公廳轉發文化部等部門關於開展電子遊戲經營場所專項治理意見的通知). From then on, Mainland China has strictly enforced prohibition on gaming consoles, however in December 21, 2013, "the State Council released the Comprehensive Plan for the China (Shanghai) Pilot Free Trade Zone, the State Council's Decision to Temporarily Adjust Relevant Administrative Laws and State Council Regulated Special Administrative Measures for Approval or Access in the China (Shanghai) Pilot Free Trade Zone"(國務院關於在中國(上海)自由貿易試驗區內暫時調整有關行政法規和國務院文件規定的行政審批或者准入特別管理措施的決定). As a result of the thirteen year long prohibition on game consoles, the development of the game consoles market has been limited in Mainland China, while mobile phone and online games have dominated the video games market in the country. Mainland China's lifting of the ban on game consoles will lead to a reshuffling of the gaming market, and is certainly worth a deeper look. This following article will review the evolution of the gaming regulatory policy in Mainland China over the recent years, and identifies the changes and problems that may arise during the deregulation process.

The sale of game consoles has been prohibited in Mainland China since 2000

According to "The Notice on Launching a Special Campaign against Illegal Electronic Game Rooms" issued by General Office of the State Council in 2000, "companies and individuals were prohibited from the manufacture or sale of game consoles, as well as the production or sale of related accessories". As a result, the mobile game consoles and the television game consoles both lost their legitimacy in the video game industry in Mainland China. The stated intent of the ban against video arcades was to protect the youth and ensure public order.

And yet, in spite of potentially impacting youth in a similar manner, the online game sector has been listed as a key industry for development and has been strongly supported by the government. This has clearly contradicted the reason of banning the game consoles. Thus, the major console manufacturers, Sony, Microsoft, and Nintendo, have been trying in various ways to enter the Chinese market, and have called on the Mainland China government to open their domestic market for the sale of game consoles.

Announcement of reopening the sale of game consoles in China (Shanghai) Free Trade Zone in 2013.

After thirteen long years, the State Council issued the "the Comprehensive Plan for the China (Shanghai) Pilot Free Trade Zone", permitting foreign enterprises to produce and sell game equipment in the Free Trade Zone. Five days later, Blockbuster that under Shanghai Media Group announced a cooperation with Microsoft in a joint venture company within the Free Trade Zone, claiming their main business as " design, development, production games, entertainment applications and derivative products; sales, licensing, marketing and production for third-party games and entertainment applications software; technical advice and services related to video games ". In December 21, 2013, "the State Council released the Comprehensive Plan for the China (Shanghai) Pilot Free Trade Zone, the State Council's Decision to Temporarily Adjust Relevant Administrative Laws and State Council Regulated Special Administrative Measures for Approval or Access in the China (Shanghai) Pilot Free Trade Zone", officially lifted the prohibition on game consoles in the Free Trade Zone, and also opened the gates to investors.

Potential problems facing China's game consoles market

As the case study above describes, Microsoft chose to enter the Mainland China market through a joint venture, the main reason being that foreign investment in entities engaged in internet data operations is still prohibited in China (Shanghai) Free Trade Zone. Thus, Microsoft will need to rely heavily on Blockbuster for the data operation and set-top box business license, which was the main subject as the Internet service content provider. In addition, apart from the joint venture between Blockbuster and Microsoft, there are two other companies in the industry: Sony and Nintendo, which retain a large part of the game consoles market, but have not taken action at the moment. These two companies have a pivotal position in the game consoles industry, and therefore it is predicted they will likely follow the Blockbuster and Microsoft example to look for a license holder vendor as a way to enter the mainland China market.

On the other hand, at the end of June 2014 the updated announcement regarding the China (Shanghai) Free Trade Zone "negative list", still clearly stated that foreign enterprises in the Free Trade Zone are "prohibited from direct or indirect participation in online game operations and services".

Due to the trend among game consoles towards online connectivity, the classification of related games as online games, and prohibition of foreign enterprises from entering this space, domestic game developers have enjoyed a safe monopoly over the industry in Mainland China. But if the industry is not restricted under the scope of foreign operation of online games, and foreign enterprises may be allowed involvement in the management of their operations directly or indirectly, "fully localized" online game industry in Mainland China may be challenged in a noticeable way.

In addition, although Mainland China has begun to loosen control over game consoles, the publication of electronic publications licensed by a foreign copyright owner (including online gaming works) will be determined under the General Administration of Press and Publication (新聞出版廣電總局). An enterprise who wishes to enter the Mainland China market has to create content which is able to pass a content review, at the same time maintaining the original integrity of the game. Moreover, consumers in Mainland China have long been accustomed to "cheap" or "free" Internet games, so are they going to change their behavior and be willing to pay for their games? These are big obstacles to be overcome by the industry.

