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an Industry Analysis in a Dynamic Global Context

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III. 摘要 ABSTRACT

本论文探讨了全球化与数字化背景下中国的崛起，并将电子游戏产业作为主要研究对象。引言部分说明了研究的目的和方法。第一章回顾了二战后国际经济格局的变化，从 2008 年金融危机到中美贸易摩擦，分析了中国如何通过改革开放、加入世贸组织和“一带一路”等政策逐渐走向国际舞台的中心。第二章回顾了全球电子游戏产业的发展，重点分析了移动游戏的兴起与商业模式的演变，并结合《集合啦！动物森友会》和《原神》在新冠疫情期间的案例，说明了游戏在社会与文化层面的作用。第三章以腾讯、网易和米哈游为案例，结合它们的历史、战略和财务数据，表现不同企业的发展路径和竞争优势。结论部分集中中国游戏产业在全球经济与文化格局中的意义，并提出未来可能面临的挑战，包括规则制定、国际竞争和技术创新。总体来看，中国有望凭借创新与文化影响力在全球游戏产业中发挥越来越重要的作用。

This thesis studies China’s rise in the context of globalization and digitalization, with a special focus on the video game industry. The introduction explains the aim of the research and the methods used. Chapter One reviews the changes in the world economy after World War II, from the 2008 financial crisis to the US-China trade tensions. It shows how China moved toward the centre of the global stage through policies such as Reform and Opening, joining the WTO, and the Belt and Road Initiative. Chapter Two looks at the development of the global video game industry, paying attention to the growth of mobile games and the change of business models. It also studies the cases of *Animal Crossing* and *Genshin Impact* during the COVID-19 pandemic to show the social and cultural role of games. Chapter Three analyses Tencent, NetEase, and miHoYo, combining their history, strategies, and financial data, showing their different ways of growing and their competitive advantages. The conclusion focuses on the significance of China’s video game industry in the global economy and culture, and points out future challenges such as regulations, international competition, and technological innovation. conclusively, China is expected, by relying on innovation and cultural influence, to play an increasingly important role in the global gaming industry.

IV. 引言 INTRODUCTION.

在当今全球化不断发展的背景下，中国在国际贸易和投资中的作用越来越重要。随着经济体制改革的推进和数字经济的兴起，中国不仅在全球价值链中的地位有所提升，也在文化和科技产业方面展现出新的影响力。电子游戏产业就是一个典型的例子，它的发展已经突破了地域和技术的限制，成为中国经济和文化软实力的重要组成部分。

近年来，腾讯、网易和米哈游等公司在国内外市场都取得了显著的成绩。它们通过移动游戏、跨平台的布局和国际化战略，不仅获得了经济上的成功，也提升了中国在全球游戏产业中的地位。同时，游戏逐渐成为中国文化传播的新渠道，为中国在全球范围内增强影响力提供了新的方式。

本论文的研究目标是探讨中国在全球经济治理体系转型中的角色，并通过分析中国游戏产业的发展，来理解其在经济战略、产业政策和文化软实力方面的意义。通过文献回顾和案例分析，力求呈现中国如何在全球化与数字化的背景下，借助创新与文化传播提升国际竞争力。

In today's globalization continuously developing context, China's role in international trade and investment is becoming more and more important. With the advance of economic systems reforms and the rise of the digital economy, China not only has raised its position in the global value chain but, has also started to show new influence in culture and technology. The video game industry is a typical example: its development has already broken through geographical and technological limits, becoming an important part of both China's economy and its cultural soft power.

In recent years, companies like Tencent, NetEase, and miHoYo have achieved outstanding results in both domestic and international markets. Through mobile games, cross-platform layouts, and internationalization strategies, they have not only gained economic success but also raised China's position in the global gaming industry. At the same time, games have gradually become a new channel for China's cultural expansion, providing new ways for the country to enhance its influence worldwide.

The purpose of this thesis is to explore China's role in the changes of the global economic governance system and, through the study of the Chinese gaming industry, to understand

its importance for economic strategy, industrial policy, and cultural soft power. By reviewing literature and using case studies, this work shows how China, in the era of globalization and digitalization, uses innovation and cultural dissemination to improve its international competitiveness.

1. GLOBAL MARKET ANALYSIS: RISING EAST, SHRINKING WEST.

To better understand the framework of this elaborate it is necessary to explain the actual complex global market size and the characteristics of international trade, with a main focus on the changes that happened through the decades eventually leading to a unifying and interlinking phenomenon called "Globalization". This chapter focus will be analysing the global situation of markets and international trade, following its evolution through the most relevant events happened throughout the years. Subsequentially, the focus will shift to the analysis of the Chinese market, its evolution and the reasons for its growing importance in the global market arena. The end section of chapter one will expand upon the main outcomes and consequences of the decisions taken by governments during the globalization period and will better explain why the global economic governance will gradually and eventually shift from western-dominated to eastern-dominated global economy.

1.1. The Globalized Market.

Globalization represents a global phenomenon exerting substantial influence across social, political, and economic dimensions within nations. While trade and investment are closely linked and constitute core components of the global economic system, they are not the sole drivers of growth. Sustainable development and technological transformation are also essential elements for achieving long-term, high-impact economic growth, also, globalization enables other nations and businesses to narrow the international gap in terms of financial resources, knowledge, and product flow (Singh, Keshari & Gautam 2024).

> Liberalization (of the markets) and globalization have many facets and effects, such as trade, international investment, and economic dependence, benefacting the holistic development of economies (Hillman, 2008). International trade has its roots in the 15th century (Flynn &Giraldez,1995). With the doors opening for exchange and the reduction of barriers to trade, it has aided international investment (Krugman, 1994). (Singh, Keshari, Gautam 2024:81).

Foreign trade, the cross-border exchange of goods and services, is widely recognized as a fundamental contributor to a nation's overall economic development, serving as a key factor for global economic engagement. Firms that pursue international operations, do so in order to optimize the returns on their capabilities, particularly through investment activities. These investments play a crucial role in fostering innovation, enhancing

competitiveness, developing technology, and generating employment opportunities. Establishing investments abroad (FDI) allows firms to secure a strategic position with greater operational autonomy, facilitating increased exports and easy access to foreign markets and currencies, especially beneficial for developing and least developed countries. Concurrently, international trade acts as an accelerator for investment and strengthens global economic connectivity. Therefore, the relationship between trade and investment is both complex and deeply interconnected.

In other words, the global economic and trade system refers to the organic interactions among actors such as countries, international economic organizations, and multinational corporations in the process of handling global economy, trade, investment, and monetary relations, in accordance with certain rules and systems. To a large extent, the global economic and trade system has gradually taken shape, developed, and evolved alongside the process of economic globalization (Liu & Wang 2021). Over time, the impacts of international trade and investment have been subject to divergent interpretations. On one hand, various studies highlight their positive contributions, such as facilitating technology transfer, creating employment opportunities, enhancing productivity, and improving profitability. On the other hand, some scholars argue that these processes can lead to adverse outcomes, including job displacement, intensified market competition, and inefficient allocation of resources (Singh, Keshari & Gautam 2024).

1.1.1. Reconstruction Of the Contemporary Global Economic Landscape.

For the sake of this analysis, the time period that is worth to account is the one between 1940 and 2010, because in that time frame all major important changes that lead to the actual state of the market took place. To better navigate the timeline, the subdivisions present in Chen & Han (2022), have proven to be helpful.

Table 1 :Timeline 1940-2010.

XX century, years 40-70
After World War II, the United States took the lead in establishing the foundational framework of global economic governance. formation of the **Bretton Woods** system in international finance, which included the establishment of the International Monetary Fund (IMF) and the World Bank (WB).

In **international trade**, the General Agreement on Tariffs and Trade (GATT) was created, which later evolved into the World Trade Organization (WTO).

XX century, years 70-90

Early 1970s: oil crisis severely disrupted resource supplies, shifting the macroeconomic challenge in the Western world from insufficient demand to weak supply capacity.

Stagflation: a crisis characterized by high inflation and low economic growth.

Neoliberalism soon became the key instrument of the Western capitalist world in tackling stagflation.

1980s, neoliberalism became increasingly politicized, ideologized, and institutionalized. It also turned into a powerful tool to drive globalization.

Under the leadership of the United States and other developed Western nations, neoliberalism was aggressively promoted to developing countries. These nations were encouraged to adopt neoliberal economic, political, and cultural reforms.

Rise of neoliberal-oriented global economic governance, shaping the structure of international economic policies for decades to come.

XX-XXI century, years 90-10

Cold War: the governance system was dominated by the Western world, not including Soviet Union.

The global governance during the Cold War: two opposing blocs, each with its own economic governance framework. minimal economic and trade interconnection between them.

1997: The outbreak of the East Asian financial crisis played a key role in the establishment of the G20, further transforming the global economic governance system.

2008: the mortgage crisis, which originated in the United States, escalated into a global financial crisis, delivering the most severe economic shock since the Great Depression of the 1930s. This crisis posed a serious challenge to the G7-centered global economic governance system, exposing its limitations in managing global financial instability.

Shift from the "G7 era" to the "G20 era": This transformation fundamentally reshaped the core framework of global economic governance, making it more inclusive and reflective of the rising influence of emerging economies in international financial and economic policymaking.

Expanding the content of the table above, the restructuring of the power structure in the global economic and trade system mainly refers to major changes in the influence of international actors in discussing global economic and trade issues and formulating global economic and trade rules and systems. This is mainly reflected in the following aspects: first, the multilateral trade system faces the risk of being "marginalized," and the "fragmenting" effect of regional trade agreements has intensified, The World Trade Organization launched the Doha Round of negotiations in 2001, but after the 2008 international financial crisis, as global economic growth slowed and trade protectionism rose, the Doha Round negotiations fell into a prolonged stalemate. The authority of the multilateral trade system in the global economic and trade system has been weakened, while the forms of cooperation through plurilateral agreements and regional trade agreements have developed rapidly.

Agreements such as the TPP (Trans-Pacific Partnership Agreement, later renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP after the U.S. withdrew from negotiations) and TIP (Transatlantic Trade and Investment Partnership) promote a "21st-century, high-standard" vision of international economic and trade rules, posing a significant challenge to the traditional rules under the WTO framework.

Governments of various countries were (and still are) not only concerned with the absolute gains resulting from international economic cooperation, but, out of security considerations, are increasingly focused on the relative gains from cooperation with other countries. The design of international mechanisms and the arrangement of cooperation topics are important factors affecting relative gains. The scope of rule adjustment has extended from border measures to behind-the-border measures Traditional international trade and investment rules focused on adjustments at the border between trading parties, referred to as "border measures." With the reduction of trade barriers globally and the gradual standardization of border measures, domestic policies of various countries have increasingly become important factors influencing the development of international trade and investment.

In the new generation of trade and investment topics, "behind-the-border measures" such as competition policy, trade facilitation, labour, and the environment have become focal points of attention for countries. The new generation of trade and investment rules, through coordination and integration with domestic policies, has formed common standards of a supranational nature (Liu & Wang 2021).

After the crisis, the position of the United States in the global economic and trade system suffered a heavy blow. However, it still retains significant influence within the system. United States promotes its vision of global economic governance by signing regional, plurilateral, and bilateral trade and investment agreements, challenging the bottom lines of WTO rules, and even waging trade wars on a global scale, as it will be seen later on in this chapter.

Secondly, the overall focus of market access negotiations shifted from trade in goods to rules on services, investment, and intellectual property: developed countries have strongly promoted negotiations on rules for services trade, investment, and intellectual property, aiming to enhance their own competitive advantages and using these areas as key drivers for economic recovery and innovation.

The new rules for trade in services and investment cover a wider range of areas, have a higher level of liberalization, and impose stricter disciplines. New international regulations on intellectual property protection also surpass the original rules in terms of scope of protection, duration of protection, enforcement, enforcement of intellectual property in the digital environment, and dispute resolution.

The factors influencing the restructuring of the current global economic and trade system are diverse and include economic, technological, and political elements. The impact of the 2008 global financial crisis, the shifting balance of economic power between developed and developing countries, the deepening development of global value chain production, the rise of the Fourth Industrial Revolution represented by the Internet, and the intensification of global political fragmentation are all having a profound impact on the restructuring of the global economic and trade system (Liu & Wang 2021).

1.1.2. COVID-19 Induced Economic Crisis.

It is also of significant importance taking into account another major event that took place in 2020, that caused a steep decline in global trade, the COVID-19 pandemic: Since its global outbreak in 2020, the COVID-19 pandemic has become the most severe and prolonged public health crisis in a century, with economic losses comparable to those of the 2008 global financial crisis and considerably more severe than the downturn associated with the 2015 recession. (Singh, Keshari & Gautam 2024).

The global economy experienced profound disruption due to the COVID-19 pandemic, which triggered substantial shifts in economic dynamics, which needed swift legislative responses to mitigate its impact. Following this crisis, the international community stands at a critical turning point, tasked with the challenge of restoring economic stability, implementing recovery efforts, and reinforcing fiscal frameworks to address the post-pandemic landscape, with a multilateral approach (Yoganandham 2024).

In the early stages of the pandemic, the movement of goods, services, capital, technology, and labour was disrupted, halted, or slowed down due to pandemic-related restrictions. This led to fractured global supply chains and industrial chains, obstructed global trade, a sharp decline in investment, and a stall in economic globalization. The global economic recovery remains fragile in the aftermath of COVID-19, hindered by persistent labour market challenges, supply chain disruptions, and escalating inflation (Chen & Han 2022).

Although the global economy grew by 1.9% between 2019 and 2021, overall GDP remains 3.3% below pre-pandemic levels. Supply chain bottlenecks caused economic constraint, while rising food and energy prices have intensified inflationary pressures, particularly in developing nations. Emerging economies, especially those reliant on tourism, have faced sluggish recovery trajectories.

The COVID-19 pandemic has had a profound effect on developing and emerging economies, with multiple interrelated factors contributing to their economic distress. The widening digital divide has further hindered these economies, as insufficient access to digital technologies and internet connectivity has limited their capacity to transition to remote work and digital services. These challenges have resulted in decreased production, lower demand, widespread job losses, and downturns in key sectors such as tourism, hospitality, and retail (Yoganandham 2024).

Supply-chain disruptions slowed down the overall growth, and rising food and energy costs in developing countries made room for inflation. Governments implemented fiscal policies, structural reforms, trade agreements, and investment in innovation to boost global growth (Yoganandham 2024).

However, this global pandemic crisis did not lead to the expected level of global cooperation and coordinated governance. Unlike the collective response seen during past financial crises, this time, major power strategic competition took precedence over global solidarity: it was used by some countries as an opportunity to blame and target others to gain strategic advantages (Chen & Han 2022). The COVID-19 pandemic has profoundly altered global economic dynamics, forcing countries to reconsider their approaches to multilateral cooperation, economic recovery, and fiscal stability. The crisis exposed the vulnerabilities in international trade and investment, particularly as supply chain disruptions, geopolitical frictions, and inconsistent policy responses impacted global coordination. Multilateral institutions were revealed to be fragile, with diverging national interests contributing to a fragmented and uncertain trade environment.

Nonetheless, the crisis also presents an opportunity for structural transformation, innovation, and the development of more resilient and equitable economic systems. Governments have responded with expansive fiscal stimulus measures to avert deeper recessions, yet these actions have raised long-term concerns regarding fiscal sustainability and rising debt. Diverging monetary policies across countries further complicate efforts to maintain fiscal and currency stability (G. Yoganandham., 2024).

But the consequences of this pandemic were less bad than anticipated, in a 2020 article published by “il Sole 24 Ore” it is stated that:

> According to the World Economic Outlook published on Tuesday, October 13(2020), global GDP will contract by 4.4% in 2020, a deep decline, but less severe than the -5.2%

> projected in June. The recovery remains "uncertain and uneven," and is vulnerable to setbacks. In 2021, the expected rebound is 5.2%, slightly lower than the June estimate, precisely because the downturn in 2020 is now projected to be less severe. (Di Donfrancesco 2020)

In 2021, international trade experienced an uneven recovery: merchandise trade rebounded, while services continued to lag. Although global trade grew by 5.7% in 2022, persistent policy uncertainty and the threat of new trade restrictions remain significant concerns. However, service trade is projected to expand in the near future. The recovery of global investment has been supported by the easing of pandemic-related restrictions, stimulus interventions, and accommodative monetary policies. Investment levels rose by 7.0% in 2021, with China and the United States leading this growth (Yoganandham 2024).

The recovery from the COVID-19 pandemic remains uncertain, due to complex geopolitical tensions, rapid technological advancements such as automation and artificial intelligence, including environmental concerns including climate change and ecological degradation. These factors collectively contribute to instability in economic growth, job security, and industrial productivity, particularly in sectors dependent on natural resources and carbon-intensive operations. Moreover, monetary and fiscal policy decisions made by governments play a pivotal role in shaping economic stability, influencing both financial markets and public confidence. Social and demographic trends, such as population aging and accelerated urbanization, that will be expanded upon in this chapter, also affect consumer behaviour and place additional pressure on social welfare systems. Finally, heightened market volatility, driven by speculative trading and fluctuating investor sentiment, further intensifies economic uncertainty. (Yoganandham 2024).

The Pandemic period is particularly interesting for the sake of this analysis because one of the industries that saw a significant growth in this period, besides cosmetics, is the video game's one, which will be better discussed in chapter 2.

1.1.3. US vs China: The Trade War.

Apart from the Pandemic; two other major events paved the way for further economic distress in western countries: the still ongoing 2022 Russian-Ukrainian war, (that raised the prices of both combustible gas and wheat, leading to a steep growth of inflation in the west) , and the tariffs barriers that Trump's administration imposed on Chinese imported goods; this event, shapes the future of international trade every day and it is sure to cause

long-term consequences for the international economic governance, eventually leading to a shift towards East-Asian countries, as will be discussed later. Before indulging in explaining of this subject, it is necessary to give a disclaimer: Given that the conditions of this trade war are evolving daily at the time of writing, additional sources will, if necessary, be drawn from reputable newspapers, due to the current lack of academic literature on the subject.

The Trump administration's hostile approach to China and the global market governance has been widely discussed, in fact, President Trump implemented the "America First" policy measures, such as withdrawing from the Paris Agreement and questioning the role of the WTO in the global trade system. although the Biden administration has shown signs of a "return to multilateralism," it still retains clear elements of hegemonism and unilateralism. The policy mix left by the Trump administration remains largely in effect. After balancing and bargaining among domestic interest groups, the Biden administration has only limited room for meaningful policy shifts (Han, Mai & Zhang 2021). In recent years, as the U.S. trade deficit with China has continued to grow, the United States has gradually started to view China as its greatest threat, adopting trade protectionism at home and implementing trade barriers, while engaging in trade frictions with China abroad. Due to the significant differences between China and the United States in terms of political systems, economic development levels, and culture, communication between the two countries can face certain obstacles and may even lead to unnecessary misunderstandings. The United States has long sought to contain China's rise, believing that China's growing influence poses a threat to its own development. Therefore, China needs to further dispel this perception and help the U.S. understand that China's economic development is beneficial to both countries. It should be noted that, in the context of today's global economic development, foreign trade between China and the United States has a significant impact on all countries around the world. The trade frictions between China and the U.S. not only affect China and the United States themselves, but also impact other countries globally, and may even directly influence global trade as a whole. Therefore, under such circumstances, in order to better stabilize the order of global trade and achieve orderly development of world trade, it is essential to innovate and restructure the global economic and trade system on the basis of the China-U.S. trade frictions (Yang & Li 2021).

One of the most recent developments that lead to a potential solving of the matter of the trade war sees Donald Trump stating that tariffs of 80% on Chinese imports "seem fair." Currently, the United States has imposed customs duties of 145% on all imported Chinese goods, with temporary exemptions for smartphones and other consumer electronics. In response, Beijing has imposed 125% tariffs on U.S. products and has also restricted the export of rare earth elements and other strategic materials to the U.S. Meanwhile, universal tariffs of 10% are in place for other countries following the 90-day moratorium announced on April 9. A meeting between the U.S. delegation, led by Treasury Secretary Scott Bessent, and the Chinese delegation led by Vice Premier He Lifeng is scheduled to take place today and tomorrow (Mat 10th-11th 2025) in neutral territory, in Geneva; this will be the first face-to-face meeting between the U.S. and China since the trade escalation began on April 2nd 2025, when Trump announced reciprocal tariffs. While an 80% tariff level is ultimately unsustainable, it serves as a signal. The involvement of two key figures from each government suggests a shared urgency to resolve the deadlock caused by the trade war, which has effectively become a full embargo. The Geneva meeting is unlikely to result in a new trade agreement like the one recently signed between the U.S. and the U.K. (April 9th 2025 deal) but it aims to ease tensions. The impact of the tariffs is already evident: China's trade surplus with the U.S. dropped to $20.46 billion in April from $27.58 billion in March. Monthly exports to the U.S. fell by 17.6% to $40.1 billion, according to Chinese Customs. Year-on-year, this marks a decline of over 21%, while imports from the U.S. fell by nearly 14%. Conversely, China's overall trade surplus surged to $96.18 billion from $72.04 billion in April 2024, driven by an 8.1% rise in total exports despite a 0.2% decline in imports (Ferraino 2025).

Subsequentially, in July 2025, Trump is looking to finalize a series of elusive trade deals ahead of the looming deadline set for 1st of august 2025. One major sticking point is his refusal to compromise on sector-specific tariffs, including those targeting foreign automakers. On Thursday, July 3rd 2025, Trump said he would start sending letters to countries to notify them of new tariffs on exports to the U.S., after months of complex negotiations, then he added that the new tariffs could range from 10% to 70%, with payments due by August 1st 2025. On Sunday, July 6th 2025, Trump said that a dozen or more letters could be sent out during the week, starting at noon on Monday.

Treasury Secretary Scott Bessent stated on CNN's "*State of the Union"* that the tone of

the letters might not be an immediate declaration of tariffs against dozens of countries. Instead, they would contain another deadline, giving trade partners time to reach an agreement with the U.S. to avoid the so-called reciprocal tariffs originally announced in April.

> President Trump will send letters to some of our trade partners saying: 'If you don't make progress, then on August 1 you'll return to the tariff levels of April 2nd, *Bessent* said. (Ferraino 2025).

White House spokesperson Kush Desai said that any trade decisions would be made directly by Trump, as the administration continues efforts to finalize trade deals. Trump had previously announced a 90-day suspension of the reciprocal tariffs imposed in April, set to expire on July 9th. National Economic Council Director Kevin Hassett told CBS's *Face the Nation* that the administration plans to conclude several deals before that Wednesday deadline.

The decision to send letters instead of signing deals by the deadline marks a strategic shift. In April, trade advisor Peter Navarro predicted that the administration would finalize 90 deals in 90 days following Trump's original tariff pause. So far, only three deals have been concluded, some of which still lack essential details.

The situation with China remains equally uncertain. In June, the Trump administration claimed to have reached a mutual agreement with China to ease export controls on key products like rare-earth magnets, thus avoiding further tariff hikes. However, the administration has refused to release any specifics, describing it as a private and confidential deal, and now U.S. economic officials are warning that China may not meet the agreed standards (Schwartz & Bade 2025).

This complex and evolving scenario originates from the rapid expansion of Asian markets, which are emerging as potential drivers of global economic growth. As a result, the United States is increasingly being displaced from its long-standing position of global economic leadership. This phenomenon, that Chen Weiguang and Han Xueying have called "Rising East and Shrinking West" mirroring the "Rising South and Shrinking North" analysed by Huang, et al. (2024), will be examined in greater detail in the following sections.

1.2. Chinese Market Analysis and Evolution.

As mentioned before, the main challenger of the US global market leadership is China. This country over the past 50 years has had major economic changes that transformed the overall global market arena: after the 1978 Reform and Opening-Up Policy (改革开放 *gaige kaifang*,), China opened its boarders to the world economy, fostering the new growth opportunities that came with this decision, experiencing major economic changes that reshaped China economic system and its position in the global economic governance.

1.2.1. 改革开放 : Reform and Opening-Up Policy and The First Rural Revolution.

The Reform and Opening-Up Policy marked a great revolution: influencing various aspects including the economy, politics, society, and culture, significantly mobilizing the enthusiasm of individuals and enterprises and greatly unleashing productive forces. It led China from a state of isolation to openness, integrating the country into globalization and connecting it with the world.

In the Anhui province, before the implementation of the Reform and Opening-Up policy, an agreement was voluntarily signed by the 18 households in Xiaogang Village with the intention to abandon the "iron rice bowl" system under the people's commune model, which was based on collective sharing of the land, collective labour, and the distribution of "labour points" (a remuneration system that didn't involve money but rather grain and rice in exchange for labour days) according to household size. This contract sought to distribute the collective shared land to individual households, with each and every one of these private households assuming responsibility for their own profits and losses, no longer rely on the state for financial or grain support. What these 18 farmers were essentially doing was " contractually binding the production to households" or "contractually binding responsibilities to households", a practice later formally named by experts as the "household contract responsibility system." (Fang 2018).

The core principle of this system was turn over the required quota to the state, reserve enough for the collective, and the rest belongs entirely to the household. This system became the dominant and mainstream model of agricultural production and management in China's rural areas during the 1980s (Fang 2018).

By the end of 1981, after several years of debates, programs and promotions; more than 90% of rural production teams across the country had established various forms of

agricultural production responsibility systems. On January 1, 1982, the No. 1 Central Document of the Communist Party of China reinforced the household responsibility system and decided to further improve its implementation in rural areas nationwide (Fang 2018).

This No. 1 Document stated that the various responsibility systems currently being implemented, were all under the socialist collective economy. The document proposed that, from that moment on, with the exception of few regions and production teams, these various forms responsibility systems should be standardized. Leaders at all levels, including those in provinces, prefectures, counties, and communes, should actively participate in the bettering of these systems according to the surrounding context, to further improve them (Fang 2018).

This system, which combines unified and decentralized management, "revolutionized" the collective production and management model of the people's commune system (the "iron rice bowl" system), and established a new production and management model based on household contract farming under the foundation of collective land ownership. This revolution propelled Chinese agriculture, previously under the planned economy system, toward gradual marketization and modernization (Fang 2018).

1.2.2. 国有企业改革: State-Owned Enterprise Reform.

The reform of State-Owned Enterprises, or SOEs, (国有企业改革 *guoyouqiye gaige*,), began in the late 1970s with policies of decentralization and profit retention. In April 1979, a central working conference pointed out that the main problem with China's economic management system was excessive centralization. The principle of reform was to fully mobilize the initiatives of both central and local governments as well as SOEs, starting with reforms aimed to change enterprise management, the fiscal system, and foreign economic and trade mechanisms. At the core of these reforms was the delegation of authority and retention of profits by local governments and enterprises.

Following various adjustment to the reform, as written by Fang (2018), from 1979 up to 2013 the results achieved and its revolutionary significance lies in:

1. **Reforming and reshaping the relationship between enterprises and the state**
   During the planned economy era in China, the entire nation was essentially one large factory, and enterprises (limited to those owned by the people or collectively

owned) were merely workshops within that factory. Enterprises were subordinate to various levels of government and functioned as governmental appendages, managed uniformly by the state. The government directly organized and led the microeconomic activities of enterprises through administrative means, which inevitably led to excessive and rigid control. Under such a system, enterprises only needed to follow state plans and fulfil production quotas on time and in quantity; they had no need, or even the possibility, to make independent decisions or conduct autonomous business operations.

The transformation of the enterprise–government relationship began with the initial reforms of the post-1978 period, particularly through decentralization and various forms of contract responsibility systems. In October 1984, the Third Plenary Session of the 12th Central Committee of the Communist Party of China proposed the goal of establishing a "planned commodity economy" and explicitly defined enterprises as "relatively independent economic entities." This liberated enterprises from their administrative subordination to the government and gradually established a contractual relationship between enterprises and the state, in line with the requirements of a market economy (Fang 2018).

2. **Laying the microeconomic foundation for the socialist market economy.** The microeconomic foundation of a market economy includes various types of markets (product markets and production factors markets) and their micro-level agents (individual demanders and suppliers). In this way, Enterprises were suppliers in product markets and demanders in production factors markets. What enables enterprises and consumers (households) to become microeconomic agents under a market economy is that they are not only independent, autonomous, and free actors, but also possess their own interests and goals. Their behaviour is driven by the pursuit of maximizing their individual interests.

During China's planned economy era, all aspects of enterprises (including personnel, finances, materials, production, supply, and sales) were uniformly managed and allocated by the government. All profits were handed over to the state, and losses were covered by the government. An enterprise's profitability had no connection to the remuneration or welfare of its leaders and employees. Enterprises had no independent economic interests and merely functioned as pure production units completing state-mandated plans.

Naturally, such production units lacked initiative and motivation, making it impossible for them to serve as agents in a market economy (Fang 2018).

As noted in the Decision of the Central Committee of the Communist Party of China (CPC) on Economic System Reform, passed at the Third Plenary Session of the 12th CPC Central Committee, the main shortcomings of this model included: unclear boundaries between government and enterprise responsibilities, segmentation along administrative lines, excessive and rigid control by the state over enterprises, neglecting of commodity production, and serious egalitarianism in distribution. This led to a situation in which enterprises lacked proper autonomy and both enterprises and employees were trapped in a "big pot" distribution system, severely suppressing enthusiasm, initiative, and creativity, robbing the vitality of socialist economy (Fang 2018).

One major reason for the failure of the planned economy was that enterprises, as microeconomic actors, had no self-interest or corresponding incentive mechanisms. In a market economy, the system that utilizes available knowledge and accumulates new information, which is pivotal for economic growth. Such a system relies on incentives based on self-interest and voluntary action (Fang 2018).

Since the start of the Reform and Opening-Up Policy, China has implemented a series of reforms to SOEs, such as decentralization, the shift from profit remittance to taxation, corporatization, and the establishment of modern entrepreneurial systems. All these reforms aimed to reshape enterprises into microeconomic actors with self-interest and internal incentive mechanisms. In short, for enterprises to truly become relatively independent economic entities (autonomous operators and profit-and-loss bearers engaged in socialist commodity production and business) they must possess the ability for self-transformation and self-development, and hold defined rights and obligations as legal entities (Fang 2018).

The transition of enterprises from state appendages to microeconomic actors in a market economy was gradually achieved through three key revolutions: the transformation of enterprise identity (such as redefining the relationship with the government), reforming management autonomy, and reforming the property rights system.

3. **The reform of SOEs initiated the broader economic system reform focuses on urban areas.**

   In the economic landscape of the People's Republic of China, urban enterprises

> have long been the primary agents of industrial production, infrastructure development, and goods circulation. By the mid-1980s, China had over one million urban enterprises, including construction, transportation, commerce, and services, with a combined workforce of over 80 million. Industrial enterprises alone accounted for more than 80% of national fiscal revenue. Clearly, enhancing the vitality of enterprises, particularly the one of large and medium-sized state-owned enterprises, aimed to reform the urban-centred economic system.

In other words, China's economic system reform shifted from rural to urban areas, and from agriculture to urban enterprises, marking the beginning of a comprehensive reform era. Under the highly centralized planned economy, SOEs were the foundation of the entire system, responsible for fulfilling national economic plans. As such, reform of SOEs could not proceed in isolation but had to be carried out alongside and in coordination with the broader economic system reform (Fang 2018).

With the deepening of system-wide reforms, the monopoly of SOEs over production organization was broken. Non-state-owned enterprises (such as private and foreign-invested firms) emerged and gradually gained strength. SOEs and non-SOEs began to develop in competitive environments. From this perspective, SOE reform also constituted a revolution in the microeconomic foundation of China's economy, laying the groundwork for the development of the socialist market economy's micro-level actors. (Fang 2018).

1.2.3. China Admittance Into WTO.

China's accession to the World Trade Organization (WTO) in December 2001 marked a pivotal moment in the trajectory of both China's economic development and the multilateral trading system. This event constituted a significant step toward deeper integration of the Chinese economy into the global marketplace and indicated a shift toward a more rules-based economic framework. However, while accession facilitated substantial progress, it simultaneously posed considerable challenges for China, its trading partners, and the WTO itself, particularly in relation to the fulfilment of obligations under the terms of China's accession protocol (Yuan e Ouyang 2025).

Full adherence to WTO rules was of strategic importance for China's international economic relations and for the credibility of the multilateral trade framework. Following WTO accession, China's economy entered a phase of high and stable growth. Between 2002 and 2007, the country recorded an average annual real GDP growth rate exceeding 10 percent. In 2007, China's total GDP reached USD 3.43 trillion, establishing it as the world's fourth-largest economy after the United States, Japan, and Germany, despite its classification at the time as a lower-middle-income country based on per capita GDP, which stood at approximately USD 2,500 (Yuan e Ouyang 2025).

This robust growth was accompanied by significant structural transformation. The combined share of the secondary industry and services sectors in GDP increased from 85.6 percent in 2001 to 88.3 percent in 2006, while agriculture's contribution declined from 14.4 percent to 11.7 percent. These structural shifts illustrated the positive impact that WTO membership had on China's economy (Yuan e Ouyang 2025).

WTO accession also deepened China's global economic integration. This was particularly evident in the dramatic rise in foreign direct investment (FDI) inflows. The manufacturing sector remained the most attractive destination for FDI, with annual average inflows into the sector rising to USD 36.44 billion between 2002 and 2006, representing a 34.86 percent increase over the 1997–2001 period and accounting for 68.74 percent of total FDI. Accession also led to liberalization in various domestic sectors, especially services, enhancing competition and driving further domestic investment (Yuan e Ouyang 2025).

China's international trade expanded rapidly after joining the WTO. Total trade (exports plus imports) reached USD 2.18 trillion in 2007; 3.27 times the level recorded in 2001. China became the world's third-largest trading nation, following only the United States and Germany. Export growth outpaced import growth, resulting in a record trade surplus of USD 262.2 billion in 2007 (Yuan e Ouyang 2025).

The rapid economic growth, substantial FDI inflows, and sharp increase in international trade positioned China not only as a key growth engine for Asia but also as a major driver of the global economy. Due to its scale, China's patterns of production, consumption, import, and export carried significant global implications. Moreover, China operated as a crucial node in international production networks, serving as one of the most important integrative forces in the world economy (Yuan e Ouyang 2025).

Despite these achievements, several critical challenges emerged in the post-WTO accession period. One pressing concern was the risk of economic overheating. In 2007, inflation surged, with the consumer price index (CPI) increasing from 1.5 percent in 2006 to 4.8 percent, surpassing the government's 3 percent target. Food prices, which comprised one-third of the CPI basket, rose by 12.3 percent. Consequently, curbing inflation and rebalancing growth policies became a priority for the Chinese government in 2008 (Yuan e Ouyang 2025).

The International Monetary Fund (IMF) revised China's 2008 growth forecast downward to approximately 9 percent due to weakening exports and global uncertainty. While slower growth had the potential to alleviate inflationary pressures and support economic rebalancing, the challenge of conducting effective monetary policy remained. A more flexible exchange rate regime could have enhanced monetary autonomy and fostered a macroeconomic environment conducive to long-term stability and growth (Yuan e Ouyang 2025).

Another fundamental challenge lay in the structural imbalances within China's economy. Economic growth was driven disproportionately by investment and exports, with household consumption playing a relatively minor role, reflected in the persistent current account surplus. Moreover, underdeveloped capital markets limited the efficient allocation of investment (Yuan e Ouyang 2025).

To address these imbalances, the government needed to increase social expenditure in areas such as healthcare, education, and pensions. Enhancing the social safety net could have reduced the need for precautionary savings and stimulated domestic consumption, thereby decreasing reliance on exports and reducing exposure to global downturns. Additionally, redirecting savings into higher-yielding investments would have improved capital productivity. Thus, further reforms in banking and capital markets were essential (Yuan e Ouyang 2025).

In conclusion, while WTO accession played a fundamental role in propelling China's economic rise and global integration, it also exposed significant structural, social, and environmental vulnerabilities (Yuan e Ouyang 2025).

1.2.4. Belt And Road Initiative.

In 2013, during official state visits to Kazakhstan and Indonesia, President Xi Jinping unveiled the "One Belt, One Road" (OBOR) Initiative, now more commonly known as the Belt and Road Initiative (BRI). This strategic vision was designed to rejuvenate trade, transportation, and infrastructure networks along the historical Silk Road routes, while simultaneously elevating China's presence in global affairs. The BRI is widely regarded as one of the most consequential developments in international economic relations in recent decades, involving multi-trillion-dollar infrastructure investments spanning Asia, Europe, and Africa. The geographic scope of the initiative covers over half of the world's population and encompasses both low-income nations and rapidly growing economies such as Indonesia, India, Vietnam, and Pakistan (Huang et al. 2025).

At its core, the BRI represents a bold Chinese initiative aimed at preserving an open global economic system and fostering inclusive, diversified, and sustainable development, particularly in regions that are historically underserved in terms of development. Due to its scale and ambition, it has often been likened to a modern-day "Chinese Marshall Plan." While it positions China as a central actor, the initiative is intended to remain open to all developing countries and provide momentum to those grappling with economic stagnation (Huang et al. 2025).

The BRI is deeply rooted in the legacy of the ancient Eurasian Silk Road, which flourished over millennia. Its contemporary revival under President Xi emerged during a pivotal phase of China's economic transformation. Also known as the New Silk Road or One Belt One Road, the initiative has been widely interpreted as a means to facilitate transcontinental trade, deepen geo-economic integration, and promote global prosperity. However, since its inception, interpretations of the BRI have diverged along two primary lines. On one hand, it is viewed as a response to China's domestic economic slowdown; on the other, it is perceived as a strategic projection of China's expanding influence on the global stage through a novel approach to international economic relations (Huang et al. 2025).

This dual perception has triggered mixed global reactions: ranging from admiration to suspicion. Some stakeholders regard China's proposal as visionary and commend its ambition, while others question whether the initiative is a benevolent effort to reshape

global development or a calculated strategy to advance China's geopolitical interests. These concerns are not without precedent, echoing debates surrounding the Trans-Pacific Partnership (TPP), which was similarly heralded and criticized. The TPP was seen by some as a cornerstone for Pacific Rim economic integration, but by others as an exclusionary instrument designed to consolidate alliances. Following the Trump administration's withdrawal of the United States from the TPP, attention naturally shifted to China's BRI, positioning Beijing as a potential architect of a new global order. However, such a prominent leadership role also increases international scrutiny and exposes China to heightened expectations and scepticism (Huang et al. 2025).

A critical component of the BRI is the Asian Infrastructure Investment Bank (AIIB), which serves as a key financial institution supporting BRI projects. Since its establishment, the AIIB has garnered wide acceptance and initiated numerous investments. Debates regarding its role often hinge on differing criteria for success, whether economic profitability or social impact. Given the cooperative structure of the AIIB, it is reasonable to view the BRI as a collaborative platform demanding shared responsibility in its design, planning, funding, and implementation. Nonetheless, such collective participation remains difficult to envision from a European perspective. European actors express concern that the AIIB could evolve into a future global financial authority akin to the World Bank, while the BRI may become a mechanism through which China redefines logistics and trade rules, without granting Europe sufficient involvement in its governance (Huang et al. 2025).

As with any major international initiative, the BRI is subject to diverse interpretations depending on the lens through which it is viewed. Responding effectively to global transformation and fostering a harmonious international community requires all stakeholders to critically reflect on historical context, engage sincerely with current realities, and ethically consider future trajectories, especially in light of technological, social, and economic shifts. The future should be a shared endeavour, inclusive of all nations rather than confined to the interests of a privileged few. Accordingly, the BRI, as a platform for cross-continental cooperation aimed at shared prosperity, ought to be approached as a genuinely co-owned initiative: one that seeks to cultivate a more equitable and sustainable global economic environment (Huang et al. 2025).

1.2.5. Made in China 2025.

The “Made in China 2025” initiative represents a crucial turning point in China’s economic trajectory, aimed at transforming the country from the world’s factory into a leading global powerhouse in high-tech manufacturing. Launched by the State Council in May 2015, this ten-year action plan was modelled after Germany’s “Industry 4.0” and serves as a comprehensive industrial policy blueprint to upgrade Chinese industry, reduce dependency on foreign technology, and establish Chinese firms as leaders in the global innovation race (Jiang et al. 2024).

Chinese manufacturing had become overly reliant on imported core components and technologies, especially in strategic sectors such as semiconductors, robotics, and aviation. “Made in China 2025” (MIC2025) was formulated to address these vulnerabilities and to lead the transition toward a more innovation-driven, efficient, and environmentally sustainable industrial system.

At its core, the MIC2025 strategy prioritizes ten key sectors that are considered vital to national competitiveness and security. These sectors include next-generation information technology, high-end numerically controlled machine tools and robotics, aerospace and aviation equipment, maritime engineering equipment and high-tech ships, advanced rail transportation equipment, energy-saving and new energy vehicles, power equipment, agricultural machinery, new materials, and biopharmaceuticals and high-performance medical devices. These sectors were selected for their potential to hasten broad technological spillovers, support national industrial upgrading, and respond to future strategic needs (Jiang et al. 2024).

The plan is composed by five major strategic tasks:

- **improving** manufacturing innovation
- **integrating** information technology and industry
- **strengthening** industrial base capabilities
- **promoting** breakthroughs in key sectors.

- **advancing** green manufacturing.

- **promoting** the development of smart manufacturing as a core model, echoing global trends in digitization and automation.

An important feature of MIC2025 is its emphasis on strengthening the entire industrial ecosystem. This includes enhancing the capacity for independent innovation, reaching a level of global competition, establishing innovation centres, supporting the digital transformation of manufacturing, and fostering industrial finance mechanisms to support investment. The initiative also includes objectives for quality improvement, productivity gains, and the creation of globally competitive brands (Jiang et al. 2024).

The implementation of MIC2025 relies on a "government-guided, enterprise-centred, market-driven" approach. Chinese authorities have provided various financial incentives, subsidies, and credit support mechanisms (often channelled through state-owned banks or investment funds) to encourage technological upgrading and R&D spending. At the same time, local governments have developed specific plans aligned with national goals, creating regional clusters in areas such as robotics (Jiang et al. 2024).

While MIC2025 has stimulated substantial investment in innovation and modernization, it has also faced criticism and scepticism internationally. Concerns have emerged regarding the potential for market distortions, excess state intervention, and a lack of reciprocity in market access. The United States, in particular, has viewed the initiative as a threat to its technological leadership. These concerns contributed to the escalation of trade tensions between China and the U.S. during the Trump administration (Jiang et al. 2024).

In response to rising sabotage, Chinese policymakers gradually began to downplay the branding of MIC2025 in public discourse around 2018, although the core objectives remained intact and continued to inform industrial planning. The plan has since evolved under broader frameworks, such as "dual circulation" and the 14th Five-Year Plan, emphasizing domestic innovation capabilities, supply chain resilience, and digital infrastructure development (Jiang et al. 2024).

A key outcome of MIC2025 has been the accelerated progress in sectors such as electric vehicles (EVs), 5G telecommunications, and high-speed rail. Chinese firms like BYD, CATL, and Huawei have become global leaders, showcasing the effectiveness of state-supported industrial policy in scaling high-tech production. Nevertheless, challenges persist in areas such as semiconductor self-sufficiency, where Chinese firms still rely heavily on imported equipment and designs, particularly from the U.S., Japan, and Taiwan (Jiang et al. 2024).

In conclusion, "Made in China 2025" constitutes a strategic blueprint for China's industrial modernization and technological ascent. It represents not only an economic plan but also a geopolitical tool, positioning China to shape the future of global production networks and standard-setting. The plan's ambition, breadth, and long-term vision underscore Beijing's intent to shift from quantity-driven manufacturing to quality- and innovation-led growth, laying the foundation for China to become an advanced industrial superpower by mid-century (Jiang et al. 2024).

1.2.6. 供给侧结构性改革: Supply-Side Structural Reform.

The Supply-Side Structural Reform (供给侧结构性改 *gongji ce jiegou xing gaie*), that began in November 2015, aims to eliminate relatively excessive production capacity, reduce excess inventory and high leverage ratios, lower production costs (especially transaction costs) and address weaknesses in China's economic development, such as insufficient innovation capacity, weak industrial or product competitiveness, and suboptimal development quality. It seeks to bring forth a comprehensive adjustment of the economic structure, along with major transformations in development models and macroeconomic regulation methods (Fang 2018).

If the rural and state-owned enterprise reforms in urban areas were intended to revive and promote the Chinese economy, increasing its market size and wealth, narrowing the development gap with other advanced countries, to help China eliminate poverty as quickly as possible, this Supply-Side Structural Reform aims instead to strengthen and refine the Chinese economy, fortify its foundation and framework, and improve the quality of development and international competitiveness, so that China can successfully cross the middle-income trap and join the ranks of developed countries (Fang 2018) .

If the main objective of the Reform and Opening-Up Policy was to reform the traditional planned economic system, liberate productive forces, increase aggregate supply, and eliminate shortages, thereby steadily raising per capita national income and living standards, then the primary goal of this Supply-Side Structural Reform is to innovate institutional mechanisms, optimizing and upgrading the economic structure, developing new supply-side growth drivers, and achieving high-quality development, raising people's living standards and welfare, enhancing the economy's sustainable development capacity, and strengthening the coordination and balance among environmental, social, and economic development (Fang 2018).

The Reform and Opening-Up Policy was widely welcomed and actively supported. In contrast, this current round of reform goes deep into institutional structures, and it will inevitably inflict structural damage on the existing system, forcefully challenging traditional ideas and mindsets, harming the interests of certain entrenched beneficiaries. Therefore, the Supply-Side Structural Reform faces greater resistance and difficulty (Fang 2018).

This reform is a long-term process and a long-term task. The policy of "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening weak areas" is merely the first step or the first battle in this revolution of the Chinese economic system. In order to achieve the expected goals of Supply-Side Structural Reform, a three-step strategy must be adopted: the first step is "symptomatic treatment", with the main measures being:

- cutting overcapacity.
- reducing inventory deleveraging.
- lowering costs.
- strengthening weak links.

The second step is "consolidative treatment", with the main approach being the adjustment, optimization, and upgrading of the economic structure; the third step is "root-cause treatment", with the main method being institutional reform, institutional construction, and institutional innovation. Among them, the third step is the key to the true structural revolution: whether or not the goals of supply-side structural reform can be achieved ultimately depends on whether this third step can be implemented thoroughly (Fang 2018).

China’s current economic system is in a transitional phase from the formerly highly centralized planned economy toward a socialist market economy. During this transitional period, remnants of the planned economy persist, creating friction between the old and new systems. At the same time, the market economy is still under development and remains, in essence, a "semi-market economy." In this kind of system, the regulatory power of market mechanisms remains insufficient, and their regulatory effectiveness is not fully realized. Moreover, market mechanisms are still constrained or even suppressed by traditional institutional structures, preventing them from playing their decisive role in resource allocation and performing their proper regulatory functions (Fang 2018).

The Communist Party of China and the Chinese government have fully recognized the flaws and rigidity of the current system. Therefore, at the Third Plenary Session of the 18th CPC Central Committee in November 2013, a resolution was adopted to “comprehensively deepen the reform.” Through this initiative, the government committed to decisively eliminate the institutional and systemic drawbacks in all areas and to form, by 2020, a system of institutions that is complete, well-regulated, and effectively functioning (Fang 2018).

This resolution emphasized that the goal of comprehensively deepen the reform is to improve and develop the socialist system with Chinese characteristics. Specifically, in terms of economic system reform, the reform focus on enabling the market to play a decisive role in resource allocation. It also pivotal upholding and improving the basic economic system, accelerating the development of a modern market system, macroeconomic regulation system and an open economic system, building an innovation-driven country, promoting a more efficient, fairer, and more sustainable economic development. Comprehensively deepening institutional reform and improving and developing China’s socialist economic system constitute both the centrepiece and the final goal of the Supply-Side Structural Reform. This is the fundamental path to resolving the imbalance in China’s economic structure and eliminating excess production capacity (Fang 2018).

To address supply-side structural issues through institutional reform, it is necessary to promote reforms, construction of infrastructures, and innovations across multiple institutional domains. Among these, reforming the current relationship between the

government and the market, establishing a relationship that aligns with the socialist market economy system, is the key and it represents a critical battle.

China's supply-side structural reform requires advancing "dual-track" reforms: further market-oriented and government functions reforms. Through these two concurrent efforts, the goal is developing a Chinese-style socialist market economy model that combines a "dual-efficiency" system: an efficient market and an efficient government (Fang 2018).

The reason for advancing dual-track reform is that marketization and government reform must proceed simultaneously and in coordination; unilateral efforts often lead to twice the effort for half the results. The aim of building a dual-efficiency model is to allow the market to play a decisive role in resource allocation, while also improving the effectiveness of government functions (Fang 2018).

1.2.7. Recent Developments and The Regional Comprehensive Economic Partnership.

On November 15, 2020, the Regional Comprehensive Economic Partnership (RCEP) was officially signed following the fourth leaders' summit. This marked not only the most significant achievement in Asia-Pacific economic integration in the past two decades, but also injected strong momentum into the reform of the global economic governance system:

- **First**, it includes a large number of participating countries with diverse membership, making it a "large-group" agreement rather than a "small-group" one. RCEP has 15 member states, including not only countries from Asia but also from Oceania; not only developing countries but also developed ones; and countries with Christian, Islamic, and Confucian cultural backgrounds.

- **Second**, the level of market openness in goods trade is high: over 90% of traded goods among RCEP members will eventually be subject to zero tariffs.

- **Third**, the agreement incorporates high-level market access rules, including provisions on investment liberalization, trade in services, intellectual property protection, and government procurement.

Regional economic governance, as embodied in RCEP, can effectively compensate for the governance deficits caused by the breakdown of global economic regulatory mechanisms. It also offers a direction for reforming the global economic governance system (Han, Mai & Zhang 2021).

At present, China faces three main challenges in participating in the reform of the global economic governance system:

- **First**, in terms of governance institutions, the existing global economic governance mechanisms are outdated in their design, and the effectiveness of the governance system is significantly constrained.

As the power distribution among participants in global governance has shifted, the current design of global economic governance mechanisms has lagged behind actual needs. A mismatch has emerged between the developed countries' monopoly over rule-making and the growing demand from emerging economies to expand their voice in governance. Similarly, a discrepancy has emerged between the "spaghetti bowl" effect (the multiplication of free trade agreements, supplanting multilateral World Trade Organization negotiations as an alternative path toward globalization) of global trade and investment rules and the collective demand of governance actors for a unified order. This misalignment not only hampers the progress of reforming the global economic governance system but also poses significant obstacles to China's efforts to actively participate in that reform (Han, Mai & Zhang 2021).

- **Second**, regarding major power political competition, the unilateralism and hegemonic behaviour of certain countries not only disrupt the normal functioning of the global economic governance system but also attempt to squeeze China's space for participating in governance reform.

Hegemonic countries led by the United States pursue unilateralism, conservatism, and protectionist policies in an attempt to continue distorting the global economic governance order to serve their own interests. Although president Joe Biden, begun to gradually return the U.S. to a multilateral path, domestic conservative forces hindered the country's ability to play the role of a reformer in global governance. In its "*Interim National Security Strategic Guidance"*, the U.S. explicitly labels China as its "most significant competitor," indicating that China will continue to face long-term interference from American

hegemonic policies in its efforts to participate in the reform of the global economic governance system (Han, Mai & Zhang 2021).

- **Third**, in terms of multilateral political cooperation and trust, there is a widespread wave of anti-globalization around the world, which has weakened the multilateral support China needs to promote global economic governance reform.

Since the 2008 global financial crisis, economic globalization has entered a bottleneck phase, if not a complete standstill. Developed countries have grown increasingly dissatisfied with what they perceive as "free-riding" behaviour from developing countries like China, while developing countries themselves have expressed frustration over the growing gap between their rising economic power and their still-weak voice in global governance (Han, Mai & Zhang 2021).

The absence of effective negotiation mechanisms for reforming global economic governance, the lack of political trust among actors, and the obstruction of reform efforts by certain hegemonic powers have all contributed to an extremely slow pace in reforming the mechanisms for distributing the benefits of globalization. These factors have also fuelled the spread of anti-globalization sentiments (Han, Mai & Zhang 2021).

Particularly since the global outbreak of COVID-19, many of the actors that once championed economic globalization have reversed course and become its opponents, adopting a range of protectionist and isolationist strategies.

Although China currently faces many challenges in its participation in the reform of the global economic governance system, the signing of the RCEP has not only injected new momentum into the re-launch of economic globalization but has also brought significant opportunities for China to engage in global economic governance reform. Specifically, RCEP has achieved innovations in global trade and investment governance mechanisms, providing a testing ground for reforming the global economic governance system on a broader spatial and temporal scale; it has broken through the panic of unilateralism created by hegemonic powers, forcing conservative forces to return to the multilateral system; and it has helped bridge the rift in multilateral political trust caused by anti-globalization trends, laying a solid foundation for the international community to jointly advance the reform of the global economic governance system (Han, Mai & Zhang 2021).

As a key driving force for regional economic governance, RCEP not only provides strong support for the development of global economic governance, but also presents a significant opportunity for China to deepen its participation in the reform of the global economic governance system. It will help China overcome obstacles such as flawed mechanism design, unilateralism, and the lack of multilateral mutual trust that hinder its engagement in global governance. In doing so, it will promote the construction of a global economic governance order based on joint consultation, joint construction, and shared benefits, thus enhancing China's institutional voice in international economic affairs (Han, Mai & Zhang 2021).

1.2.8. Between Reform and Restraint: Deepening China's Financial Market Transformation.

The establishment of China's fund industry, beginning with the formation of the first five fund management companies in 1998 and the introduction of the initial open-end fund in 2001, marked a pivotal transformation in the nation's financial markets. This sector has experienced remarkable growth, with the number of funds increasing from 53 to 6,965 and fund management assets expanding from 81.803 billion RMB to 177 trillion RMB by June 2020. This development reflects the fund industry's growing influence within China's broader financial ecosystem, which reached a total value of 629.5 trillion RMB. Demographic shifts and technological innovations, which are reshaping global finance, have contributed to a redefinition of investment models, positioning mutual funds as a vital investment vehicle for a wide and increasingly diverse investor base (Liu & Yu 2024).

The rise of open-end funds in China follows a global trend favouring diversification and broader access to stock, bond, and securities markets. Similar patterns can be observed in developed economies like the United States, where mutual funds constitute a major share of both household savings and GDP. This parallel suggests that China's fund industry may follow a comparable trajectory as the country advances economically and experiences rising income levels (Liu & Yu 2024).

The COVID-19 pandemic further amplified the importance of public funds within the financial system, as government stimulus policies spurred a surge in investment activity. This situation highlighted the adaptability and innovative capacity of the fund market, with strong performances from funds such as the China Universal Mid-Cap Value Fund in 2020. The growing investor preference for funds during periods of macroeconomic

uncertainty underscores the relationship between external economic conditions and investment behaviour (Liu & Yu 2024).

Apart from this, many economists view China's current financial system outdated and argue for its modernization through integration into broader financial markets deemed essential for sustained economic growth. Since 2005, financial sector reforms have gained momentum, including the partial privatization of state-owned banks and the establishment of new stock exchanges. These reforms mirror earlier changes implemented in State-Owned Enterprises (SOEs), which were granted greater autonomy in aligning with the Five-Year Plan, converted into joint-stock companies, encouraged to adopt market-oriented management practices, access market-based financing methods, and form partnerships with foreign investors (Zhong, Xie & Liu 2019).

In this context, major banks such as the Bank of China, the Industrial and Commercial Bank of China, and the China Construction Bank became public following the inclusion of foreign institutions (Goldman Sachs, UBS, and Bank of America, respectively) into their ownership structures to help enhance corporate governance practices. Despite these reforms, the Chinese financial system continues to rely heavily on bank intermediation. However, this reliance is gradually diminishing, as policymakers emphasize the need to maintain a balanced relationship between capital markets and traditional bank credit (Zhong, Xie & Liu 2019).

Chinese political authorities, knowing the benefits of banking intermediation, tend to maintain significant state control over the banking sector, focusing instead on improving its efficiency rather than pursuing full liberalization. They remain committed to the "universal banking" model but are gradually shifting toward mixed operations. These are implemented through specialized subsidiaries that operate independently from the broader public holding companies and are closely monitored by the Banking Regulatory Commission (Zhong, Xie & Liu 2019).

Over the past two decades, China has witnessed a rapid accumulation of corporate debt, becoming one of the most leveraged major economies in the world. Following the 2008 global financial crisis, the Chinese government implemented a large-scale stimulus program that significantly expanded credit access, especially SOEs. This policy response,

while successful in averting a short-term economic slowdown, laid the foundation for a structurally unbalanced corporate credit landscape.

By 2016, the non-financial corporate debt to GDP ratio in China had exceeded 160%, placing the country among the top globally in corporate leverage. A defining feature of China's corporate debt is its concentration in SOEs, which are generally less productive than their private counterparts but enjoy preferential access to credit due to perceived implicit state guarantees. This distortion undermines market discipline and contributes to widespread credit misallocation (Zhong, Xie & Liu 2019).

Private firms, despite being more efficient, face tighter financing conditions, including higher interest rates and more limited access to formal credit channels. This misalignment between productivity and credit availability hampers overall economic efficiency and heightens systemic risk. The situation is further complicated by the rapid expansion of "shadow banking", as firms unable to obtain traditional financing resort to non-bank and opaque funding mechanisms, increasing the complexity and risk exposure of the financial system (Zhong, Xie & Liu 2019).

Moreover, despite ongoing reforms, interest rates in China remain predominantly regulated. Even for those rates that have been liberalized, credit supply continues to be managed by the central bank. Although some restrictions on banks setting deposit rates have been loosened, it is important to note that monetary authorities have historically kept deposit interest rates deliberately low, often below the inflation rate. This approach, however, has not significantly impacted the country's national savings rate, which has consistently remained high (Long, Herrera & Andréani 2018).

The growth of the private sector signifies an expansion of the stock market. However, this expansion is expected to remain limited. While the stock market can play a beneficial role for private enterprises, SOEs are expected to increasingly rely on self-financing, contributing surplus funds to the state for capital increases, rather than depending on equity markets. Currently, access to China's equity markets is restricted to a select group of qualified international investors. Authorities, cautious of speculative behaviour, have prohibited foreign companies from issuing shares on domestic exchanges. Loosen up these restrictions, especially as part of broader efforts toward full yuan convertibility, would risk greater exposure to dominant global financial oligopolies, particularly those

based in the United States. For this reason, reliance on the stock market is intended to remain minimal and should not lead to adoption of the shareholder value model. China's substantial domestic savings can instead be channelled through institutional investors, which can operate under profitability constraints set by national priorities (Long, Herrera & Andréani 2018).

1.3. Shifting In the Global Economic Landscape.

the existing global economic governance mechanisms are predominantly designed and manipulated by developed countries, particularly in trade and investment governance, where emerging economies often lack sufficient voice and influence

On the one hand, the "Quad regime" composed of the United States, the European Union, Japan, and Canada has long dominated the decision-making process of the World Trade Organization (WTO), while the reform appeals of emerging economies such as China have remained largely unanswered. Developed countries aim to both preserve outdated rules that benefit themselves and continue to lead the development of new regulatory frameworks, thus maintaining their dominant position in the discourse of global trade governance. Some developed powers, like the United States, have even advocated for replacing the multilateral WTO system with bilateral or regional free trade agreements under an "elite club" model (such as the former Trans-Pacific Partnership, or TPP) (Han, Mai & Zhang 2021).

On the other hand, a comprehensive global investment governance system is still lacking, making it difficult to provide effective institutional guarantees for fair and sustainable international investment. There remains no efficient mechanism for resolving investment disputes within a unified global framework. Arbitration bodies often present ambiguous and uncertain interpretations of investment agreements, while appeals processes are cumbersome, and disputes involving sovereign states are frequently left unresolved. Moreover, international investment rules under the multilateral framework are largely stitched together through a patchwork of bilateral, multilateral, and regional investment agreements, resulting in a low degree of regulatory standardization. Consequently, when some countries embrace rising investment protectionism, states with weak institutional discourse power are easily subjected to exclusionary investment policies and find it difficult to safeguard their legitimate interests through the existing multilateral investment governance mechanisms (Han, Mai & Zhang 2021).

Second, bilateral and “small-group” regional trade and investment agreements have become increasingly entangled across the globe, intensifying the so-called "spaghetti bowl" phenomenon. Since the WTO Doha Round negotiations reached an impasse, many economies have actively pursued bilateral or small-group regional trade and investment agreements. While these agreements have somewhat alleviated the challenges of global economic integration caused by stalled multilateral negotiations, they have also created a vast and overlapping web of agreements, leading to a serious "spaghetti bowl" effect.

The rules among existing trade and economic agreements differ significantly and are often confusingly interwoven. For instance, among past trade agreements signed by RCEP member states, ASEAN's free trade agreements with South Korea, Australia, New Zealand, and Japan exhibit relatively high levels of trade liberalization. In these agreements, tariff lines that are subject to strict or singular regulation account for only 11%, 15%, and 26%, respectively. In contrast, ASEAN's FTAs with China and India contain tariff lines subject to regulation as high as 89% and 100%, respectively (Han, Mai & Zhang 2021).

Moreover, due to the large number and rapid evolution of these agreements, some preferential treatment clauses have, over time, degenerated into what can be described as “worst treatment” provisions. Rules of origin have also become increasingly numerous and complex, and clarifying their terms often involves high costs.

As for investment agreements, by 2019 the global total had reached 3,284 international investment agreements, including 2,895 bilateral investment treaties and 389 agreements containing investment-related provisions. There is a notable lack of consistency and coordination among these agreements, with key provisions in bilateral investment treaties and regional investment agreements often overlapping or even conflicting. Furthermore, many of these agreements do not include provisions related to the digital economy, competition involving state-owned enterprises, or labour rights (Han, Mai & Zhang 2021).

1.3.1. Asia’s Urban Ascent and Global Imbalances.

The causes of structural imbalance in an economy are highly complex, but they can be broadly categorized into four main types:

- **The first** is changes in total demand and its structure due to shifts in population, consumer preferences, and income, while adjustments in product and production structure and industrial structure usually lag behind.
- **The second** is changes in total supply and its structure caused by technological advancements, while changes in total demand and its structure tend to lag.
- **The third** is institutional defects or institutional rigidity, which prevent the supply and its structure from adjusting in response to changes in demand and its structure. institutional rigidity refers to institutions being unable to adjust accordingly to changes in the quantity and structure of demand; for example, the planned economy system is such a case.
- **The fourth** is structural imbalance in an economy caused by external demand or supply shocks.

The first three types originate internally within an economy and are internal causes of structural imbalance, whereas the fourth arises from external shock, hence being an external cause (Fang 2018).

In the era of economic globalization, open economies are more prone to experiencing structural imbalance due to external shocks.

Focusing on the internal causes, the first two types of structural imbalances are common phenomena in the process of economic development, as population, consumer preferences, income, and production technologies are constantly changing. These two types of structural imbalances are also normal phenomena, because it is precisely these imbalances that drive structural adjustments, enabling continuous optimization and upgrading of the economic structure, and achieving new equilibriums at higher levels (Fang 2018).

This new equilibrium will again be disrupted in the process of changes in population, consumer preferences, income, and production technologies, leading to the next round of imbalance and adjustment, then re-optimization and re-upgrading

Institutions determine people's patterns of behaviour, the way resources are allocated, how production is organized, and how the outcomes of production are distributed. Therefore, institutions determine the efficiency of resource allocation, the performance at

both microeconomic and macroeconomic levels, the extent of economic structural imbalance, and the magnitude of economic fluctuations. This is why more and more economists now focus on institutional analysis and emphasize the importance of institutions. Institutional economists view institutions as the "software" that determines economic growth, while labour and capital are seen as the "hardware" of growth. Institutions constitute a key form of social capital; in other words, they are the "software" that guides interpersonal interactions and societal development. In fact, we are increasingly discovering that software is often more important than hardware. This is because appropriate institutional arrangements provide a framework for interpersonal cooperation in markets and organizations, making such cooperation more predictable and trustworthy. The economic structural imbalances caused by institutional flaws or institutional rigidity can be further categorized into two situations (Fang 2018).

The first is that the defects inherent in the economic system itself become the root cause of structural imbalance.

The second is that institutional flaws and rigidity obstruct the automatic adjustment functions of the market mechanism, leading to a failure in the market's ability to rebalance structure. As a result, the imbalances caused by the first two types of factors accumulate to such an extent that they eventually erupt in the form of financial crises or economic crises (or both) (Fang 2018).

Unlike economic growth, which mainly refers to increases in total output, economic development is a process of continual structural adjustment and upgrading, a process of economic system transformation. In a well-developed market economy, the first two types of structural imbalances can usually be adjusted and upgraded through the automatic regulation of market mechanisms. However, when significant changes occur in production technology and consumer demand, the market mechanism becomes insufficient in adjusting the structure (Singh, Keshari & Gautam 2024).

When market regulation fails to function adequately and structural imbalances accumulate beyond a certain threshold, economic crises or major economic fluctuations will erupt. Since the first economic crisis caused by overproduction broke out in Britain in 1825, every subsequent economic crisis in market economies has arisen in this manner (Singh, Keshari & Gautam 2024).

The causes of the first two types of structural imbalances can be independent, but they are often linked to the third type of cause namely, institutional defects or institutional rigidity. Among the many causes of economic structural imbalances, institutional factors are the fundamental and decisive ones.

Marx had long ago analysed the institutional causes behind capitalist overproduction and economic crises. For several decades, nations have promoted exports and sought to attract foreign direct investment by liberalizing their economies and fostering openness to international trade and capital flows (Singh, Keshari & Gautam 2024).

The contemporary global landscape highlights the increasing interdependence among national economies. International trade serves as basic element for a range of economic activities, including globalization, foreign investment, and business development. Despite challenges related to acquisitions, workforce management, and sustaining long-term partnerships, firms are increasingly fostering organizational cultures that support diverse and expansive international trade networks. Historically, trade has functioned as a key mechanism for addressing disparities in supply and demand across nations. Since the 1950s, global trade has expanded nearly threefold, driven not only by commodity exchanges but also by the growing prevalence of technology-intensive exports (Singh, Keshari & Gautam 2024).

In detail: exporting frequently serves as the initial activity in the strategic behaviour of global oligopolies. In highly competitive industries, export competition may provide opportunities for firms to realign their global strategic allocations. Based on these information, three types of spatial configurations can be pointed out: firms with less competitive products but advanced manufacturing capabilities tend to adopt regional strategies; technology-oriented firms facing intense global competition prefer plant-based strategies; and firms with a strong competitive position generally pursue global configurations (Singh, Keshari & Gautam 2024).

Notably, China has opted to actively pursue the acquisition of strategic, technology-oriented assets. As such, international trade remains a strategically vital component in navigating the complexities of contemporary economic transformation (Singh, Keshari & Gautam 2024).

Foreign direct investment (FDI) has experienced a significant surge over the past few decades. For major global creditors and debtors, such as Japan and the United States, FDI

has evolved into a key instrument of international capital flow. It also serves as a crucial indicator of globalization and a strategic avenue for entering foreign markets. FDI plays a vital role in stimulating economic growth in both advanced and emerging economies. Nevertheless, firms are generally more inclined to invest in countries where procedures like property registration are relatively straightforward, as these environments tend to be more attractive to foreign investors. In contrast, for less developed nations, limited or non-existent multinational experience often makes FDI a less viable option. Additionally, rising import competition can negatively affect investment levels. Although FDI is typically encouraged by factors such as trade liberalization, market-oriented reforms, and entrepreneurial activity, it may also result in reduced state control over key sectors and disproportionately affect certain types of entrepreneurs, particularly in developing economies (Singh, Keshari & Gautam 2024).

Over the past three decades, there has been a significant increase in the global population's movement toward urban areas. Consequently, cities have emerged as key hubs of economic activity and productivity. Currently, around 75% of global economic output is generated in urban areas, underscoring the increasingly critical role cities are expected to play in shaping the future of global development. However, as urbanization advances, economic development increasingly exhibits a clustered distribution with varying degrees of intensity, reflecting emerging patterns of global economic imbalance (Huang et al. 2025).

In response to these trends, global cities have become more closely interconnected through economic networks, gradually giving rise to a Global Urban Economic System (UES). This system not only reflects the scale of urban populations but also captures the intensity of economic activity on a per capita basis, offering a more comprehensive and precise framework for analysing the evolution of urban systems within the broader context of global development. GDP is merely enough to measure the economic stability and relevance of UES, other factors have to be taken into account, like the size of cities analysed and thus their boundaries, which most of the times, are not clear or permeable (Huang et al. 2025). But Huang, et Al. Have developed a method to better explain and comprehend these boarders, following their analysis method, they found out a trend that reveals a growing unevenness within the global Urban Economic System (UES), indicating a tendency toward economic concentration in larger cities, while smaller cities account for an increasingly diminished share of global economic activity.

> To further understand the unevenness of the global UES, we assessed the changes in GDP shares in cities at different tiers. The cities were categorized as A, B, or C based on whether their GDP falls within the top 20%, 20–50%, or 50–100%, respectively. Remarkably, the top 20% of cities collectively contribute about 80% of the total global urban GDP, while the tier B and C cities contribute only 12% and 8%, respectively (Huang et al. 2025:3).

This study highlights Asia as the region with the most significant upward shift in city rankings within the global Urban Economic System (UES). An impressive 64.72% of all advancing cities are located in Asia, primarily concentrated in South Asia, Southeast Asia, and Eastern China. These rapidly rising urban centres exemplify the dynamic economic growth occurring across the developing world, positioning Asia as a key driver of global urban transformation. In contrast, Europe and North America experienced notable declines, accounting for 43.09% and 36.64% of the cities with decreasing ranks, respectively, particularly concentrated in the Mid-Eastern United States and Western Europe (Huang et al. 2025).

The growing unevenness within the global Urban Economic System (UES) is driven by a complex interplay of factors, most importantly economies of scale and cumulative advantages, which are particularly prominent in large metropolitan areas. These cities, with their substantial populations and expansive markets, are better positioned to allocate resources efficiently and expand service networks. As a result, they benefit from reduced production costs and enhanced revenue generation, reinforcing agglomeration effects and fostering dynamic economic and innovation ecosystems built upon mature industrial clusters and well-developed supply chains (Huang et al. 2025).

Moreover, rapid advancements in innovation and information technologies have intensified disparities across urban economies. Urban centres engaged in high levels of research, development, and education continue to drive economic growth, while the compounding effects of technological progress widen the gap between leading and lagging cities Globalization further amplifies this divide by facilitating the unrestricted flow of capital, talent, and information, reshaping economic interactions and competition on a global scale (Huang et al. 2025).

Major cities such as New York, London, and Tokyo, with their robust economic infrastructures, liberal market environments, and high connectivity, have emerged as pivotal nodes in this global network. This "winner-takes-all" dynamic concentrates wealth

and opportunity in a limited number of global cities, while smaller urban areas are increasingly sidelined. Consequently, this process exacerbates spatial economic disparities and deepens the hierarchical divide within the global urban landscape (Huang et al. 2025).

The study highlights that just 20% of cities are responsible for around 80% of the world's total GDP, a striking confirmation of the well-known Pareto Principle, or 80/20 rule. This pattern doesn't only apply globally, but holds true across different continents and regions as well, highlighting how economic activity is heavily concentrated in a relatively small number of urban centres (Huang et al. 2025)

In an effort to address this imbalance, many governments have introduced policies such as land use regulations and industrial development strategies to slow the rapid growth of large cities and boost smaller cities and rural areas. But in practice, these measures haven't had the desired effect. Economic inequality between cities has continued to widen, and the gap shows no signs of closing (Huang et al. 2025).

The process of globalization has allowed a select number of global cities, primarily in developed countries, to continue thriving. However, this same process has also contributed to significant decline in many small, medium-sized, and industrial cities across the developed world. This study reveals that over the past 30 years, the number of top-tier (top 20%) cities in developed countries has dropped by 318, a notable 23.75% decrease. In particular, many cities in Europe and North America have experienced sharp declines in economic rank, accompanied by visible urban shrinkage (Huang et al. 2025).

One of the key reasons behind this decline is slower population growth compared to the global average, which has weakened urban competitiveness. In the U.S., technological advancements, globalization, and automation have driven manufacturing jobs, especially in the automotive industry, out of traditional industrial hubs, leading to further economic decline. In Europe, similar trends have been intensified by the concentration of capital and talent in major cities due to EU integration, which has reshaped urban systems from national networks into a more centralized European urban structure (Huang et al. 2025).

At the same time, deindustrialization and limited investment in smaller cities have redirected public and private resources toward larger urban centres, these trends have become common in the reconstruction of big cities. As a result, even though overall population numbers in the developed world continue to grow, that growth is heavily

concentrated in large cities, while smaller and mid-sized cities face depopulation and economic stagnation (Huang et al. 2025).

In net contrast, cities in the developing world have experienced rapid urban and economic growth, drawing increasing global attention. According to data from this study, the number of top 20% cities in the developing world has grown by over 30%, with their total GDP increasing by an impressive 222% compared to 1992, far outpacing the global average. Asia, in particular, has emerged as the epicentre of this growth. Between 1992 and 2019, the share of Asian cities in the top 20% rose from 32.55% to 46.11%, with major growth concentrated in Southeast Asia, South Asia, and Eastern China (Huang et al. 2025).

Over the past three decades, Asia's urban population has grown by approximately one billion people, accounting for about 40% of total global population growth during this period. This extraordinary demographic shift reflects both the rapid development of urban economies and the result of deliberate government policies. Many Asian countries have implemented measures to promote urbanization and industrialization, encouraging rural populations to migrate to cities in search of better job opportunities and improved living standards (Huang et al. 2025).

In addition to this rural-to-urban migration, the phenomenon of in situ urbanization: where rural areas transition into urban centres without large-scale migration, is gaining traction in parts of Asia, particularly in India and in smaller towns across Sub-Saharan Africa. While these towns are not yet included in this study's UES framework due to selection criteria, they represent an emerging trend worth monitoring (Huang et al. 2025).

Another key driver of Asia's rise has been its ability to attract global manufacturing. Since the late 1970s, many low-skill, labour-intensive industries (e.g., textiles, footwear, furniture) have relocated to Asia, drawn by favourable policies and strong infrastructure investment, particularly in countries like China and Vietnam (Huang et al. 2025).

In response to growing inequality within the global UES, many governments in developing countries have taken targeted steps to strengthen their urban systems. These efforts include strategies to curb talent outflow from smaller cities to mega-cities, promote regional collaboration, and implement localized development policies. Additionally, some Asian cities have begun addressing intra-city disparities through inclusive and

resilient policy frameworks. These include improved infrastructure, tax incentives, and initiatives to attract foreign direct investment (Huang et al. 2025).

Together, these combined efforts illustrate how developing cities, particularly in Asia, are not only expanding rapidly but are also actively shaping their own trajectories in response to the global shift in urban economic dynamics.

Conclusively, global city rankings have undergone substantial shifts in recent decades. Asian cities have experienced notable upward mobility, accounting for 64.72% of all cities with rising ranks. In contrast, cities in Europe and North America have seen significant declines, representing 43.89% and 36.64% of all cities with falling rankings, respectively. While the rapid economic growth of cities in the developing world and the relative decline of some developed-world cities may appear to counterbalance global disparities, the broader trend toward increasing unevenness within the global Urban Economic System (UES) persists (Huang et al. 2025). This phenomenon could be addressed as "Rising East and Shrinking West" a name given by Chen & Han (2022), an alternative take at the "Rising South and Shrinking West" name given by Huang et Al. (2025) that highlights the importance of Asian markets in the future of the global economy.

1.3.2. China Technological Advances.

The rapid development of digital technologies has become a central element in the strategic rivalry between China and the United States, which is viewed as the leader in global ESG. This competition includes important domains such as artificial intelligence (AI), 5G, quantum computing, and semiconductors, all of which are vital to national security, economic leadership, and global influence (Xie & Jiang 2025).

China's rise as a digital power has been driven by deliberate state-led policies, massive public and private investment, and a large consumer base that facilitates rapid adoption and scaling of digital innovations. Initiatives such as "Made in China 2025" underline Beijing's strategic commitment in reducing technological dependence on foreign powers and achieving self-reliance in core technologies. The state plays a central role, not only in funding R&D but also in orchestrating industrial coordination and establishing national champions such as Huawei, Tencent, and Alibaba (Xie & Jiang 2025).

In contrast, the U.S. maintains its leadership through a decentralized, innovation-driven model rooted in private sector dynamism, world-class universities, and a mature venture capital ecosystem. American dominance in advanced semiconductors, global cloud platforms, and foundational AI research remains strong. However, the fragmented political climate and declining federal R&D spending relative to GDP present challenges to maintaining a long-term strategic advantage (Xie & Jiang 2025).

The technological decoupling between the two nations has intensified, especially in semiconductors and telecommunications. U.S. sanctions on Chinese firms like Huawei and export controls on advanced chips have triggered a renewed sense of urgency in China's push for technological sovereignty. The U.S., meanwhile, has implemented measures such as the CHIPS and Science Act to revitalize its domestic semiconductor industry and reduce dependence on global supply chains (Xie & Jiang 2025).

Moreover, countries in Europe, Asia, and the Global South are increasingly caught between competing technological ecosystems, forced to navigate issues of digital sovereignty, supply chain security, and alignment with U.S. or Chinese standards, hence, the digital technology race between China and the U.S. is not merely about economic growth or technological prowess, it reflects broader geopolitical competition. The outcome of this contest will shape the structure of global governance, the future of innovation, and the rules underpinning the digital economy (Xie & Jiang 2025).

1.3.3. Chinese Flourishing Livestreaming Industry and Its Economic Implications.

One of the industries that has seen a rapid growth in China is the livestreaming industry, emerging as one of the most prominent and fastest-growing segments of the country's digital economy. Originally rooted in the early 2010s with platforms such as YY, livestreaming in China rapidly expanded across sectors, encompassing gaming, entertainment, social interaction, and e-commerce. The diffusion of affordable smartphones, widespread mobile internet access, and a large population of digital-native users provided fertile ground for this expansion. By 2020, over 560 million Chinese internet users had engaged with livestreamed content (Ye 2025).

Unlike traditional media formats, livestreaming in China is highly interactive, allowing users to comment in real-time, send virtual gifts, and influence the content being streamed.

This interactivity has created deeply immersive experiences and strong parasocial relationships between streamers and audiences. As a result, platforms have implemented monetization models centred around viewer donations, tipping systems, and reward structures. However, this ecosystem tends to reinforce a winner-takes-all dynamic, where only a minority of top performers achieve significant visibility and income, while the majority of content creators struggle to generate sustainable livelihoods (Ye 2025).

These dynamics are shaped and regulated not only by platform governance but also by state oversight. The Chinese government, recognizing both the economic potential and the ideological influence of livestreaming, has implemented a range of policies aimed at controlling the content and behaviour of live streamers. Measures such as real-name registration, content moderation, and the imposition of ideological boundaries reflect broader concerns about online discourse, national values, and information control. Regulatory entities such as the Cyberspace Administration of China (CAC) and the National Radio and Television Administration (NRTA) have increasingly emphasized the responsibility of platforms to manage and censor inappropriate content, aligning livestreaming activities with the state's normative goals (Ye 2025).

Meanwhile, major technology companies such as Tencent, Alibaba, and ByteDance dominate the industry through ownership and control of the most popular platforms. These firms not only set the technical and commercial parameters of livestreaming but also influence content visibility through hidden algorithms and monetization mechanisms. The platformed structure of livestreaming creates a dual control framework: one rooted in profit-driven platform logic and the other shaped by top-down regulatory rules and regulations (Ye 2025).

At the labour level, livestreaming reflects broader patterns of work instability and platform capitalism. Streamers often work long, irregular hours to maintain audience attention, fulfil performance metrics, and remain relevant for the algorithm. Many are managed by multi-channel networks (MCNs) that enforce performance schedules, extract commissions, and influence the type of content produced. These agencies can position themselves between creators and platforms while maximizing their share of profits. This arrangement intensifies the vulnerability of individual live streamers, especially those without established audiences or strong institutional support (Ye 2025).

Despite these challenges, livestreaming continues to redefine digital labour and celebrity in China. It offers new avenues for social mobility, entrepreneurialism, and self-expression, albeit within a tightly controlled and competitive system. Gendered expectations also play a significant role in shaping streamer personas, especially for women, who often face greater pressure to conform to aesthetic and behavioural norms in order to succeed. The industry thus serves as both a space of opportunity and constraint, reflecting the contradictions of a digital environment driven by both market incentives and political discipline (Ye 2025).

Ultimately, China's livestreaming sector encapsulates many of the key tensions in its digital economy: the drive for innovation and economic expansion, the imperative of state control, and the exploitation of digital labour under platform capitalism. As the industry continues to mature and adapt to evolving technologies and regulatory frameworks, these tensions are likely to persist, shaping the future of digital content creation and governance in China (Ye 2025).

The first chapter of this elaborate was meant to give an overall overview of the current global economic situation and background, navigating through a complex framework full of frictions and reforms that is constantly changing due to multi-faced factors affecting all countries of the world. In the next chapter, this elaborate will focus on an industry that has seen an outstanding growth and evolution, parallel to the innovation and evolution of digital technology: the video game industry, and how the current discontent with the global economic management and economic instability was beneficial for this industry and its growth, leveraging on the idea of "escapism".

2. Global Video Game Industry: A Bird's-Eye View.

The video game industry is a relatively recent yet rapidly evolving sector that traces its origins back to the early 1970s. Since then, the sector has seen an exponential growth, evolving parallelly with digital technologies.

Today, the global video game market is not only a major entertainment industry rivalling film and music in scale and influence, but also a driver of technological innovation and cultural exchange. Games are no longer just leisure products; they are social networks and educational or storytelling tools. Furthermore, the rise of livestreaming, and user-generated content has blurred the boundaries between players and creators, fostering active participance of the digital ecosystems.

This chapter will explore the development and dynamics of the video game industry, its technological turning points, economic structures, and cultural implications, with a particular focus on its role in the digital economies of major global players such as China and the United States. The first part of the chapter will expand upon the birth and evolution of this industry and its expansion throughout various technological advancements. Secondly, the chapter will focus on how China became one of the major players in the video game industry, fostering technological innovation and mobile usage to its advantage to rapidly grow in this sector. subsequently, the third section will deepen the concept of "Escapism" as a double-edge sword phenomenon, its cognitive and cultural implications and its role during times of economic distress and uncertainty, explaining how two specific titles managed to foster this phenomenon to achieve remarkable revenues. Lastly, the end section will deepen the *gamification* of business, how games are used to promote and enhance purchasing behaviour in online shopping experience with a reward system based on engagement and subscription, fostering the financial benefit derived by a new and proactive way of create customers' fidelity.

2.1. The Video Game Industry: From Birth to Global Expansion.

As seen in Goh, Al-Tabbaa & Khan (2023), The video game industry has undergone a profound and dynamic transformation since its early days, evolving from niche experimentation to a dominant force in global entertainment and technological innovation. Its progression has been shaped by critical technological and cultural milestones that have

influenced not only how games are developed and consumed, but also how they shape societal interactions and economies.

The release of arcade games in the early 1970s marked a turning point, with *Pong* (1972) achieving mass popularity and symbolizing the birth of the arcade era. This era introduced gaming as a form of public entertainment, characterized by simple yet addictive mechanics that captivated a growing audience.

> Video games entered people's homes in 1972, with the Magnavox Odyssey. It was the first time an electronic device made specifically to play games were sold as a consumer product, since its technology-driven evolution which started in the 1950s. The Odyssey was marketed as a family entertainment system, as shown by the advertisement of the product, which featured family members from children playing with their parents to adults playing games with each other (Ali 2016:1).

The late 1970s and early 1980s ushered in the home console revolution, with the launch of the Atari 2600 in 1977, that brought video games to a whole another level.

> When the Atari 2600 was released in 1977, there was already a slight shift in the marketing (and in turn, the target) towards a younger audience. Video games, at least in the United States, is becoming the domain of younger users (children) (Ali 2016:2).

Following the release of the Atari 2600, the video game industry in North America experienced a period of stagnation. Technological advancement slowed, and a lack of innovation in game design and content led to growing consumer disinterest. This culminated in the infamous 1983 crash called the "Atari shock", largely triggered by market oversaturation and a flood of low-quality game clones, particularly on the Atari platform (Goh, Al-Tabbaa & Khan 2023).

Meanwhile, Japan had been steadily developing its own video game sector. Nintendo, for instance, had entered the industry as early as 1971, collaborating with Magnavox to develop light gun peripherals for the Odyssey console. Unlike North America, Japan was unaffected by the 1983 crash and instead saw its arcade game market thrive. That same year, Nintendo launched the Famicom console in Japan. In 1985, a redesigned version of the Famicom was introduced to the U.S. market as the Nintendo Entertainment System (NES). It was Nintendo's release of the NES that revitalized the sector, introducing

memorable franchises and reinforcing the appeal of home-based gaming which quickly became a global success. This marked the beginning of a prolonged era of Japanese leadership in the global video game industry, a dominance that would persist for well over a decade (Goh, Al-Tabbaa & Khan 2023).

Simultaneously, the rise of personal computing in the 1980s introduced new dimensions to game development. PCs allowed for more complex gameplay, modifiability, and broader creative expression. Games like *Doom* and *Myst* exemplified the growing technical capabilities of computer gaming and contributed to the development of a dedicated PC gaming community that valued customization and innovation. During the 8-bit era, Nintendo achieved overwhelming success in both the Japanese and North American markets through its Famicom and NES, respectively. In contrast, Atari struggled to regain its former prominence. Interestingly, Nintendo had initially approached Atari with a proposal to distribute its console under the Atari brand, but the collaboration ultimately fell through due to various disagreements. This period, commonly referred to as the third generation of video game consoles, marked the rise of Nintendo and Sega as the industry's key competitors, a dynamic that would define the market until Sony's entry in the mid-1990s with the PlayStation (Ali 2016).

The fourth generation introduced a more aggressive and distinct marketing rivalry between Nintendo and Sega. Nintendo launched the Super Nintendo Entertainment System (Super NES), known as the Super Famicom in Japan, while Sega responded with its own 16-bit console, the Genesis (or Mega Drive in Japan). This generation saw a shift in marketing focus, with companies promoting the technical superiority and capabilities of their hardware as key selling points. While Sega and Nintendo remained dominant, other entrants such as Philips, Pioneer, and SNK attempted to gain market share. However, these competitors failed to make a significant impact against the more popular Super NES and Genesis systems (Ali 2016).

Simultaneously, a fierce competition emerged between Nintendo and Sega, with each brand highlighting a unique identity through exclusive titles and differentiated hardware. It was also during this era that Nintendo launched the Game Boy, a portable console that would go on to become one of the most iconic handheld devices in gaming history. the Game Boy's commercial impact was enormous. Notably, its marketing was not primarily directed at children. Instead, advertising campaigns positioned the Game Boy as a

convenient entertainment option for older users with busier lifestyles looking for moment of mind relaxation (Ali 2016). The release of the Game Boy represented a pivotal moment in gaming history, introducing a new dimension to the gaming experience: the ability to play outside the household. For the first time, video games became truly portable, extending interactive entertainment from indoor spaces to everyday environments such as public transport, parks, and classrooms. This feature will become essential for the insurgence of the mobile gaming industry, which is the one of most profitable industries in this sector.

Technological advancement continued to push the video game industry into new realms during the 1990s. The 1990s marked a significant leap forward in video game technology, driven by continuous advancements in computer hardware. Improvements in processors, graphics cards, and memory capacity offered developers new tools to create increasingly complex and visually engaging games. It was during this transformative decade that Sony entered the console market with the launch of the PlayStation, a move that would reshape the industry.

Initially, Sony had pursued a collaboration with Nintendo to develop a CD-ROM add-on for the Super Nintendo Entertainment System (SNES). However, the partnership fell through at the last minute when Nintendo unexpectedly opting to work with Philips instead. Rather than abandoning the project, Sony leveraged the technological groundwork to develop its own standalone console. Influenced by Sega's arcade success with *Virtua Fighter* (a pioneering 3D fighting game) Sony made the strategic decision to centre its new PlayStation around 3D polygon graphics, distinguishing it from the then-standard 2D sprite-based visuals (Ali 2016).

The PlayStation, a 32-bit console, debuted in Japan in 1994 and reached the U.S. market in 1995. In the same period, Sega launched its own 32-bit console, the Saturn. Both systems introduced groundbreaking graphical capabilities far beyond those of the previous 16-bit generation. The PlayStation, in particular, enjoyed immense commercial success in both Japan and North America, quickly establishing itself as a dominant force (Ali 2016).

In contrast, Nintendo opted out of the 32-bit race and instead released the Nintendo 64 (N64), a 64-bit console. Despite its advanced processing power, the N64 faced tough competition from Sony’s already well-established PlayStation. A key disadvantage for

Nintendo was its insistence on using cartridge-based media, which, though faster in loading times, offered less storage and was more expensive to produce compared to the CD format embraced by Sony. This decision led several major third-party developers to shift their support to Sony. Notably, Square and Capcom, moved away from Nintendo in favour of the PlayStation. As a result, the N64's game library became heavily reliant on Nintendo's own first-party titles like *Super Mario 64* and *The Legend of Zelda: Ocarina of Time* (Ali 2016).

Meanwhile, the Sega Saturn struggled to replicate the success of the Mega Drive (Genesis) in the American market, and Atari's final console efforts failed to gain traction. These market dynamics gave Sony a significant edge, allowing the PlayStation to dominate the fifth console generation. It ultimately became the second best-selling home console of all time, surpassed only by its successor, the PlayStation 2 (Ali 2016).

By the end of the 1990s, video games had become an integral part of mainstream entertainment culture, no longer a niche hobby, but a widely accepted and accessible form of recreation on par with playing outdoors or engaging with traditional toys (Ali 2016).

Moreover, the late 1990s also witnessed the widespread adoption of mobile phones, which coincided with rapid advancements in electronic technology. As mobile devices became more sophisticated, they began incorporating additional features, including basic games. Nokia was among the first to embed a game (*Snake*) on its handsets, setting a trend that other manufacturers soon followed. Although limited by small, monochrome screens and minimal processing power, these early mobile games played a significant role in normalizing gaming as part of everyday life. By integrating games into a device carried constantly by adults, mobile phones helped bridge the gap between traditional gamers and the broader public (Ali 2016).

The advent of the internet in the late 1990s and early 2000s further redefined the landscape. Online gaming enabled multiplayer experiences and the formation of global gaming communities. Massively multiplayer online games (MMOs), such as *EverQuest* and *World of Warcraft*, allowed players to engage in cooperative and competitive gameplay across vast digital worlds, blending entertainment with complex social dynamics (Ali 2016).

The sixth generation of video game consoles started with the release of Sega's Dreamcast in 1998. The Dreamcast was known for its integration of a built-in modem, capitalizing on the rising popularity of the internet by offering online multiplayer gameplay, a groundbreaking feature at the time (Ali 2016).

With the emergence of online connectivity, video games began evolving into more than just isolated entertainment experiences. They became platforms for social interaction, allowing players to connect and play together without being physically present. This shift had profound implications for the gaming demographic. Many players who had grown up with earlier console generations were now adults, therefore, the flexibility of online play enabled them to continue gaming on their own terms, integrating it into their daily routines. Consequently, gaming increasingly became a normalized and enduring part of everyday life, not just for younger users but for adults as well (Ali 2016).

Simultaneously, broader technological changes were shaping the landscape. As internet usage became more prominent in professional and social life, platforms like MySpace, Friendster, and later Facebook fostered new kinds of digital interactions. These platforms also popularized casual social games such as *FarmVille* and *Mob Wars*, which introduced gaming to audiences previously untouched by traditional console-based systems. These casual games offered short, accessible gameplay with simple mechanics. Game publishers quickly recognized the commercial potential of this growing segment, with some suggesting that casual gamers represented the future of the industry and would eventually outnumber their traditional counterparts (Ali 2016).

The release of the iPhone in 2007 further accelerated this trend. Positioned as a multifunctional device combining computing power, internet access, and mobile communication, the iPhone also introduced the App Store: an innovative distribution platform for software, including games. Its intuitive interface enabled new and user-friendly gaming experiences, attracting even more casual users. As smartphones from other brands followed suit, mobile gaming expanded rapidly, especially among those already accustomed to digital devices, social media, and app-based engagement in everyday life (Ali 2016). Prior to the mid-2000s, the video game industry was largely centred around PC and console platforms, with the market primarily dominated by U.S. and Japanese developers. However, the landscape began to shift between the mid-2000s and early 2010s, as emerging web technologies like Java and Adobe Flash enabled the

proliferation of browser-based games. These games, often casual in nature and designed for short play sessions, appealed to a broader audience due to their accessibility and simplicity. A major transformation occurred after 2010 with the introduction of in-app purchases (IAPs) by Apple, which opened up new monetization strategies for mobile game developers. Titles such as *Candy Crush Saga* and *Puzzle & Dragons*, both released in 2012, played a pivotal role in popularizing this model, solidifying mobile gaming as a third, highly lucrative segment within the global gaming industry (Gong e Binz 2023).

In more recent years, the industry has continued to explore the frontiers of immersive technology. Virtual reality (VR) and augmented reality (AR) have reimagined player engagement, offering multisensory experiences that blend the physical and digital. Simultaneously, the emergence of cloud gaming has enabled users to stream high-performance games without specialized hardware, lowering entry barriers for participation. Another defining trend is the explosive growth of eSports, which has transformed video gaming into a competitive and commercial phenomenon, complete with professional players, global tournaments, and vast spectator audiences (Goh, Al-Tabbaa & Khan 2023).

In retrospect, the history of the Video game industry illustrates not only its adaptability and resilience but also its impact. From arcade cabinets to mobile phones, from living rooms to virtual arenas, the industry has consistently evolved in response to technological progress and cultural demand. More than a form of entertainment, video games have become a platform for storytelling, socialization, creativity, and even education. Today, the video game industry stands as a cornerstone of contemporary digital culture, shaping how individuals connect, express themselves, and interact with emerging technologies.

2.2. History and Evolution of the Chinese Video Game Industry.

The history of the Chinese video game industry is a complex and multifaceted narrative shaped by technological advancements, government policies, socio-cultural values, and market dynamics. From its early inception in the 1980s to its status as a global powerhouse, the industry reflects the broader trajectory of China's modernization and global integration. In this section a brief historical analysis will be given, with a deepening on the mobile game industry.

Deng (2024) will be the primary source for the redaction of this part, given its thorough documentation of the different phases of the Chinese video game industry. As stated in the book, the roots of China's video game industry can be traced back to the early 1980s, when the Ministry of Computer Industry initiated the development of arcade machines. These machines became available across the country by 1983, mainly targeting youth centres. In 1981, China developed its first domestic game console, the YQ-1, which utilized the AY-3-8500 chip and featured Pong-like games. This marked China's first step toward creating its own gaming hardware.

By the mid-1980s, the import of the Japanese Family Computer (Famicom) induced further growth, although its incompatibility with China’s PAL-D television system prompted the emergence of modified clones, or "Famiclones." These devices were adapted in Hong Kong and Taiwan and assembled in southern China, where economic reforms had unlocked a vast pool of cheap labour. The mass production of consoles led to significant price drops, making them accessible to the average household and establishing home gaming as a popular social activity.

In 1993, Tianjin Newstar Electronics, under the Ministry of Electronics Industry, launched China’s first 16-bit game console, the Xiaojiaoshou. This innovation marked a milestone in domestic technological capability. However, in parallel to these developments, China pursued the concept of the "learning computer," which fused educational goals with gaming hardware. Promoted by Deng Xiaoping's vision of modernization through science and education, learning computers were backed by multiple government bodies and integrated into national development plans.

The learning computer was a strategic workaround to the cultural discomfort with pure entertainment devices. Rooted in Confucian values that prioritized education, these computers were marketed as tools for learning, thus easing parental concerns. Nonetheless, the market ultimately dictated consumer behaviour. As demand grew for multifunctional systems that could support gaming, manufacturers shifted focus, and the learning computer gradually evolved into a de facto game console.

Despite the rise of domestic hardware, Chinese firms struggled to manufacture core components like CPUs, which still had to be imported. This dependency led the industry to pivot toward software development. The early 1980s saw initial attempts at creating original games, which were exported to international markets. Yet, the proliferation of

piracy and economic pressures in the late 1980s steered many small enterprises toward game hacking and unauthorized localization of Japanese titles.

This paradox of imitation versus innovation persisted into the 1990s. Japanese games, while popular, also triggered cultural anxieties, as their themes and aesthetics often evoked memories of colonialism. This tension birthed the "China image" game: domestically produced titles rooted in Chinese history, literature, and nationalist narratives. These games sought to assert cultural identity and resist foreign influence while preserving gameplay mechanics borrowed from abroad.

The late 1990s and early 2000s saw a proliferation of domestic game companies, many of which focused on educational titles or culturally significant content. However, the symbolic use of Chinese themes often failed to mask the lack of innovation in gameplay, leading critics to argue that such games were merely superficial exercises in cultural reproduction.

Meanwhile, a new generation of Internet-based game companies emerged, signalling a transition from software development to Internet finance-driven business models. These companies capitalized on the rise of online gaming, leveraging capital investment and online distribution to scale their reach. The logic of capital gradually overtook the patriotic spirit that had once defined the industry.

The Chinese online gaming industry is a fascinating case of rapid technological development, regulatory complexity, and shifting market dynamics, all unfolding within a unique socio-political environment. In the mid-1990s, China was still cautiously navigating the early stages of internet adoption, and online games were practically non-existent. It wasn’t until the early 2000s that online gaming truly emerged, promoted by broadband internet expansion and the introduction of personal computers into middle-class homes.

The industry’s growth was shaped significantly by state policy. The Chinese government played a paradoxical role: while it promoted internet development and recognized the economic potential of the digital economy, it also remained deeply concerned about the “spiritual pollution” and social risks posed by games. As a result, companies navigated an ambiguous terrain where success depended as much on regulatory compliance as on consumer appeal. This delicate balance gave rise to the dominance of domestic giants like

NetEase, and later, Tencent, who mastered both game development and political manoeuvring, as will be better explained later in this chapter.

As the 2000s progressed, online gaming evolved from simple 2D interfaces into complex, immersive experiences. Business models shifted from time-based payment to virtual item sales, the latter proving especially lucrative and better suited to the Chinese market. These changes coincided with the rise of the “free-to-play” model, which was rapidly adopted and refined in China.

However, this growth wasn’t without any difficulties. Concerns about addiction led to the government introducing real-name registration systems and even “anti-addiction” mechanisms, which limited underage players' access. These interventions were often technologically flawed or poorly enforced, but they highlighted the tension between economic goals and social values, Meanwhile, the popularity of massively multiplayer online role-playing games (MMORPGs) grew (Kshetri 2010).

What makes the Chinese gaming industry unique is not only its scale (now the largest in the world) but also its entwinement with state priorities, nationalism, and soft power ambitions. In the contemporary geopolitical arena, the tools of influence are no longer confined to tanks, treaties, or tariffs. Influence flows through digital channels, entertainment ecosystems, and cultural exports. Among the many vehicles of soft power, video games in China have evolved into sophisticated instruments of state-backed cultural influence. They no longer merely entertain; they shape perceptions, embed values, and gently nudge global audiences toward China’s desired image of itself (Deng 2024).

This transformation is part of a broader strategic effort by the Chinese state to push and promote its international reputation and counterbalance the dominance of Western media narratives. Soft power is the ability of a nation to influence others through attraction and cultural resonance, rather than through brute force. Recognizing this, China has pursued a cultural policy designed to amplify its voice globally. Within this strategy, video games have emerged as both medium and message.

Through a mixture of regulatory frameworks, financial incentives, and institutional partnerships, Chinese authorities guide the gaming industry toward producing content that aligns with national objectives. Game developers, in turn, have learned to navigate

these ideological boundaries with increasing skill, crafting narratives that blend state-sanctioned themes with engaging gameplay and high production value (Deng 2024).

Therefore, games have become tools not just of profit, but of cultural transmission, capable of reinforcing historical narratives and national pride. Simultaneously, the industry's international expansion, via investment and global platform distribution, reveals a dual ambition: to win at home and abroad (Deng 2024).

The Belt and Road Initiative also greatly enhanced the influence of the Chinese video game industry as a powerhouse and revenue generator of the country. The initiative initially conceived to promote economic cooperation and infrastructural connectivity across Asia, Europe, and Africa, has extended its influence into the digital and cultural domains. For China's game industry, this has opened up new frontiers, not just in market expansion but in the role, games play as cultural ambassadors. Through the Belt and Road Initiative, Chinese games have found both a direction and a platform for global growth, reaching new markets and fostering international collaboration (Zhu 2021).

By 2018, over 135 Chinese game developers had ventured abroad, exporting more than 350 titles and generating billions in revenue. Countries such as the United States, South Korea, and Japan became top destinations, but the Belt and Road has broadened that scope to include nations in Southeast Asia, the Middle East, and Latin America. This expansion has been more than economic; it has been cultural. As players across the globe immerse themselves in games rooted in Chinese aesthetics and stories, they encounter narratives and values that go beyond pixels and gameplay mechanics (Zhu 2021).

Unlike traditional media, which often struggles to translate cultural nuance across borders, games offer an immersive, interactive medium that is especially appealing to young people. As a result, they have become one of the most powerful tools for cross-cultural communication in China's diplomatic and soft power arsenal (Zhu 2021).

Yet the journey has not been without challenges. While China's game exports are impressive in volume, they often lack in originality. Many titles rely heavily on existing templates, with a proliferation of copycat formats and homogenized gameplay. The international top charts still feature only a handful of uniquely Chinese titles, such as *Genshin Impact*, highlighting a gap in global recognition. The problem isn't just creative, it's structural. A shortage of professional talent across design, development, and operations continues to hamper the industry. Even with the rise of specialized education

programs, the demand for skilled, cross-cultural developers far outpaces supply (Zhu 2021).

Many Chinese game companies lack long-term competitiveness. A significant number fold within a few years, unable to navigate both domestic saturation and global competition. As markets evolve, the challenge isn't just launching a game, it’s sustaining it, adapting it, and ensuring it resonates with diverse audiences. Often, companies fall short in market analysis, entering regions without fully understanding local tastes, regulatory frameworks, or cultural sensitivities (Deng 2024).

Moreover, the issue of self-identity puts a great toll on the industry. While games are technically Chinese, they often fail to embody meaningful Chinese characteristics. Cultural representation tends to stop at aesthetic elements (dragons, calligraphy, or silk robes) without deeper narrative substance. This superficiality dilutes their potential impact. For games to truly function as tools of cultural transmission, they must go beyond decoration and reflect core values, philosophies, and lived realities (Deng 2024).

To meet these ambitions, the path forward lies in innovation, integration, and introspection. Technologically, the industry must harness the power of emerging tools (5G, artificial intelligence, VR/AR) to create more immersive, fluid, and culturally resonant experiences. Artistically, it must commit to storytelling that marries tradition with modernity, reflecting the complexity and diversity of Chinese culture (Zhu 2021).

But perhaps most critically, the industry must invest in people. Cultivating a new generation of interdisciplinary game professionals is essential. These individuals will not only build better games but craft narratives that matter on a global scale.

Concurrently, companies must deepen their understanding of global markets, localize strategically, and build enduring brands. Going global isn’t just about exporting software, it’s about forging connections, adapting to context, and communicating value in ways that resonate (Zhu 2021).

Still, the road to global acceptance is not without its obstacles. Western governments and consumers have voiced concerns over censorship, data privacy, and the influence of the Chinese Communist Party on creative industries. As a result, developers must find a delicate balance: they must appeal to international audiences while adhering to domestic ideological expectations.

This balancing is especially hard within China itself: approval processes are rigorous, and new titles must pass ideological investigation before release. Content that is considered overly violent, culturally inappropriate, or ideologically ambiguous is often denied publication. However, this has pushed developers to become more innovative, they have learned to create messages more subtly, to foster national pride through aesthetics rather than slogans, and to design games that resonate emotionally while remaining ideologically safe (Yuan 2025).

Despite growing patterns and continuous evolution and integration of the Chinese culture in games as an instrument to dominate both domestic and foreign market, the Chinese game industry continues to cope with structural issues. These include over-reliance on homogenized, monetization-heavy genres such as MMORPGs and MOBA games, often criticized for prioritizing profit over creativity (Deng 2024).

2.2.1. Mobile Gaming as the Driving Force of the Chinese Video Game Industry.

China's digital gaming market has rapidly evolved into the world's largest, both in terms of revenue and consumer base, driven by rising disposable incomes and expanding access to computers, smartphones, and internet connectivity.

Between 2002 and 2014, the contribution of the information economy to China's GDP nearly tripled, rising from 10.3% to 26%. During this period, China emerged as the world's leading producer of ICT goods, including computers, smartphones, and telecommunications equipment, and established strong global export competitiveness in both digital products and services. Information and communication technologies (ICTs) have been central to China's economic expansion, enabling the rise of powerful internet companies and fostering the development of entirely new industries. Driven by a strong focus on consumer-oriented innovation, the internet economy has significantly reshaped daily life through a diverse range of services. Notably, China has taken a leading role in the development of mobile applications, particularly in the domains of video gaming and online streaming, and is projected to become the top global market for immersive media by 2028 (Simon 2021).

China has also become a major force in smartphone manufacturing. The tech ecosystem in Shenzhen, supported by both handset and chip producers, continues to scale due to the availability of skilled yet affordable labour (GSMA, 2016a). Leading Chinese brands

such as Huawei, Oppo, and Xiaomi have pioneered the development of cost-effective smartphones, contributing to their dominance in emerging markets. By 2018, Chinese smartphone brands had captured over 30% of the market in regions such as Africa, India, and Malaysia (Simon 2021).

Over the past decade, China has transformed into a global leader in the mobile gaming industry, outpacing even established giants like the United States. What once seemed like a fragmented and foreign-dominated market has become a competitive arena where Chinese developers not only compete but lead, both at home and abroad. Although, this evolution didn't happen overnight. It is the result of a confluence of technological leaps, bold entrepreneurship, and policy changes that have reshaped how Chinese people play, create, and experience games (Simon 2021).

Driven by the widespread adoption of smartphones and improvements in mobile internet infrastructure, mobile games quickly rose to dominance, overtaking traditional end games and browser-based games. The Chinese game market, once reliant on imports from Japan, South Korea, and the U.S., began producing its own massively successful titles. By 2021, the number of mobile gamers in China reached over 655 million RMB, almost half the country's population. And yet, despite this massive user base, the growth rate began to slow down. This is in part due to market saturation and also due to tighter regulations, particularly those protecting minors, as seen before (Wang 2023).

Government oversight has become both a safeguard and a hurdle. Policies aimed at control game addiction among youth, caused especially by the free-to-play model and Gacha microtransaction business model mainly gravitating around in-game purchases adopted by the majority of the mobile game companies to sustain and financing themselves; also, the Chinese government adopted strict policies that aimed at controlling and approving in-game content. While these measures have helped eliminate low-quality, exploitative games, they've also led to delays and market uncertainty. Between 2021 and 2022, many small developers were forced to close or pivot their business models as the issuance of new game licenses temporarily froze. Survivors in the industry had to rely on older games or revamp existing ones, which eventually dulled user excitement and curbed spending. In order to understand why the Chinese government was worried about the gaming addiction among the youth is due to the spreading of a new form of gambling exacerbated by the free-to-play business model adopted by the majority of the mobile

games producers; that often lead to a “freemium” service in order to achieve the best gaming experience using the Gacha system, which will be better explained in the next section (Wang 2023).

Interestingly, while domestic growth slowed, Chinese mobile game developers found fertile ground abroad. Games developed in China now make up over 40% of mobile games advertised overseas. These titles are increasingly popular in markets like the U.S., Japan, Southeast Asia, and even Latin America. The revenues from overseas operations are now growing faster than those from the domestic market, signalling a clear path forward: going global is no longer optional; it is essential (Simon 2021).

At the same time, the ecosystem supporting mobile games has matured dramatically. From developers and publishers to app stores and ad platforms, a refined and collaborative industry chain has formed. Large companies have diversified their strategies, embracing monetization through ads, intellectual property tie-ins, and cross-border branding. Smaller studios, while facing more obstacles, are also exploring new models, often focusing on free-to-play designs or entering niche genres (Wang 2023).

Despite the setbacks and regulations, the future of mobile gaming in China remains bright. Market analysts predict that by 2024, Chinese outbound mobile game revenue will grow by 60%, driven largely by expansion into underpenetrated regions and continued innovation. While traditional powerhouses like the U.S. and Japan remain key revenue sources, emerging markets are quickly gaining ground. The global stage is wide open, and Chinese developers are no longer just players, they are shapers of the next era of mobile entertainment (Wang 2023).

In a country where entertainment, technology, and policy frequently intersect, China’s mobile game industry stands as a dynamic example of modern digital culture. It reflects not just how people play games, but how an entire industry adapts, competes, and dreams, both within and beyond its own borders (Wang 2023).

2.2.3. From Free-To-Play to Freemium, The Gacha Business Model.

In the contemporary landscape of mobile gaming, developers and publishers find themselves navigating a rapidly evolving marketplace where entertainment and monetization are inextricably linked. The challenge is no longer merely to create a game

that captivates users; it is to design experiences that maximizes both engagement and revenue without compromising the player's enjoyment. At the core of this balancing act lies the strategic choice of how and when to charge players, and this choice manifests primarily through three dominant business models: premium, freemium, and subscription. While these categories may appear straightforward, each represents a distinct philosophy of value exchange, player psychology, and long-term financial strategy. In this section, the elaborate will deepen the first two models.

Historically, the premium model defined the early era of video game monetization. It follows a traditional retail logic: players pay a one-time fee to access the full game indefinitely. This model, still prominent in console and PC gaming, assumes that consumers are willing to invest upfront in exchange for complete and unrestricted access. However, on mobile platforms, where users are often inundated with free alternatives, (the so called Free-to-Play or F2P) this approach has largely fallen out of favour. The premium model's binary proposition ("pay or don't play") introduced significant friction in a market that thrives on instant access and minimal barriers. Even iconic titles like *Angry Birds* and *Temple Run* initially adopted this model but later transitioned to a different, far more profitable approach: freemium (Lakić, Bernik & Čep 2023).

The rise of the freemium model marked a shift in how games generate income. Players are offered the game at no cost (F2P) allowing them to engage immediately and evaluate the experience risk-free. This policy dramatically expands potential user bases, and developers quickly discovered that monetization need not be front-loaded to be effective. Instead of charging all players, the freemium model focuses on converting a smaller percentage into paying users, often referred to as "whales", whose spending subsidizes the free access granted to the majority (Prilian et al. 2023). It is not uncommon for these high-value players to account for the majority of a game's revenue, as it will be seen later when analysing the title *Genshin Impact*.

The true power of the freemium model lies in its flexibility. Developers are not limited by a single transaction. They can continuously offer new purchasable content, limited-time promotions (such as special events and special characters or weapons), and competitive advantages. This dynamic structure creates a recurring revenue stream that grows in tandem with the player's engagement.

In these games, revenue is generated by a hybrid approach that combines direct and indirect monetization channels. Indirectly, advertising plays a critical role. Mobile games integrate a variety of ad formats, ranging from static banner ads to immersive rewarded videos and playable ads. These advertisements are not placed arbitrarily: they are mediated through sophisticated real-time bidding (RTB) systems, where advertisers compete to display their content to targeted users. The process takes place in milliseconds, triggered by user actions within the game (Lakić, Bernik & Čep 2023).

Developers and advertisers employ different pricing models depending on their goals (Lakić, Bernik & Čep 2023):

Table 2:pricing models.

Cost-per-Thousand (CPM)	sets a fixed rate that advertisers pay for every 1,000 times their ad is displayed, regardless of user interaction. Originally intended to boost brand awareness, CPM remains one of the most widely used advertising models. **However**, its primary drawback lies in the fact that advertisers are charged solely based on views, even if users do not click or engage with the ad in any way.
	This model counts an impression only when a user actively clicks on an ad. It is considered one of the most effective methods for driving performance and generating revenue through in-app advertising.

Cost-per-Click (CPC)	**However**, depending on whether the primary goal is user acquisition or direct revenue generation, developers often need to combine various advertising pricing models and monetization strategies to strike the right balance between attracting users, keeping them engaged, and maximizing profitability.
Cost-per-Action (CPA)	This model requires users to complete more specific actions, such as making a purchase of the advertised product. This model is particularly well-suited to interactive ad formats, including playable ads, rewarded video ads, and offer wall ads, where user engagement is both measurable and intentional.
Cost-per-Lead (CPL)	In this model, advertisers pay only when a qualified lead is generated, typically defined as a user taking a deliberate action, such as completing a survey or submitting contact details. This approach effectively removes the risk of incurring costs from accidental clicks or passive ad views, ensuring that advertisers are charged only for meaningful user engagement.

Cost-per-Install (CPI)	This model is a performance-based advertising strategy in which advertisers are charged each time their app or game is not only clicked on but also downloaded and installed by a user. This model ensures that advertisers pay only when their marketing efforts result in a concrete outcome: the acquisition of a new user who has taken the additional step of installing the application. Because of this direct link to measurable results, CPI is especially popular in mobile app marketing campaigns where user acquisition is the primary objective.

While advertising captures attention and generates passive income, the more potent stream of revenue in freemium games typically comes from in-app purchases (IAPs). These purchases, often microtransactions, allow players to buy digital goods that enhance their experience, whether cosmetically (such as character redesigns or accessories), functionally (such as new mechanics, new characters or new objects), or both. Purchasable content can be broadly categorized into two types: cosmetic and gameplay-related:

Cosmetic items, such as skins, avatars, and emotes, allow players to express their identity, gain social status, or personalize their interface without affecting game mechanics. These features are especially prevalent in multiplayer and social games, where visibility and individuality carry intrinsic value.

Gameplay-enhancing purchases affect progression and performance. Items like power-ups, weapons, or time-saving boosts give paying players advantages that accelerate their advancement. This category also includes battle passes and season passes: time-limited reward systems that unlock new content in exchange for regular engagement and minor

fees. These systems have become nearly ubiquitous in top-grossing games, offering structured incentives that drive daily logins, social competition, and long-term retention.

Among the most controversial and psychologically charged monetization methods are loot boxes, or better known as Gacha systems: Originally coined by the Bandai company, the term "*Gachapon*" refers to capsule toys dispensed from vending machines, a concept that remains popular in China and Japan today. The name itself combines two onomatopoeic Japanese words: "*gacha*," the sound made when turning the machine's handle, and "*pon*," the sound of the capsule dropping into the tray. These machines typically deliver small collectible toys, and the element of randomness has always been part of their charm (Lakić, Bernik & Čep 2023).

In 2011, the Gacha concept made its way into the Japanese mobile gaming industry (and a bit later also in the Chinese one), quickly becoming a central monetization mechanic. In digital form, Gacha systems involve players spending a certain amount of in-game currency, either earned or purchased with real money, to receive a random item, card, or character. Modern Gacha games often tie these mechanics to limited-time events, heightening the sense of urgency and triggering "fear of missing out" (FOMO) among players (Lakić, Bernik & Čep 2023).

The rarity of certain rewards means players may have to perform multiple pulls to obtain their desired item, which fuels repeated spending. While some players engage with Gacha purely through earned in-game currency, others are willing to spend real money to bypass randomness and guarantee specific rewards. This creates a psychological loop in which the perceived value of virtual items, especially rare ones, drives users to keep spending in pursuit of a specific outcome, tapping into the principle of variable reward schedules (Lakić, Bernik & Čep 2023), an idea rooted in Skinner’s operant conditioning theory: when the outcome of a purchase is uncertain, players may repeatedly spend in pursuit of rare items, often exceeding what they would pay for the item directly. The Gacha-based games generated over $4 billion in revenue primarily from the loot box system. Despite the enormous profits, loot boxes have drawn criticism for promoting compulsive spending behaviours and mimicking gambling, especially among younger players. Microtransactions in Gacha-based games also benefit from seamless payment integration. In many gaming ecosystems, bank or card information is saved directly within the platform, enabling rapid purchases without disrupting gameplay. This convenience can

lead to overspending. Just as rapid gameplay in gambling can intensify user engagement, fast purchasing mechanisms increase the likelihood of impulsive spending. Therefore, governments in several countries, including China, have begun regulating loot boxes by requiring developers to disclose drop rates (the probability of acquiring the desired item) and implement safeguards (such as pity system or guaranteed items) (Zhou 2021).

Developers nowadays are constantly refining monetization strategies, often using the ARM Funnel: an analytical framework that divides the player lifecycle into three phases: Acquisition, Retention, and Monetization. The logic is intuitive: not every player who downloads a game will stay, and not every player who stays will spend. Therefore, the funnel narrows as users move from discovery to long-term engagement and ultimately to revenue contribution (Gibson et al. 2023).

User acquisition is the broadest part of the funnel, focused on attracting as many new players as possible. This is achieved through marketing, influencer campaigns, cross-promotions, and ad placements on platforms like TikTok, YouTube, and Instagram. Influencers, or key opinion leaders (KOLs), play a pivotal role by demonstrating gameplay and encouraging their followers to try the game. Offer walls, which reward users with in-game items in exchange for installing other apps, are another common acquisition tool (Gibson et al. 2023).

Once users are acquired, the next challenge is retention. Games must be designed to hook players early and keep them engaged through consistent updates, evolving challenges, community features, and personalization. The more time players invest in the game, the more likely they are to transition into paying users. Retention also contributes to viral growth; satisfied users are more likely to invite friends or share content, further feeding the acquisition cycle (Zhou 2021; Gibson et al. 2023).

Finally, at the narrowest point of the funnel is monetization. Not all players will spend, but those who do must generate enough revenue to cover acquisition costs and support continued development. The most common metric used here is ARPU: average revenue per user. For a game to be profitable, its lifetime value (LTV) must exceed the customer acquisition cost (CAC). A simplified calculation of LTV is:

$$LTV = \frac{ARPU}{Churn\ Rate}$$

where churn rate reflects the speed at which players leave the game. This formula highlights the importance of retaining high-value users for as long as possible. Therefore, Developers must constantly experiment with new formats, optimize based on real-time analytics, and balance profitability with ethical responsibility. The goal is not just to make players pay, but to make them want to pay, by offering meaningful value, emotional satisfaction, and a sense of agency within the digital world they inhabit (Zhou 2021; Gibson et al. 2023)

2.3. The Impact of COVID-19 on The Video Games Industry.

As stated in the previous part, the video game industry is relatively new yet one of the fastest evolving ones. Paralleling the technological innovations, this industry has become one of the most profitable one, generating, in 2024, an estimated revenue of nearly 455 billion U.S. dollars globally, with mobile gaming alone accounting for approximately 98.7 billion of that total (Clement 2024). Due to its anti-cyclical nature, the video game industry current profitability is strictly linked to its growth during the COVID-19 pandemic. In 2020, video game industry, like many others, lacked an operational model to navigate the challenges posed by a global pandemic. As a relatively young and rapidly evolving sector, with just over fifty years of history, it had never before encountered a crisis of such worldwide scale. Nonetheless, despite the absence of such preparedness, the video game industry demonstrated remarkable adaptability and resilience. In contrast to other creative industries, such as film and music, which experienced significant disruptions; the video game sector not only maintained its operations but managed to thrive, emerging as one of the most robust cultural and economic performers during the COVID-19 crisis (Borić Cvenić, Tolušić & Žalac 2021).

The outbreak of the pandemic needed the implementation of strict safety measures worldwide. Among the most prominent were restrictions on movement and bans on public gatherings, collectively known as social distancing. These limitations significantly increased reliance on information and communications technology (ICT), as individuals used digital tools to maintain social interaction, access services, and stay entertained during prolonged periods of isolation. This shift has been mirrored directly in the video

game industry, which is inherently built upon ICT systems (Borić Cvenić, Tolušić & Žalac 2021).

Unlike other branches of the creative industries, such as cinema or live music, which depend heavily on in-person attendance; video games are primarily consumed indoors and rely on digital screens for audiovisual engagement. Whether through televisions, PC monitors, handheld consoles, or mobile phones, video games are almost universally accessed via privately owned devices, many of which are already integrated into users' daily lives. Although some of these devices, like smartphones or portable consoles, offer mobility, they are just as frequently used within the home. This widespread availability of personal gaming hardware made video games an especially convenient form of entertainment during periods of lockdown and restricted movement. In contrast to other forms of media, which may rely on passive consumption, video games facilitated active and shared experiences, helping people stay connected through digital means. In this sense, the pandemic not only underscored the adaptability of the gaming medium but also elevated its role as both a technological and social tool during a time of global crisis. As stated before, prior to the outbreak of COVID-19, the video game industry had already been experiencing consistent growth in both consumer engagement and revenue generation. However, the pandemic accelerated the industry's expansion to unprecedented levels across nearly all dimensions, creating entirely new opportunities for innovation and market penetration (Borić Cvenić, Tolušić & Žalac 2021).

As the virus spread globally and lockdown measures became widespread, peaks in gaming activity began to appear across other markets. People engaged in video games not only for entertainment but also for community, interaction, and routine during uncertain times. Importantly, there was also a marked increase in the consumption of gaming content: livestreaming platforms such as YouTube and Twitch reported substantial growth in viewership, to watch others play, interact with streamers, and engage with gaming communities online (Borić Cvenić, Tolušić & Žalac 2021).

Together, these developments underscored the multifaceted nature of the video game industry during the pandemic. It became not only a leisure activity but also a social and cultural touchstone, uniquely positioned to meet the psychological and interactive needs of a global population navigating prolonged periods of isolation (Borić Cvenić, Tolušić & Žalac 2021).

> Market research company NPD estimated the consumption in the U.S. video game market in 2020 at USD 56.9 billion, up 27% year-on-year. Video game and supporting content sales accounted for most of the growth, up 26% year-on-year. Gaming device sales in the U.S. market rose 35% year-on-year in 2020, scoring the best result in the past nine years, with a consumption of USD 5.3 billion. A report by the market research company GSD estimates video game sales in the UK market in 2020 at more than 42.7 million copies, up 34% year-on-year. It also notes that UK customers mainly bought video games online, in digital form (24.5 million copies sold) versus optical media or physical form (18.2 million copies), pushing digital video game sales up by 74% year-on-year. Similar trends were present in the other European markets in 2020. Analyses by Japan-based Famitsu show that the Japanese video game market generated more than USD 3.5 billion in sales in 2020, up 12.5% year-on-year. Gaming device sales soared as well, and Japan recorded video game and gaming device sales growth for the first time since 2017. GSD's analysis indicates that consumption in the Australian video game market in 2020 was up 35% year-on-year. (Borić Cvenić, Tolušić & Žalac 2021:485).

With that said, during the COVID-19 pandemic, several video games achieved remarkable success, both in terms of user engagement and commercial performance. Among the most notable titles was *Animal Crossing: New Horizons*, whose sales exceeded 30 million of units, due to its resonance as a soothing, social experience during times of global uncertainty. In addition to purchasable games, freemium games, those offering free access with optional in-game purchases, also saw unprecedented levels of popularity, Such as *Genshin Impact*, developed by Chinese studio miHoYo (米哈游 *mihayou*) recognized globally as HoYoverse since 2022 except in China, where it still retains the original name) (Newzoo 2022), generated immense revenue. In its first six months alone, the game earned over one billion U.S. dollars on mobile platforms in the U.S. market. These two titles will be analysed further in this chapter, as they both foster the Cognitive Escapism phenomenon in different ways.

The pandemic served as a learning experience for the industry. Compared to other creative sectors such as film and music, video games proved far more resistant to the disruptions caused by lockdowns and social distancing. The surge in engagement and revenue corresponded with broader societal changes: the widespread shift toward indoor, screen-based leisure. However, the long-term sustainability of this growth remains uncertain.

Conversely, it is also possible that the pandemic marked a pivotal turning point, one in which the video game sector firmly established its position as a central pillar of global entertainment. Whether temporary or transformational, the pandemic's impact on gaming has been profound, and its legacy will likely shape the industry's trajectory (Borić Cvenić, Tolušić & Žalac 2021.

2.3.1. Escapism: Pro and Cons of the Creation of an Alternative Reality.

As stated before, two games in particular had seen a growth in number of sales or downloads during the pandemic: *Animal Crossing: New Horizons* and *Genshin Impact*, both of which will be better analysed further down in this chapter.

The reason for their immense success is linked in the gameplay experience offered, which are immensely different yet they both foster on a psychological phenomenon that generates a need for escaping in an alternate reality to deal with or avoid real-world problems, which takes the name of Escapism:

> Escapism refers to the individuals' desire to escape the real world to an alternative virtual place where they can satisfy all their motivational needs that they usually cannot satisfy in their real life (Panić & Bodroža 2022:114).

To better understand what drives individuals to seek refuge in these virtual spaces, and how such behaviour can lead to lasting emotional attachment to them, this research integrates three prominent psychological frameworks:

Self-Affirmation Theory (SAT): individuals strive to protect their self-worth by avoiding external threats or by reaffirming their core values in alternative domains. According to Self-Affirmation Theory, a core psychological need of individuals is to perceive themselves as competent, moral, and worthy, that is, to maintain a sense of self-integrity. When this self-integrity is challenged (such as through failure, criticism, or social exclusion) it often results in a psychological threat. This threat is experienced as an aversive emotional state, as it harms key dimensions of the self. In response, individuals are typically motivated to defend or restore their self-worth. However, these efforts are frequently defensive in nature, and can inadvertently hinder outcomes such as productivity, perseverance, and performance (Easterbrook, Harris & Sherman 2021).

While SAT offers insight into the motivation to escape from real-world pressures, it lacks explanatory power regarding sustained engagement or attachment to the virtual environments individuals may retreat to. In this context, SAT provides a theoretical foundation for understanding the initial impulse to seek escapism but falls short in accounting for the longer-term emotional bonds that may form with these virtual spaces.

Self-Determination Theory (SDT): human motivation is driven by the innate need to satisfy three fundamental psychological needs: autonomy, competence, and relatedness:

- **Autonomy** refers to the need to feel that one's actions are self-directed and voluntary. People are inherently motivated to perceive themselves as the origin of their behaviour, rather than being controlled by external forces.
- **Competence** involves the desire to develop and demonstrate mastery in areas that matter personally. Individuals strive to build skills, overcome challenges, and experience efficiency in their interactions with the environment.
- **Relatedness**, also referred to as connection, reflects the human need to establish close emotional bonds and a sense of belonging with others. People are naturally inclined to seek meaningful social connections and mutual support in their lives.

SDT suggests that when these three needs are satisfied, individuals experience psychological well-being and are more likely to form positive attachments. Conversely, when these needs are unmet, individuals may suffer from frustration, emotional distress, and interpersonal difficulties (Pal & Arpnikanondt 2024).

In line with this framework, real-world frustrations are autonomy-related problems (e.g., feeling controlled or restricted), competence-related problems (e.g., loss of self-efficacy), and relatedness-related problems (e.g., loneliness or social disconnection).

Given that such unmet needs directly impact individual well-being, they often pose threats to self-image, thereby triggering the self-affirmation process described by SAT. When individuals encounter these psychological threats in their everyday lives, they may seek compensation or recovery in digital spaces.

During the COVID-19 pandemic, digital games emerged as a potential coping mechanism, offering individuals a means of Escapism from the psychological toll of pandemic-related stressors. Games provide immersive fantasy environments, opportunities to adopt alternative identities, and avenues for engaging in experiences unattainable in real life,

features particularly appealing to those grappling with loneliness or emotional distress. Higher levels of pandemic-related stress, anxiety, and depression were significantly linked to coping, escapism, and fantasy-driven gaming motivations. Therefore, many individuals turned to gaming not merely for entertainment, but as a psychological refuge an adaptive, strategy to manage emotional discomfort and social isolation during a time of unprecedented global uncertainty (Reer 2025).

Furthermore, individuals engaged in gaming as a mean of reacquire lost routines, with in-game activities often taking the place of daily habits lost during quarantine. In some cases, games served as a substitute for reality itself, allowing players to recreate locations and experiences that were no longer accessible in the physical world due to movement restrictions. Additionally, gaming became a valuable tool for maintaining social connections, helping people stay in touch with distant loved ones and friends, while also offering opportunities to form new relationships in virtual spaces, becoming a breeding ground for the birth of new social communities (Boldi e Rapp 2023).

Flow Theory (FT): how Escapism can evolve into virtual place attachment. Place attachment refers to the emotional and cognitive connection that individuals form with specific environments. This bond contributes significantly to psychological well-being, fosters a sense of inner peace, and plays an important role in sustaining self-esteem. Flow, on the other hand, is a mental state of deep involvement and immersion in an activity, characterized by focused concentration, intrinsic enjoyment, and a distortion of time. In the context of digital environments, achieving a state of flow can significantly enhance a user's sense of presence and emotional connection with the virtual world (Panić & Bodroža 2022).

Therefore, Flow serves as a bridge between escapism and virtual place attachment. Once individuals escape to the alternative digital space in response to unmet psychological needs, a satisfying and immersive experience can reinforce their presence in the virtual world.

Nevertheless, FT alone does not explain the triggers of escapism: it describes how optimal digital experiences develop once users are already engaged Panić & Bodroža 2022).

In summary, real-world psychological frustrations are the initial trigger for escapism (explained by SDT and SAT), and flow experience is the mechanism through which escapism transforms into virtual place attachment (via FT). Therefore, digital spaces

become meaningful domains where users can restore agency, competence, and connection, and ultimately develop lasting emotional bonds with the virtual world Panić & Bodroža 2022).

However, although the use of digital games during COVID-19 lockdowns and prolonged periods of social distancing has often been framed as a positive coping mechanism, providing entertainment, social connection, and psychological relief, it is essential to analyse the "other face of the medal", which points out the potential adverse consequences of excessive gaming. While many individuals found peace in games, using them to relieve stress or escape from the overwhelming uncertainty of the pandemic, others began exhibiting problematic gaming behaviours. This concern was reinforced by the World Health Organization's (WHO) recognition of "gaming disorder" (GD) as an official mental health condition, highlighting how, under specific circumstances, digital games may transition from an appeasing tool to deal with the real-world problems to a source of behavioural distortion and dysfunction (Reer 2025).

One of the most important frameworks used to interpret this phenomenon is the Interaction of Person-Affect-Cognition-Execution (I-PACE) Model: this model affirms that the development of addictive behaviours, such as gaming disorder, results from a complex and dynamic interaction between personal predispositions, affective and cognitive responses, and impairments in executive functioning. Specifically, the "P" component includes general predisposing factors, such as genetic traits, personality features, and early adverse experiences, which may make an individual more susceptible to addiction. Additionally, behaviour-specific predispositions such as high impulsivity or strong gaming motivation also play a role (Reer 2025).

The "A" and "C" components of the I-PACE model refer to emotional and cognitive reactions to external or internal stressors. During the COVID-19 pandemic, these stressors included fear of infection, social isolation, loss of routine, and economic insecurity, all of which are triggers of anxiety and depression. As a result, individuals often looked for relief through engaging in highly immersive and rewarding behaviours like gaming. In these contexts, games offered immediate feedback, clear goals, and a sense of accomplishment that may have been lacking in real-life settings due to pandemic restrictions. However, while such engagement may have initially provided emotional

regulation and distraction, the repeated use of gaming to cope with negative affect can reinforce harmful and addictive behaviours (Reer 2025).

The “E” component, representing executive functioning, emphasizes how chronic stress and emotional instability can hinder an individual’s ability to exert self-control or inhibit impulses. Under these conditions, the line between recreational and compulsive gaming may begin to blur. Executive dysfunction, including emotional fatigue, disrupted sleep, and reduced social interaction, may reduce one's ability to disengage from gaming, despite negative consequences in other life domains such as academic performance, work productivity, or interpersonal relationships (Reer 2025).

Complementing the I-PACE model is the Compensatory Internet Use Model, which helps explain why individuals might turn to digital technologies, including video games, to compensate for offline deficiencies. According to this model, people engage in excessive digital use to escape from real-life problems or to fulfil psychological needs that are unmet in their everyday environment. During the pandemic, disruptions to autonomy, competence, and relatedness (SDT) were widespread. Individuals who felt powerless, isolated, or ineffective in their offline lives may have turned to video games as a virtual space where those needs could be temporarily satisfied (Reer 2025).

Furthermore, Escapism has been strongly associated with the development of problematic gaming behaviours. Studies conducted during the COVID-19 pandemic revealed that people experiencing elevated levels of depression, anxiety, stress, and loneliness were significantly more likely to engage in gaming driven by Escapism and fantasy motivations. While such motivations can offer short-term psychological relief, they may also promote cycles of dependency, especially when they become the primary means of emotional regulation, this increased reliance on games for psychological coping raised concerns about long-term behavioural consequences, particularly among vulnerable populations (Reer 2025).

While digital games served an important psychosocial function for many during the COVID-19 crisis, the pandemic also highlighted the potential for problematic use and gaming addiction. The rise in gaming disorder symptoms can be understood through the lens of the I-PACE and Compensatory Internet Use models, which emphasize how psychological vulnerabilities, combined with intense emotional responses and impaired self-regulation, can lead to excessive and potentially harmful patterns of (Reer 2025).

Therefore, Escapism is characterized by a dual nature: a double-edge sword phenomenon capable of generating both beneficial and harmful outcomes. Expanding on this framework, two core dimensions of Escapism can be identified and analysed: self-expansion and self-suppression (Hussain et al. 2021).

Self-expansion: engaging in leisure activities to enrich one's life with positive experiences. Within the gaming context, this may manifest in playing video games to foster connection with friends or family, celebrate shared interests, or experience relaxation and enjoyment. Gaming motivated by self-expansion is often associated with elevated well-being, social bonding, and emotional relief.

Self-suppression: using leisure activities as a way to temporarily avoid or numb negative emotions, self-perceptions, or life challenges. Instead of promoting growth or connection, this form of escapism functions as a psychological defines mechanism, diverting attention away from emotional suffering or stress. While it may offer short-term relief, such suppression can hinder emotional processing and potentially lead to adverse consequences, including diminished well-being and increased vulnerability to gaming addiction.

For instance, self-expansion motives have been significantly linked to positive emotional outcomes, such as greater life satisfaction and psychological resilience, without correlating to negative conditions like depression. Conversely, self-suppression is frequently associated with harmful patterns, including compulsive or addictive gaming behaviours, while showing little to no connection with positive states such as relaxation or emotional balance (Hussain et al. 2021).

It is this latter form that consistently correlates with gaming disorder symptoms, including compulsive use, emotional dependence on gaming, and withdrawal from real-life responsibilities. Individuals often describe entering a “bubble” during gameplay, detaching themselves from external stressors, sometimes to the point of ignoring academic obligations, family relationships, or health needs (Hussain et al. 2021).

This maladaptive form of escapism acts as a psychological avoidance strategy. Rather than processing distress, individuals use the immersive qualities of games to numb emotional discomfort. However, this relief is short-lived and ultimately unsustainable. Over time, the habit of suppressing emotion through gaming can erode one’s ability to regulate feelings, intensify underlying mental health issues, and create a harmful feedback

loop. Negative emotions prompt more gaming, which in turn reinforces emotional avoidance and dependency on the digital world. This cycle mirrors patterns found in other behavioural addictions and is associated with emotional dysregulation, identity dissonance, and increased depression and anxiety (Hussain et al. 2021).

Many players experiencing self-suppressive escapism report a disconnect between their in-game persona, often powerful, admired, or successful, and their real-life self, which may feel passive, ashamed, or directionless. This gap can become a source of psychological distress in itself. Moreover, some individuals may no longer find joy in games but they may feel difficulties to stop playing, a clear indication of the transition from engagement to compulsion. This dissonance is a key trigger for worsening self-esteem and withdrawal, reinforcing the dependence on virtual worlds as refuges from intolerable realities (Hussain et al. 2021).

Escapism overuse often comes at the cost of real-world social relationships. While multiplayer games can offer community and connection, players driven by avoidant motives may use them to replace (not complement) offline intimacy and accountability. The virtual environment could become a space where emotional vulnerability is minimized and validation will be always available, fostering a sense of safety that real life could not match. However, this safety is illusory. The erosion of offline relationships removes key protective social factors, making individuals more vulnerable to psychological deterioration and more deeply entrenched in escapist use (Hussain et al. 2021).

High psychological distress (trauma, depression, or anxiety), perfectionistic tendencies, poor emotional regulation skills, social isolation, and low self-esteem are some of risk factors that may jump start the maladaptive behaviour of gaming disorder. For individuals facing these conditions, digital games offer a compelling refuge. But what begins as a coping mechanism may turn into a behavioural addiction, marked by emotional numbness, identity distortion, and compulsive use. The immersive power of games, especially highly stimulating genres like MMORPGs, battle royales, or Gacha-based mobile games, can amplify the illusion of competence and control while further distancing players from the challenges of daily life (Hussain et al. 2021).

To address these risks, it is crucial to differentiate between healthy and unhealthy Escapism in both clinical practice and public discourse. Rather than demonizing games

themselves, which can have many cognitive and emotional benefits, interventions should focus on understanding players' motivations and providing support for alternative coping strategies. Promoting emotional awareness, strengthening self-regulation skills, and providing psychoeducation about Escapism's psychological functions are key steps in preventing gaming disorder.

Moreover, cultural context can influence how individuals engage with escapist media. People from high power distance cultures may be less likely to use social platforms like Facebook for interpersonal engagement, whereas individuals from societies that value leisure are more inclined to seek socialization through online networks. These cultural differences suggest that escapism through digital media may be shaped not only by individual psychological needs but also by broader social and cultural norms (Hussain et al. 2021).

In conclusion, escapism in the context of gaming holds a complex and ambivalent role. While it can be a source of psychological enrichment and well-being when driven by self-expansion motives, it may also contribute to emotional suppression and problematic usage patterns when rooted in avoidance. Understanding this dual nature is essential for researchers and practitioners aiming to promote healthy gaming behaviours and mitigate risks associated with digital escapism (Hussain et al. 2021).

2.3.2. Case Study Analysis, *Animal Crossing: New Horizons* and *Genshin Impact*.

As stated at the beginning of the previous section, two titles experienced a skyrocketing growth during the pandemic due to nature of their gameplay mechanics. Having laid the basis for the discussion concerning the reasons of their growth during the pandemic, this section will analyse in detail how and why this success is strictly linked to their format, gameplay and mechanics.

I. Animal Crossing: New Horizons, Rebuilding Long Lost Routines.

When the world shut down in the spring of 2020, life as many knew it came to a halt. Familiar routines, such as, commuting to work, grabbing coffee with friends, planning weekend outings, disappeared overnight. In their place came uncertainty, isolation, and an aching desire for comfort and control. Amid this collective pause, a peculiar yet powerful game found its moment: *Animal Crossing: New Horizons* (ACNH), released just as countries around the globe entered lockdown. On the surface, ACNH is a light-hearted life simulation featuring anthropomorphic animals and leisurely tasks. But

beneath its charming aesthetic lies something deeper: a space for people to rebuild routine, rediscover purpose, and gently soothe the psychological distress inflicted by a world in crisis.

Unlike many video games that challenge players with high-stakes missions or punishing failure mechanics, ACNH offers a gentle rhythm of daily life. The player takes on the role of a new island resident under the guidance of Tom Nook, a "businessman" raccoon who serves as mentor and benefactor. From here, the journey unfolds slowly: paying off a house loan, beautifying the landscape, gathering resources, decorating homes, and interacting with island villagers. These aren't tasks in the traditional gaming sense: they're rituals, repeated with care and, over time, absorbed into players' daily lives. Dig up fossils. Water the flowers. Visit the shop before it closes. Write a letter to your favourite villager. These small acts create a structure where once there was none (Mateer & O'Roark 2020).

This structure, as many players attested during the pandemic, was more than just entertainment, it became a lifeline. For those struggling with the loss of job routines, separation from loved ones, or the looming presence of depression and anxiety, ACNH provided a space that was both manageable and meaningful. The game's internal clock, synced to real-world time, rewarded consistency and patience. Shops opened and closed at set hours. Fruit ripened on trees every few days. Daily visits to neighbours increased friendship levels. By anchoring gameplay to real-world time, ACNH reintroduced the notion of "tomorrow" as something to look forward to, a powerful psychological tool in a moment where days blurred into one another (Mateer & O'Roark 2020).

Players began to build personal rituals around these mechanics. One might wake up, start their coffee, and begin the day by checking the Able Sisters' clothing store or scouring the beach for new DIY recipes. For another, the act of logging in at sunset, walking the soft-lit island paths, and listening to the game's gentle music became a form of meditation. These moments, though digital, grounded people in the present and offered a sense of continuity when real life had become unpredictable. In the absence of office commutes or gym schedules, ACNH filled the void, not with pressure or urgency, but with care and choice (Mateer & O'Roark 2020).

Figure 1: example of in-game daily activities.[1]



Figure 2: Example of in-game event.[2]



Moreover, this whimsical world, offered profound insights into real-world economic behaviour, especially during crisis. In the quiet collection of shells and the planting of fruit trees lay powerful lessons in economic agency, cooperation, and resilience.

One of the first economic phenomenon players encountered was the concept of barter and alternative currencies. While Bells serve as the primary currency in the game, a wide array of goods, including rare furniture, native fruits, DIY recipes, and even villagers, hold value that is often greater in specific social contexts. During lockdown, players took to online platforms like Reddit and Discord to create secondary markets for these items, revealing how community consensus, not a central authority, often dictates value. In the absence of formal prices, value emerged from negotiation, scarcity, and desirability, just

[1] STRAMPE, Louryn (2020, 7 November). "27 Animal Crossing: New Horizons Tips to Up Your Island Game". *WIRED*. https://www.wired.com/story/animal-crossing-new-horizons-tips/ (consulted on 30/07/2025).
[2] BRUNO, Piermatteo (2020, 28 July). "Animal Crossing: New Horizons, tutte le novità dell'aggiornamento estivo vol. 2" [All the new features of the summer update vol. 2]. *HDblog.it*. https://www.hdblog.it/nintendo/articoli/n524459/animal-crossing-new-horizons-aggiornamento-estivo/ (consulted on 30/07/2025).

as it often does in informal economies or during times of monetary instability in the real world (Mateer & O'Roark 2020).

Closely tied to this was supply and demand volatility, most dramatically embodied in ACNH's infamous "stalk market." Players could purchase turnips at fluctuating prices and attempt to sell them later in the week for profit. This mechanic, meant as a playful nod to stock trading, quickly became a high-stakes economic ritual. Players tracked price patterns, speculated on trends, and even sought insider access to other players' islands where prices peaked. The result was a living classroom in speculative behaviour, risk-taking, and information asymmetry, revealing how emotional factors and herd behaviour can drive markets, real or virtual. into bubbles or busts (Mateer & O'Roark 2020).

ACNH also conveyed the importance of time preference and delayed gratification. Unlike games where rewards are immediate, progress in ACNH is structured around real-time mechanics. Upgrades to one's house, infrastructure improvements, or special item deliveries often take a day or more. This design nudged players into saving, planning, and investing time rather than spending impulsively. It illustrated how delayed gratification, a cornerstone of economic discipline, could be both frustrating and deeply rewarding, especially in a culture of instant access. In doing so, the game subtly encouraged habits of budgeting and strategic thinking (Mateer & O'Roark 2020).

Moreover, labour and value creation took on unique dimensions within the game. Tasks like fishing, bug-catching, and resource gathering produced tangible returns in Bells or trade goods. Yet, the value of these tasks often depended on time of day, seasonality, and player preferences, mirroring the real-world principle that labour markets fluctuate with external and internal dynamics. Some players specialized in niche activities, such as hybrid flower cultivation, interior design, or resource farming, highlighting how specialization and comparative advantage emerge naturally when systems allow players to pursue their strengths (Mateer & O'Roark 2020).

In parallel, ACNH offered a meditation on consumption and identity. Players poured hours into curating their island aesthetics, home layouts, and outfits, purchasing goods not for utility but for self-expression. This underscored how consumption is as much about signalling identity and crafting narrative as it is about satisfying material needs. In a time when the pandemic eroded many external markers of status: clothing, travel, dining

out, the in-game economy became a symbolic space where players could reclaim authorship of who they were and how they lived (Mateer & O'Roark 2020).

Perhaps most importantly, as already stated before, the game stressed the importance of the value of routine and stability, particularly in a world upended by crisis. The daily rhythms of ACNH: visiting shops, checking mail, harvesting fruit, provided comfort and a sense of control. These microeconomic rituals stabilized many players' mental well-being and emphasized how economic systems are not just about transactions, but about rhythms that sustain life. Embedded in these rituals was the realization that economic security is often felt through predictability rather than abundance (Mateer & O'Roark 2020).

Moreover, ACNH revealed that public goods and collective action are central to community well-being. The game encourages players to develop shared spaces, such as bridges, museums, community events, that benefit all island residents, both real and virtual. Funding these projects required collaboration, patience, and often voluntary contribution, drawing attention to the importance of cooperation and shared responsibility in building functional societies. In this way, the game subtly reminded players that economies thrive not just through private accumulation, but through communal investment (Mateer & O'Roark 2020).

Inequality and wealth accumulation was also a topic touched in ACNH: As players discovered efficient "grinding" (a repeated action to loot items that can be exchanged with in game currency) strategies or exploited time-traveling mechanics to accumulate massive wealth, disparities grew between players. This echoed the real-world dynamic where access to tools, knowledge, or loopholes can rapidly accelerate wealth gaps. Some players responded with generosity, sharing resources with newcomers, while others hoarded or flaunted their wealth. These behaviours served as a living laboratory for observing how status anxiety and economic inequality shape social relations (Mateer & O'Roark 2020).

Beyond economic behaviour itself, the game demonstrated the emotional value of economic activity. The satisfaction of paying off Tom Nook's ever-increasing mortgage, the pride of hosting friends on a beautifully curated island, or the thrill of crafting a rare item speak to how emotional fulfilment is often embedded in economic success. The pandemic revealed how fragile these emotional economies are in real life, as many people

lost not just income but the sense of purpose that came with their work. In ACNH, however, work always paid off, and it felt good (Mateer & O'Roark 2020).

Finally, ACNH's greatest lesson may be that economies are lived experiences, not just abstract systems. By embedding economic mechanics in a gentle, low-pressure environment, the game showed players how deeply economics intersects with routine, identity, creativity, and community. In a world reeling from uncertainty, it offered a sandbox for reimagining value, not as a price tag, but as a process of meaning-making. In that way, the game's fictional economy became a mirror, reflecting not just how we trade and spend, but how we live, hope, and connect (Mateer & O'Roark 2020).

Even more compelling is how ACNH blurred the lines between player and character. The "persona" created in the game was not a detached avatar but a soft extension of the self: shaped by individual values, aspirations, and mood. This persona inhabited a world with gentle rules, no fail states, and endless opportunities to grow, decorate, and connect. The lack of traditional "failure" was crucial. Unlike most games, there were no lives to lose, no missions to flunk, no penalties for slowing down. The only failure was self-imposed: missing a chance to greet a friend, forgetting to water a garden. In this way, success was not dictated by external metrics but by personal meaning, a rare feature in both games and modern life (Comerford 2020).

The social fabric of ACNH also contributed to its routine-building impact. Players connected not only with their in-game neighbours but with real people, as stated before, trading turnips, visiting each other's islands, sharing outfit codes, and celebrating birthdays virtually. Communities formed organically through social media, Discord servers, and even virtual weddings and graduations hosted within the game. These moments of shared routine, carried out through acts of mutual creativity and support, became the foundation of new social ecosystems during a time of physical isolation (Comerford 2020).

What emerged was not just a pastime, but a space, both psychological and social, where players could express themselves, contribute to something they cared about, and find predictability when everything else felt uncertain. It's no surprise that for many, the routines established in ACNH were described as more stabilizing than their real-life jobs. The mundane tasks may have seemed trivial, but in the context of a global crisis, they became "rituals of healing" (Comerford 2020).

Animal Crossing: New Horizons did more than entertain. It reintroduced players to the importance of small, consistent acts. In a time of disruption, it reminded people that value can be found in tending to a garden, organizing a room, or helping a friend real or virtual. The routines weren't just gameplay they were a reclamation of agency. And for many, they were exactly what was needed to carry on, one day at a time (Comerford 2020).

In this case, Escapism centred around finding long lost routines was crucial in the success of this title. One of the most important aspects to specify is its distribution: ACNH it's a Nintendo Switch console exclusive title; this means that in order to play the game its mandatory the purchasing of the console itself. After acquiring the means to play the game, another purchase is necessary to acquire the game itself, whether physical or online copy: this transaction is finite, once the game is purchased, all the content is available to the player, no content is unlockable afterwards; this means that the player can have the full experience right away. This mechanic, among others, is what differentiate the gaming experience between ACNH and *Genshin Impact*.

II. Genshin Impact: Exploring the World at Home.

Genshin Impact (GI), 原神 (*yuanshen*) in Chinese, is an open-world action role-playing game (RPG) that is free to download on mobile devices, PCs, and PlayStation platforms Launched by miHoYo in 2020. The game is accessible in thirteen different languages, with voice-over options available in Chinese, English, Japanese, and Korean (Yap 2024).

At the start of the game, each player assumes the role of a character known as the *Traveller*, who is separated from their twin sibling at the beginning of their journey. To reunite with their sibling, the player must explore the seven distinct nations of the fantasy world of *Teyvat*, uncovering the unique histories, narratives, and secrets of each region along the way. These in-game nations are inspired by various real-world cultures and regions (Yap 2024:506):

Table 3: Genshin Impact World and Inspirations.

Name of the Region	Real World Inspiration	Release Date
Monsdstat	Germany	2020 (at launch)
Liyue	China	2020 (at launch)
Inazuma	Japan	2021
Sumeru	South Asia and Middle East	2022
Fontaine	France	2023

Natlan	Latin America and Africa	2024
Sheznaya	Russia	N/A (probably 2026)

As of now, six out of the seven nations have been released. Among these, *Liyue*, a region inspired by Chinese culture, was introduced at launch alongside *Mondstadt*. Since *Liyue* is the second region players encounter after *Mondstadt,* it tends to leave a lasting impression, prompting game analysts to frequently reference it when discussing the game's representation of "Chineseness" and its broader implications for Chinese cultural influence: the capital, *Liyue Harbor*, has an architectural composition and structure that draws inspiration to the late Ming dynasty style, with red wooden structures and arched roofs that portrays with cultural accuracy the Chinese ancient architectural style (Yap 2024).

Figure 3: Liyue Harbor architectural style.[3]



Moreover, even the region landscapes depict with extreme detail some of the most famous Chinese natural wonders, such as *Minlin*, a part of *Liyue* that is based on 张家界 (*zhangjiajie*) natural park in the Hunan region; in 2020, a series of documentaries called "Travels Afar, Scenic Spot Collaboration Documentary" was also released on Youtube: every chapter deepen the correlation and inspiration between real world scenic location and in game recreation. The in game "Chineseness" representation does not only focuses on landscape and architecture, but also cultural events play an important role in the depiction of the Chinese culture: for instance, the Lantern Rite is an annual limited-time

[3]SHADOWCIMMER (2020). "This game looks amazing on 4K. (Liyue Harbor)". *Reddit, r/Genshin_Impact*. https://www.reddit.com/r/Genshin_Impact/comments/j7nmmv/this_game_looks_amazing_on_4k_liyue_harbor/ (consulted on 31/07/2025).

event in GI held in *Liyue Harbor* based on the Lantern Festival, the event that closes the celebration of the Chinese New Year; in this event, players can obtain exclusive items if they participate actively in the activities available in the time period provided.

Figure 4: Youtube Thumbnail of the Documentary "Travels Afar".[4]



Figure 5: Zhangjiajie landscape.[5]



As stated before, GI is a game with an open-world mechanic. Open-world games, with their expansive environments and opportunities for self-directed exploration, offer players a distinctive sense of escapism and relaxation. Casual video game play can significantly reduce stress and enhance mood, suggesting that open-world games, given their similarly engaging but non-pressuring nature, may provide comparable psychological benefits (Anto et al. 2024).

Furthermore, research on action-based video games has demonstrated cognitive benefits, including improved attention, spatial reasoning, and problem-solving skills. These

[4]GENSHIN IMPACT (2021). "Travels Afar Scenic Spot Collaboration Documentary – Zhangjiajie Chapter | Genshin Impact". *YouTube*. https://www.youtube.com/watch?v=mfUSO0DlAwc (consulted on 31/08/2025).
[5] VIATOR (2025). "2 Full-Days Private Tour to Zhangjiajie National Forest Park and Glass Bridge". *Viator*. https://www.viator.com/it-IT/tours/Zhangjiajie/2-Full-Days-Private-Tour-to-Zhangjiajie-National-Forest-Park-and-Glass-Bridge/d24683-86207P8 (consulted on 31/07/2025).

advantages are likely transferable to open-world games, which often involve solving intricate puzzles, devising strategies, and making complex decisions: activities that can stimulate and develop cognitive functions (Anto et al. 2024).

A characterizing feature of open-world games is their non-linear structure, allowing players to navigate the game world at their own pace and engage in a wide range of optional activities. From exploration and crafting to simply appreciating the game's aesthetics, these open-ended gameplay options can foster a state of relaxation (Anto et al. 2024).

Despite these potential benefits, as previously stated, there are notable risks associated with excessive gameplay. The immersive nature of open-world games can lead to prolonged play sessions, raising concerns about gaming addiction. Excessive gaming may also contribute to sedentary behaviour, which has been linked to increased risk of cardiovascular disease and other health problems (Anto et al. 2024).

Open-world games have the potential to enhance well-being by promoting stress relief, cognitive development, and even social connection. However, these benefits must be weighed against the risks of overuse and physical inactivity. Continued research is necessary to fully understand how to maximize the positive impacts of open-world gaming while minimizing its potential drawbacks (Anto et al. 2024).

Escapism, in this context, refers to the mental diversion from real-world stressors through immersion in a stimulating and interactive activity. Open-world games support this process by providing richly detailed, immersive virtual environments that allow players to lose themselves in exploration and discovery. This experience can yield emotional relief, mental stimulation, and increased psychological resilience (Anto et al. 2024).

Therefore, GI environment was designed for a gaming session that is immersive and culturally rich, building an overworld that is meant to be experienced actively to fully grasp the liveliness and lore of each playable area.

In terms of gameplay, players can form a party consisting of up to four characters, each with distinct strengths and combat skills. Every character can be obtained or *"pulled"* through the exchange of the in-game currency or special tokens, obtainable either via purchase or completion of special quests. To keep the player base engaged, this exchange

happens using a time-limited banner to *"pull"* for a time-limited, high-rarity character or weapon; new characters are released regularly and, since the amount of free currency is limited, players are often incentivized to make real-money purchases to acquire the characters or weapon they want, especially because every character has its own lore which is gradually unlockable solely by obtaining it and play with it for a long period of time(the "f*riendship*" mechanic). Characters are enhanced through levelling and randomized rewards, which are earned by completing quests and challenges: these quests and challenges are both "daily", which are time limited, and "non-daily", which can be completed whenever; in order to hasten the levelling up of the characters, players are prone to engage in daily log-in practices to complete the time limited quests to obtain the in-game currency or material needed. Moreover, "grinding" practices are widely encouraged due to some items being available solely in determined days: in order to collect them, players must complete, alone or in co-op (playing with others online), a challenge that can be engaged through an exchange of special daily-limited tokens that are purchasable with the in-game currency if needed, often resulting in player spending real-world money when the in-game currency is depleted due to the randomized nature of the rewards. This mechanic is tightly linked with the Gacha system, which is one of GI's core characteristics: player will be more prone to engage in repeated purchasing behaviours due to the nature of the randomize nature of the in-game reward system. The game also has a built-in "*pity system*", after 90 "*pulls*", there will be a guaranteed drop of a high-rarity item or character, however there is a catch: in the time-limited banner there is a 50% probability to get the time-limited reward and a 50% chance to get a standard high-rarity item or character, enhancing the engagement of purchasing behaviour if the 50/50 is lost. GI primary objective, with this system, is to target those players that engage in repeated purchasing behaviours, called "whales", which are the primary revenue generators for the company due to their high-risk taking profile (Prilian et al. 2023); on the nature of this spending behaviour, it is mandatory to make a distinction between Repurchasing Decisions and Repurchase Intention.

Repurchase Decisions refer to customers' behaviour of choosing to return to or re-consume a product based on previous positive experiences. Typically, high levels of customer satisfaction correlate with stronger repurchase intentions (Prilian et al. 2023).

Repurchase Intention is defined as an individual's assessment of the likelihood of repurchasing a service and their willingness to engage in future interactions with the service provider. This intention is often regarded as a direct indicator of customer satisfaction and is shaped by multiple factors (Prilian et al. 2023):

Table 4: Repurchasing factors.

Authenticity	This refers to the perceived uniqueness or genuineness of an experience. In online gaming, authenticity has the potential to enhance player engagement and loyalty, though it remains underexplored.
Social Influence	This refers to the extent to which individuals perceive that the opinions of others affect their behaviour. This also takes in to account cultural environment.
Facilitating Conditions	These relate to users' perceptions of the technical, organizational, and infrastructural support available to assist in using a technology.
Hedonic Motivation	Defined as the pleasure or enjoyment derived from using technology, it plays a critical role in behavioural intentions toward technology adoption.
Price Value	This is the user's evaluation of the trade-off between the perceived benefits and costs associated with adopting a technology.
Habit	Refers to the extent to which individuals automatically engage with a technology due to previous use and learning. The time it takes for an action to become a habit varies.

Repurchase Intention is positively influenced by the Authenticity of the Game, Facilitating Online Conditions, and Habit. However, it is negatively affected by Online Game Services, and not significantly influenced by Social Influence, Hedonic Motivation, or Price Value. Moreover, Repurchase Decision is positively influenced by Facilitating Online Conditions, Hedonic Motivation, Price Value, and Repurchase Intention. In contrast, it is negatively influenced by Social Influence and Habit, and not affected by Online Game Services or Authenticity of the Game (Prilian et al. 2023).

Repurchase Intention mediates the positive effects of Authenticity of the Game, Facilitating Online Conditions, and Habit on Repurchase Decision. It also mediates the negative effect of Online Game Services on the repurchase decision. However, Repurchase Intention does not mediate the effects of Social Influence, Hedonic Motivation, or Price Value (Prilian et al. 2023).

To strengthen players', repurchase decisions, such as topping up in GI, the game must prioritize enhancing the authenticity of the gaming experience, improving facilitating conditions, and reinforcing habitual engagement. While repurchase decisions are directly supported by hedonic motivation, price value, and facilitating conditions, fostering a strong repurchase intention is crucial and should be cultivated through these core dimensions (Prilian et al. 2023), and GI does exactly that: with its pool of unique playable characters, in-game interaction with the Open World environment, and the constant updates to both characters and playable areas, enabling the players to feel an eagerness to what is to come, keeping them engaged.

Following GI's international acclaim, miHoYo and its founders gained immense wealth and visibility, eventually drawing attention from the Chinese government. In 2021, the company's internal Chinese Communist Party (CCP) organization was elevated from a basic party branch to a full party committee. According to regulations, this upgrade typically requires more than 100 party members within the organization, unless special conditions are met (Supreme People's Procuratorate, 2017). While miHoYo has not publicly disclosed the exact number of party members, its official announcement claimed the company would serve as a "new benchmark" for corporate party organizations in China. The newly established committee included key executives such as co-founder and president Liu Wei, who was appointed party secretary, and Ying Chunbo, the former company secretary and now vice president. This institutional development signalled state

recognition of miHoYo's growing cultural influence and implied the company's alignment with CCP protocols (Yap 2024).

This alignment became more evident in 2022, when miHoYo announced design modifications to four characters in GI, citing compliance with Chinese regulations concerning modesty. While international players were allowed to choose between the new and original designs, players on the Chinese servers were only offered the modified versions. This move sparked debates within the global gaming community about the extent to which Chinese regulatory norms shape international content (Yap 2024).

Domestically, GI has become a source of national pride. In assessing its global influence. According to many netizens, the high production quality of GI challenges lingering stereotypes of China as technologically or culturally "backward," instead portraying a nation of modern sophistication and creativity (Yap 2024).

Interestingly, domestic discussions on GI's soft power tend to focus disproportionately on Western audiences. Chinese fan's claim that the game had inspired Americans to learn Chinese and gain greater appreciation for Chinese culture. Similarly, this emphasis on Western validation may reflect an underlying anxiety among Chinese players regarding international, particularly Western, acceptance of Chinese products. This pattern suggests a desire not only to project soft power but to gain affirmation from developed, predominantly Western nations (Yap 2024).

In contrast, responses from East and Southeast Asian players receive significantly less attention from Chinese commentators. This disparity may be due to two factors: first, Chinese products: such as food, education, and entertainment, have already gained traction in these regions, especially in Southeast Asia. Second, geopolitical tensions between China and the United States, exacerbated by the COVID-19 pandemic, have fuelled anti-China sentiments in the West. Consequently, the game's commercial success in Western markets, especially given that the United States ranked as GI's third-largest revenue source in 2022, is often interpreted as a positive shift in Western perceptions of China (Yap 2024).

Nevertheless, in 2025, miHoYo has become one of the most important Chinese companies in terms of revenues and global recognition in the sector of mobile gaming:

In 2024, Shanghai-based gaming giant miHoYo generated approximately 1.36 billion U.S. dollars in IAP revenues. miHoYo innovation and gaming excellence have solidified its position as a prominent Chinese game developer with a global reach (Thomala 2025).

Figure 6:report of Chinese brand recognition in 2025. [6]



As can be seen in the report of the Global Brand Communication Conference, miHoYo has entered the top 10 of best grossing and well-known Chinese companies, placing itself eight on the list, with its starring title GI being the first in term of worldwide gaming recognition (Baihua Esports 2025).

Deepening the GI success, it is of uttermost importance to mention the online community that this game has. miHoYo has its own social media platform called *HoyoLAB*, where

[6] BILIBILI (2025, 14 May). "2025 xinhuashe pinpai quanqiu chuanboli yanjiu baogao, tengxun deng duojia qiye shangbang, Miha wei shangbang" 2025 新华社品牌全球传播力研究报告，腾讯等多家企业上榜，米哈未上榜 [2025 Xinhua brand global communication power report: Tencent and other companies included; miHoYo not included]. *Bilibili*. https://www.bilibili.com/video/BV1twEvzCEyW (consulted on 01/08/2025).

players can link their own in-game profiles and engage in lore discussions, theory-crafting, and debates about the games published by miHoYo, enhancing the sense of belonging to a worldwide, interconnected community. To promote the players to be active on this platform, the social offers in-game rewards for daily access or for answering to questionnaires about customer satisfaction, that can be later redeemed in the game.

III. Discussion.

As can be seen in the two previous cases, the main driver of people engaging in play games is mainly due to Escapism, which can lead to both positive and negative effects: mental relaxation, anxiety reduction and mental well-being are counterbalanced with the development of maladaptive coping mechanism and addiction to the altered state brought forth in the gaming sessions. The two titles previously analysed both use Escapism in different ways, yet, the common ground between the two is the building of a dedicated community that connects people, and this was the most important feature during the pandemic: allowing people to communicate in-game in an active manner while remaining at home. This communities and the possibility to connect and paly with others, are the main reasons that bring together these two games and helped their unique features to be enhanced, contributing to their worldwide success in times of economic uncertainty and social distress.

2.4. Gaming as an Instrument: *Gamification*.

Games do not only involve individuals that actively decide to engage in playing, their mechanics nowadays are widely used by companies that are not necessarily linked to the video game industry, especially due to the rising of M-Commerce (mobile driven commerce) importance and diffusion, as a way to enable the customer to interact more proactively with the online platform where the company has its business, whether it being on a website or an app, to gain precious big data and offer a more personalized product or service offer.

As can be seen in Jacobides et al. (2024), Businesses and brands across industries are increasingly recognizing the potential of gamification to transform customer engagement, loyalty, and interaction. From banking to retail, to music streaming, gamification has begun to redefine how companies connect with their users. But while the potential rewards are significant, the path to successful gamification is anything but straightforward. Even major players like Google News and Facebook, despite their vast resources and

technological prowess, have stumbled when attempting to introduce gamified features like badges and awards. In contrast, platforms like Duolingo, Nike, and Alibaba have achieved remarkable success using seemingly similar strategies. Therefore, is important to deepen what differentiates success from failure in gamification.

The key lies not in creating a flashy or technically sophisticated game but in aligning gamification design with clear strategic business objectives and understanding user motivation. Success depends on configuring specific design elements (namely virtualization, social comparison, and tangible rewards) to fit the business goals at hand. These elements, when applied in the right combinations, can lead to one of three strategic outcomes: customer retention, new customer acquisition, or transforming user perceptions (Jacobides et al. 2024).

For customer retention, companies must focus on embedding themselves into users' routines, encouraging frequent, long-term engagement. This can be achieved in three primary ways. The first pathway involves virtualization, which recreates real-world experiences in virtual settings. For example, Duolingo's virtual maps and avatars create a rich learning environment that keeps users immersed. IKEA's AR-based home decor app and Tencent Music's virtual profile spaces similarly transpose real-world activities into digital realms. These immersive experiences make users feel part of a parallel universe, deepening their engagement (Jacobides et al. 2024).

The second retention pathway focuses on social comparison, but only when it is rooted in desirable identities. For instance, Nike Run Club uses badges and rankings within users' social circles to foster a sense of commitment and friendly competition. Crucially, these comparisons must be socially meaningful; Google News failed in this respect by promoting quantity of reading over depth, leading to disengagement. A key factor here is the presence of a recognizable community. Without a sufficient user base, social comparisons fall flat, creating a "*ghost town*" effect. Chinese apps like Ant Forest and Pinduoduo Orchard have taken this a step further, enabling users to both support and sabotage others' efforts, such as stealing digital resources, to drive obsessive, albeit ethically questionable, engagement (Jacobides et al. 2024).

The third retention strategy is the traditional one: tangible rewards. Points, vouchers, and discounts in exchange for behaviour can lock users into a system. Ride-hailing services like Grab and DiDi, along with Starbucks Points and Taobao Packets, exemplify this

approach. While effective, it's often more costly and less sustainable than strategies based on intrinsic motivation (Jacobides et al. 2024).

When it comes to new customer acquisition, games can act as powerful onboarding tools. They create engaging experiences that either directly generate revenue or enhance brand equity. Initiatives by Gucci and Nike on Roblox, or B2B firms like SpringStudios using Metaverse-as-a-Service, show how virtual environments can serve as acquisition channels. Again, three paths emerge. The first focuses on tangible rewards without social comparison. Digital loyalty programs, prize wheels, and chance-based systems like those used by McDonald's Monopoly game or Grab offer users clear, extrinsic incentives (Jacobides et al. 2024).

The second strategy combines virtualization with tangible rewards. Taobao Packets, where users grow virtual eggs to receive real-world prizes, and Pinduoduo's Duo Orchard, where virtual fruit trees yield real deliveries, exemplify this model. The competition becomes more personalized and immersive, making acquisition more effective (Jacobides et al. 2024).

The third path relies solely on social comparison, without any tangible or virtual incentives. This only works when the user goal centers on self-improvement, as with fitness apps like Strava and Nike Run Club or The New York Times' knowledge-based quizzes (Jacobides et al. 2024).

Gamification also has the power to transform user perceptions, helping them reframe their understanding of a product or service. This strategy hinges on combining virtualization with social comparison that promotes desirable user identities. Ant Forest's virtual gardens, where eco-conscious behaviour earns social status, not only educate users but also enhance Ant Financials' image over rivals like WeChat Pay. Tencent Music takes a similar route, ranking artists by donations rather than streams to encourage deeper fan engagement. Here, games not only serve branding purposes but also unlock monetization opportunities through user behaviour transformation (Jacobides et al. 2024).

However, not all gamification efforts succeed. Two major pathways to failure emerged from the research. First, initiatives that fail to incorporate any of the three key design features (virtualization, social comparison, or tangible rewards) are unlikely to deliver results. Zalando's Lounge, which pressured users to check out their shopping carts without offering meaningful incentives, and H&M's short-lived ad-based point system, exemplify

this error. Second, incorporating undesirable social identities is a recipe for disaster. Google News assumed users wanted to be seen as voracious readers, while they actually valued understanding and insight. Facebook made a similar mistake by rewarding excessive time spent in groups, a trait that users didn't necessarily view as positive (Jacobides et al. 2024).

For managers and designers, the implications are clear. First, they must look beyond basic engagement metrics and focus on strategic value. Engagement is only useful when it aligns with broader goals. Second, clearly defining objectives is essential. Whether the aim is acquisition, retention, or perception shift, the right design elements must be chosen accordingly. Third, aligning design with strategic goals is crucial. For example, if user lock-in is the target, social comparison rooted in desirable identities may work better than material rewards. Fourth, selecting KPIs that reflect strategic goals prevents the project from being misled by superficial wins. Lastly, avoid indiscriminate experimentation. While iteration is important, haphazard experimentation often leads to failure. Strategic clarity and design discipline are essential (Jacobides et al. 2024).

Ethics also play a growing role in gamification. While games can benefit firms, they can also harm users by encouraging compulsive behaviour. Digital addiction is a serious concern, especially among young users. Governments are beginning to respond, with China leading the way in limiting game time and in-app spending for minors. Meanwhile, Korea has loosened its restrictions, and Western countries remain largely inactive. Without regulation, firms are likely to pursue profit-maximizing designs that risk long-term reputational damage. A shift toward ethical gamification, akin to the rise of ESG principles, could improve public perception and stave off stricter regulation (Jacobides et al. 2024).

The future of gamification likely lies in the metaverse, which amplifies the immersive and addictive qualities of games. However, its lacklustre performance to date stems from underdeveloped AR/VR technologies and a shortage of compelling use cases. Understanding how to scale virtualization and gamification effectively requires moving beyond binary frameworks. Future research should consider virtualization and gamification as continuous variables in a fuzzy-set framework to yield deeper insights.

2.4.1. Designing Loyalty: Gamification in Mobile and Retail Ecosystems.

In the contemporary digital landscape, user engagement has emerged as both a critical asset and a persistent challenge for firms operating across diverse sectors. The exponential growth of digital services has yielded unprecedented competition: over five million apps compete for user attention in app stores alone, while fashion brands must contend with fragmented customer journeys, algorithm-driven exposure, and increasingly volatile consumer loyalty. In both domains, the phenomenon of engagement wear-out, the rapid decline of user interaction after initial contact, poses a significant threat to sustainable business models reliant on in-app purchases, advertising impressions, and customer lifetime value (Jacobides et al. 2024).

In response, as seen before, organizations have increasingly adopted gamification, which seeks to shift user behaviour by tapping into psychological drivers such as curiosity, mastery, competition, and social connection. While the mechanics of gamification are often borrowed from game design, its strategic function is deeply rooted in behavioural economics and motivational psychology. The approach leverages both extrinsic motivation (through tangible, value-based incentives) and intrinsic motivation (by cultivating enjoyable, immersive, and purpose-driven experiences) (Jacobides et al. 2024).

As briefly accounted in the previous section, this dual motivational pathway is best captured through the concept of a hybrid reward architecture, which combines value rewards (discounts, redeemable coins, or donations) with game rewards (XP, badges, customizations). Such hybrid structures aim to reinforce engagement by appealing simultaneously to the user's desire for utility and the need for enjoyment and recognition. However, a critical question remains: whether these reward systems actually complement each other, or do they risk competing for attention and diluting overall engagement.

Empirical evidence from two recent studies provides a comprehensive lens through which to explore this question. The first, a year-long behavioural study by Paschmann et al. (2025), examined a gamified mobile market research app used by over 18,900 users across more than 700,000 user-days. The second employed a qualitative abductive approach to assess gamification's role in the South African fashion retail context, which could be extended to the worldwide population (Goldberg 2024). drawing from multiple focus groups comprising 25 consumers from diverse demographic segments. Together, these studies present a rich comparative framework for understanding gamification's

multifaceted effects on engagement, loyalty, and brand value across different industry verticals.

The mobile app in question embedded gamification into two primary types of interactions: answering "fun" questions (such as, pop culture) earned users experience points (XP), while completing client-sponsored surveys yielded coins, which could be redeemed for vouchers or charitable donations. As users accumulated XP, they progressed through 26 levels and unlocked game-based features such as avatar customization and rankings. Importantly, the app systematically tracked users' proximity to rewards, how close they were to earning a game-level or a voucher, and reward attainment, allowing for fine-grained analysis of behavioural responses (Paschmann et al. 2025).

The findings were both affirming and revealing. Proximity to either a game or value reward consistently enhanced user engagement. Time spent in-app increased as users neared any form of reward, lending empirical support to the goal-gradient hypothesis, which suggests that individuals exert greater effort as they approach a goal. Remarkably, the influence was not compartmentalized: proximity to game rewards increased the likelihood of users completing monetizable surveys, and vice versa. This cross-reinforcement effect illustrates the potential of hybrid reward architectures to create synergistic engagement dynamics (Paschmann et al. 2025).

Similarly, in the South African fashion retail context, gamification emerged as a potent driver of customer loyalty and brand affinity. Participants frequently described gamified shopping platforms as "fun," "engaging," and "worth recommending." These positive affective responses were linked not only to enjoyment but also to perceived value and usability. Loyalty, therefore, was not reduced to mere repeat purchase behaviour but was instead a composite of emotional connection, brand attachment, and social sharing behaviours. Indeed, gamified elements such as customizable profiles, community challenges, and shareable achievements contributed to a sense of ownership and belonging: key antecedents of long-term loyalty (Goldberg 2024).

However, both studies also revealed inherent vulnerabilities within gamification systems. In the mobile app study, post reward resetting emerged as a significant behavioural pattern. After attaining a reward, particularly a game reward, users showed a measurable decline in engagement with monetizable features the following day. Moreover, when users entered a state of psychological flow (FT), characterized by deep immersion and focused

attention, their responsiveness to revenue-generating features diminished. Surveys were rushed, ads were ignored: in short, intense engagement with game elements could, paradoxically, lead to a disengagement from business-critical actions (Paschmann et al. 2025).

A parallel risk was observed in the fashion retail context. While gamification was effective in attracting and engaging users, its novelty wore off over time. Several participants reported uninstalling apps or ceasing engagement once rewards became repetitive or less meaningful. This novelty decay underscores the importance of continuous innovation and content refreshment in sustaining user interest. If gamified systems fail to evolve, they risk becoming counterproductive, generating initial excitement but leading to eventual attrition (Goldberg 2024).

Another important dimension is brand recall. In both settings, gamification proved highly effective at embedding brand elements into user memory. In the app study, users who engaged with gamified content demonstrated superior recall of sponsoring brands. Likewise, in the fashion study, users remembered brands featured prominently in game environments, especially when logos, slogans, and brand colours were integrated into the visual and interactive design. These findings align with cognitive theories of active memory encoding, suggesting that emotionally engaging and interactive experiences enhance brand memorability (Goldberg 2024).

Notably, the studies also highlighted the non-universality of gamification's appeal. In the fashion retail study, demographic differences played a significant role in determining receptivity. Younger consumers exhibited greater enthusiasm toward gamified features, while older users often expressed ambivalence or confusion. This demographic variation necessitates targeted design strategies, whereby game elements are adapted to specific user segments based on age, digital literacy, and psychographic profiles (Paschmann et al. 2025).

From a managerial perspective, these insights suggest that gamification should not be treated as a superficial enhancement or a one-off campaign tactic, but rather as a long-term strategic capability. The design of gamified systems must be grounded in behavioural science, aligned with the brand's identity, and responsive to user feedback. Key design recommendations include:

- Structuring **tiered reward systems** that balance immediate gratification with long-term incentives.
- Ensuring **synchronization** between game and value reward proximity to maximize motivational synergy.
- Integrating **social features** to leverage network effects and increase virality.
- Using **adaptive content** and **dynamic challenges** to prevent novelty fatigue.
- Applying **data analytics** to monitor engagement patterns and optimize reward timing.

Equally important is the recognition that gamification's success lies in orchestration**,** not accumulation. Simply adding more game elements does not guarantee better results. Instead, firms must craft harmonized user journeys where gameplay, utility, and brand messaging converge seamlessly (Paschmann et al. 2025; Goldberg 2024).

In conclusion, gamification, when properly designed and strategically deployed, serves as a powerful engine for enhancing user engagement, cultivating loyalty, and reinforcing brand value, across both mobile app ecosystems and fashion retail environments. However, its effectiveness hinges on nuance, adaptability, and sustained relevance. As digital consumers continue to demand experiences that are not only functional but also enjoyable and emotionally resonant, gamification offers a promising pathway forward. It invites users not just to transact, but to participate, progress, and belong (Paschmann et al. 2025; Goldberg 2024).

By bridging the insights from both empirical and qualitative domains, this chapter affirms that gamification is not a passing trend, but a transformative framework, one that, if harnessed wisely, can redefine how businesses attract, retain, and grow their user base in an ever-evolving digital economy.

2.4.2. Beyond Mere Economic Interest: Ant Forest and Green Sensitivity.

In an era where the climate crisis looms large on global and individual agendas, behavioural change has emerged as a critical solution. Governments, institutions, and corporations have rallied behind green initiatives, but individual action, how people live, consume, and move, remains a backbone in the fight against environmental degradation. Yet, despite growing awareness and concern, there remains a persistent gap between what people know and what they do. This so-called awareness-behaviour gap often stems from

the lack of tangible feedback and motivation. Without clear rewards or social reinforcement, sustainable behaviours feel abstract and unrewarding.

Ant Forest, a gamified application integrated into China's widely used Alipay platform, developed by Ant Financial (a subsidiary of Alibaba), offers a compelling solution to the awareness–behaviour gap by turning daily, low-carbon actions into a game: users accumulate "green energy" by walking, using public transport, adopting paperless transactions, or engaging in other eco-friendly behaviours. These energy points grow virtual trees on-screen. Once mature, these digital trees are converted into real ones, planted by Ant Forest's partners in reforestation sites across China. As of mid-2020, the impact had already been monumental: over 200 million trees planted, covering more than 2000 square kilometres, saving 260,000 real trees weekly, and reducing over 12 million tons of carbon emissions. In 2019, the initiative earned the UN's Champions of the Earth award (Zhang & Anwar 2025).

While this success is widely celebrated, it raises a deeper question: what actually drives people to engage with such platforms beyond novelty. Adoption is important, but sustained, meaningful use that translates into real behavioural change is where the true impact lies.

To uncover the motivational mechanisms at play, the theoretical model is grounded in persuasion theory, motivation theory (especially SDT, which was previously explained), and the "affordances-psychological outcomes-behavioural outcomes" framework.

At the heart of this model are three core psychological needs from SDT, which will be summarized yet again to better connect them to this part of the analysis:

- **Autonomy** (the freedom to make choices).
- **Competence** (the ability to perform tasks effectively).
- **Relatedness** (a sense of social connection).

When these needs are fulfilled, users engage more deeply and sustainably. Gamification features in Ant Forest are specifically designed to satisfy these needs (Zhang & Anwar 2025):

- **Achievement features**: (points, rewards, badges, leaderboards) feed users' sense of competence.

- **Immersive features:** (stories, avatars, narratives) cultivate autonomy by letting users feel in control of their green journey.
- **Social features**: (teams, competitions, friend networks, leaderboards) foster relatedness, building a community around sustainability.

These features are not just decorative; they are central to the app's success. When users feel autonomous, competent, and connected, their green beliefs (that they can make a difference), green task performance (that they are effectively reducing their carbon footprint), and green self-identity (that they are *the kind* of person who cares for the environment) are all strengthened. These beliefs and identities, in turn, become strong predictors of **Environmentally Responsible Behaviour (ERB)**: such as making greener purchases, conserving resources, or engaging in public sustainability efforts (Zhang & Anwar 2025).

All three psychological needs of SDT are significantly related to the belief and attitude constructs, and in turn, these constructs are significant predictors of ERB. Among them:

- **Competence** had the strongest effect on **green belief confirmation**, suggesting that feeling capable within the app reinforces belief in its usefulness.
- **Autonomy** most powerfully influenced **green self-identity**, showing that when users feel in control, they internalize environmental values more deeply.
- **Relatedness** had the strongest overall **indirect effect** on ERB, highlighting the importance of community and social connection in driving sustained green behaviour.

But motivation alone isn't always enough. Therefore, it is necessary use the theoretical framework of the **Green Absorptive Capacity (GAC)**, which measures a user's ability to recognize, integrate, and apply green knowledge. Users with high GAC have stronger relationships between their beliefs and their behaviours. For them, the Ant Forest experience wasn't just a game, it is a learning tool, a gateway into a broader green lifestyle. Conversely, users with lower GAC are less likely to translate belief into action, even if their psychological needs are met (Zhang & Anwar 2025).

Ant Forest succeeds not because it's fun or viral, but because it satisfies core psychological needs, reinforces pro-environmental beliefs, and aligns with users' evolving self-identities. The real trees planted are just the tip of the iceberg; what matters just as much is the mental forest growing in the minds of its users.

The implications go far beyond one app. As businesses, cities, and nations look for ways to encourage sustainable behaviour, Ant Forest offers a replicable blueprint. It teaches that the key to long-term behavioural change is not only about awareness or incentives, it's about designing systems that speak to human needs.

However, not all users engage deeply: many use Ant Forest passively, as just another feature within Alipay, failing to leverage its full transformative potential. Without active participation, the platform's environmental impact is limited. This highlights the need for continuous innovation in design, nudges, and education to deepen engagement. It also suggests that gamification systems must adapt to user maturity over time, offering evolving challenges and deeper layers of meaning (Zhang & Anwar 2025).

Conclusively, by applying psychology, gamification, and behavioural science in tandem, Ant Forest turns digital habits into tangible environmental benefits. It gamifies not just behaviour, but belief. And in doing so, it bridges the gap between intention and action (Zhang & Anwar 2025).

After the deepening of the international and Chinese video game industry, the role of the Pandemic in the growth of this industry and the gamification phenomenon; the next chapter will be focusing on three Chinese companies: their birth, evolution and future possibilities. These three companies were already mentioned in previous sections of this elaborate, but it is necessary to deepen their analysis and why they become so successful.

3. Case Study: Tencent, NetEase and miHoYo.

This section of the elaborate focuses on three Chinese companies of major significance in the video game sector. Tencent and NetEase dominate the industry (Newzoo 2022; Coe & Yang 2022; Snyder 2018), ranking first and second respectively in terms of scale and revenue, together accounting for nearly the entirety of China's video games market. In contrast, despite the limited room for independent growth within this dual oligopoly, miHoYo has rapidly emerged as one of the leading players in the field (Cao 2023; Yuan 2025). In just a few years, it has achieved global recognition and influence, releasing titles of remarkable success and competitiveness. Its game formats, mechanics, and artistic styles have proven so impactful that they are frequently emulated by other companies seeking to capitalize on miHoYo's wave of success. These three case study analyses will deepen the reasons of success of the Chinese video game industry and better explain the framework and economic environment where these companies operate, what were their origins, what are the threats that they face and what opportunities will lie ahead for their expansion in the global market. Due to the complex and intertwined nature of the case study, all sources will be listed at the beginning of each analysis to better explain the framework where the analysis is made; the references have been interwoven and jointly interpreted to build a comprehensive and cohesive discussion. Moreover, deepening on the sources used, only annual financial reports will be taken into account, no quarterly reports will be analysed.

3.1. Tencent.

Tencent's progression from a modest Shenzhen start-up, founded in November 1998, to the world's largest and most influential video game company is a story of methodical ecosystem integration, aggressive acquisition, and the transformation of gaming into a central pillar of its multi-service empire. Founded by Ma Huateng and a small team of co-founders, Tencent entered China's nascent internet market with the launch of its instant messaging platform QQ, a product that would define the company's early trajectory. QQ was not simply a chat service, it became an immersive digital environment featuring customizable avatars, emoticons, skins, and virtual goods (Simon 2021; Snyder 2018) By 1999, Tencent had expanded into e-mail services, and in 2000 it rolled out mobile instant messaging. These early products embedded Tencent into the routines of millions of Chinese internet users and, crucially, trained them to engage in digital

microtransactions, a behavioural foundation that would later underpin Tencent's gaming monetization strategy.

The deliberate pivot to gaming came in 2003 with the launch of *QQ Games*, an online casual game platform seamlessly integrated into QQ's social architecture. This integration was strategic: by placing games inside China's most popular communications platform, Tencent could instantly reach tens of millions of potential players. In 2004, it had already debuted its first self-developed MMORPG, QQ Fantasy; in 2008, Tencent escalated its ambitions by licensing blockbuster South Korean titles CrossFire and Dungeon & Fighter, both of which became entrenched in China's internet café culture, laying the groundwork for a dual strategy: publishing proven foreign successes while developing proprietary intellectual property. This approach not only ensured a consistent pipeline of profitable games but also insulated Tencent from overreliance on external partners. By 2009, Tencent had surpassed all competitors to become the largest online game platform in China (Simon 2021; Coe & Yang 2022).

Financial markets tracked this rise closely. Listed on the Hong Kong Stock Exchange since 2004 at HKD 3.70 (0.47 USD) per share, Tencent's stock climbed steadily on the strength of gaming and social network revenues. By 2007, shares had risen above HKD 50 (6.37 USD), and by 2010 they surpassed HKD 150 (19.11 USD), mirroring the explosive monetization of *Dungeon & Fighter* and early in-house hits (Tencent Holdings Limited 2025).

To support scaling ambitions, Tencent consolidated development under four flagship in-house studios: TiMi Studios, Lightspeed & Quantum Studios, Morefun Studio Group, and Aurora Studios. TiMi's *Honor of Kings* became the highest-grossing mobile game in history, consistently generating over 2 billion USD annually and attracting more than 100 million daily active users in China alone. Lightspeed & Quantum co-developed *PUBG Mobile* (PlayerUnknown's Battlegrounds) with South Korea's Krafton, surpassing 1 billion downloads by 2021 and reshaping global mobile gaming. The domestic rework, *Peacekeeper Elite*, complied with strict Chinese content regulations while maintaining monetization strength, highlights Tencent's ability to manage parallel domestic and international product lines (Coe & Yang 2022; Simon 2021; Yuan 2025).

Tencent's acquisition strategy cemented its global footprint in 2011, when it acquired a majority stake in Riot Games; it then obtained full ownership in 2015, which became the most-watched esports title in the world. In 2012, it bought around 40% of Epic Games, securing influence over both *Fortnite* and the Unreal Engine. In 2016, Tencent acquired 84.3% of Supercell for about 8.6 billion USD, one of the largest deals in gaming history, adding *Clash of Clans*, *Clash Royale*, and *Brawl Stars* to Tencent's arsenal, giving it direct access to Western mobile gaming markets. Over the following years, Tencent also invested in or acquired stakes in Activision Blizzard, Ubisoft, Bluehole, Grinding Gear Games, and numerous indie studios, creating a diversified global network of development talent and IP ownership (Coe & Yang 2022; Simon 2021).

Tencent's dominance was reinforced by its platform ecosystem: by 2019, 微信 (*weixin*), known globally as WeChat, had over 1.15 billion monthly active users, functioning as a "super app" that combined messaging, payments, social feeds, e-commerce, and mini-games. Its WeChat Pay/Tenpay ecosystem counted over 800 million monthly active users in 2019, processing more than 1 billion daily transactions for commercial payments. This not only boosted revenue per user but also acted as a barrier to entry for foreign companies unfamiliar with China's digital financial infrastructure. (Coe & Yang 2022; Simon 2021).

Gaming became the centerpiece of a transmedia content strategy. Tencent Video emerged as China's top video streaming platform by daily active users, adapting gaming IP into animations, dramas, and films. Tencent Music Entertainment held a leading market share in China's music streaming sector (QQ Music, Kugou, Kuwo, WeSing), enabling cross-promotion of soundtracks and in-game music events. Tencent Pictures and Penguin Pictures developed cinematic adaptations of game properties, while China Literature incubated narrative IP for conversion into games and media franchises. This IP recycling model maximized lifetime value across multiple entertainment formats (Snyder 2018; Coe & Yang 2022).

By 2019, Tencent's revenue reached 377 billion RMB (54 billion USD) with a market capitalization near 500 billion USD. Gaming remained the largest revenue driver within its value-added services, with over 140 self-developed titles. Yet despite its global acquisitions, Tencent's international revenue share remained modest: 2.89% in 2018

(down from 3.36% in 2017), underscoring the challenges of scaling outside China's home market (Snyder 2018).

Esports became both a profit centre and a soft power instrument. Tencent-owned *League of Legends* and *Honor of Kings* tournaments filled stadiums in China, while international competitions broadcast Chinese teams and culture to global audiences. *Honor of Kings* has become one of the most popular titles in the world. While its format resembles that of globally familiar MOBAs (Multiplayer Online Battle Arenas), its characters, aesthetics, and backstory draw deeply from Chinese mythology and history. Here, players do not merely compete, they reenact stylized versions of ancient Chinese tales, valorising Confucian virtues and nationalist ideals. Similarly, *Peacekeeper Elite*, a localized variant of PUBG, strips away blood and overt violence, replacing them with clean, patriotic undertones and messaging that reflects the state's values (Simon 2021; Yuan 2025).

Tencent and NetEase are not just commercial actors but function as cultural ambassadors: They extend their reach beyond China's borders by investing in foreign studios, acquiring overseas platforms, and localizing content for global markets. As they do so, they subtly embed Chinese cultural codes and perspectives within globally palatable formats. The result is a digital soft power export that is less overt than traditional propaganda, but arguably more effective: it entertains while it educates, and seduces while it shapes.

Despite its unparalleled scale, Tencent's leadership in gaming has been repeatedly tested by regulatory, geopolitical, and competitive pressures. The 2018 game licensing freeze was a turning point. For nine months, no new games were approved in China, creating a severe backlog. Tencent was forced to delay high-profile releases, shift focus to older titles, and accelerate overseas launches. The freeze revealed the vulnerability of even the largest firms to regulatory intervention in China's gaming industry (Snyder 2018; Simon 2021).

Regulatory content controls have also intensified. Chinese authorities demand removal of politically sensitive material, excessive violence, and depictions of gambling. For games like *PUBG Mobile*, Tencent had to rebrand and modify gameplay into the more politically acceptable *Peacekeeper Elite*, complete with altered victory animations and thematic adjustments (Simon 2021; Yuan 2025).

Youth protection policies have had far-reaching effects. The government's anti-addiction regulations impose strict playtime caps on minors, historically limiting them to 1.5 hours per day on weekdays and 3 hours on holidays, recently tightened further. Tencent was the first major publisher to integrate facial recognition systems to verify player identities, a costly but necessary compliance measure. These systems reduced engagement among younger players but also reinforced Tencent's reputation as a "responsible" industry leader in the eyes of regulators. (Newzoo 2022).

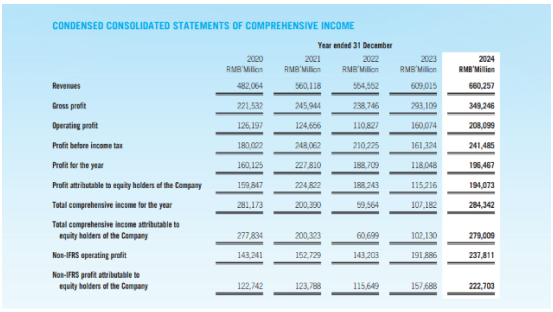
On the international front, Tencent has encountered rising tech nationalism. In 2020, India banned *PUBG Mobile*, the top-grossing title for Tencent, citing data security concerns amid border tensions. In the United States, Tencent's stakes in Riot Games and Epic Games have periodically come under government scrutiny, especially during heightened U.S.-China tensions. Such pressures have forced Tencent to adopt a localized corporate structure, with some overseas subsidiaries operating at arm's length to reduce political risk (Newzoo 2022).

Market competition is intensifying domestically and abroad: In China, NetEase remains a formidable rival, particularly in MMORPGs and narrative-heavy mobile titles. Internationally, Tencent must compete with entrenched Western publishers such as Sony, Microsoft, and Activision Blizzard, the latter now under Microsoft ownership, whose deep portfolios and strong console presence challenge Tencent's expansion in high-value markets.

Financial markets have mirrored these shifts. After peaking in early 2018 with shares above HKD 470 (59.87 USD), Tencent's stock suffered from the licensing freeze and broader tech sector sell-offs, dropping significantly before recovering to HKD 600 (76.43 USD) in 2021 amid pandemic-era gaming booms. Regulatory crackdowns in 2021 and 2022 drove shares back down below HKD 300 (38.22 USD), stabilizing in 2023 in the HKD 350-400 (44.59-50.96 USD) range. This volatility reflects both investor uncertainty over Chinese regulatory risks and enduring confidence in Tencent's core gaming assets. According to Yahoo Finance, at the end of December 2024 Tencent's share price has reached the value of HKD 419 (53.38 USD) and has since seen an increase during 2025 reaching peaks up to HKD 567 (72.23 USD), Tencent Holdings has recently announced the integration of DeepSeek AI into its popular messaging application WeChat, known as Weixin in China. This strategic move has led to a 6.6% increase in Tencent's share price,

reaching 506 HKD (64.46 USD), the highest level since July 2021. The integration of DeepSeek aims to enhance WeChat's capabilities, offering users more advanced and personalized experiences through artificial intelligence (Rivista AI 2025). This development reflects Tencent's commitment to maintaining technological leadership in the highly competitive Chinese market. This rise in share price could mean that Tencent's most recent investments in AI-driven technologies (such as the integration of DeepSeek in WeChat) have proven to be beneficial for the domestic competition, rivalling its most fierce competitor, NetEase, consolidating its position as the major player in the technology-driven market (Tencent Holdings Limited 2025).

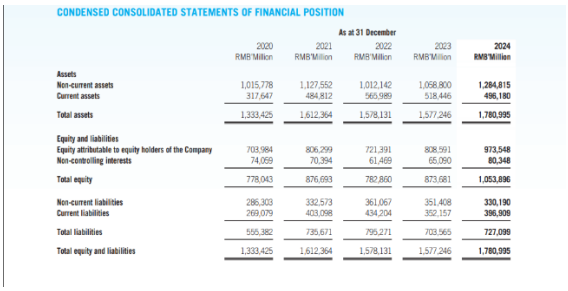
Figure 7: Tencent 2020-2024 Financial Report.[7]



CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2020 RMB'Million	2021 RMB'Million	2022 RMB'Million	2023 RMB'Million	2024 RMB'Million
Revenues	482,064	560,118	554,552	609,015	660,257
Gross profit	221,532	245,944	238,746	293,109	349,246
Operating profit	126,197	124,656	110,827	160,074	208,099
Profit before income tax	180,022	248,062	210,225	161,324	241,485
Profit for the year	160,125	227,810	188,709	118,048	196,467
Profit attributable to equity holders of the Company	159,847	224,822	188,243	115,216	194,073
Total comprehensive income for the year	281,173	200,390	59,564	107,182	284,342
Total comprehensive income attributable to equity holders of the Company	277,834	200,323	60,699	102,130	279,009
Non-IFRS operating profit	143,241	152,729	143,203	191,886	237,811
Non-IFRS profit attributable to equity holders of the Company	122,742	123,788	115,649	157,688	222,703

Figure 8: Tencent 2020-2024 Financial Position.[8]



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2020 RMB'Million	2021 RMB'Million	2022 RMB'Million	2023 RMB'Million	2024 RMB'Million
Assets					
Non-current assets	1,015,778	1,127,552	1,012,142	1,058,800	1,284,815
Current assets	317,647	484,812	565,989	518,446	496,180
Total assets	1,333,425	1,612,364	1,578,131	1,577,246	1,780,995
Equity and liabilities					
Equity attributable to equity holders of the Company	703,984	806,299	721,391	808,591	973,548
Non-controlling interests	74,059	70,394	61,469	65,090	80,348
Total equity	778,043	876,693	782,860	873,681	1,053,896
Non-current liabilities	286,303	332,573	361,067	351,408	330,190
Current liabilities	269,079	403,098	434,204	352,157	396,909
Total liabilities	555,382	735,671	795,271	703,565	727,099
Total equity and liabilities	1,333,425	1,612,364	1,578,131	1,577,246	1,780,995

Using the data contained in "*Tencent annual report 2024"* (Tencent Holdings Limited 2024), the financial performance of Tencent between 2020 and 2024 provides a valuable case study in resilience and strategic adaptation within the Chinese digital economy. During this period, the company faced multiple challenges, including regulatory tightening in China, macroeconomic fluctuations, and global scrutiny over data security and corporate governance. Despite these pressures, Tencent demonstrated its capacity to

[7] TENCENT HOLDINGS LIMITED (2024). *Tencent Annual Report 2024*. Shenzhen: Tencent Holdings Limited. https://www.tencent.com (consulted on 15/08/2025).
[8] TENCENT HOLDINGS LIMITED (2024). *Tencent Annual Report 2024*. Shenzhen: Tencent Holdings Limited. https://www.tencent.com (consulted on 15/08/2025).

recover, expand, and consolidate its position as a leading technology conglomerate, with its financial statements revealing both short-term volatility and long-term structural strength. For the sake of this analysis, all the values will be converted from RMB to HKD with the exchange rate specific for every year; to not interfere with the flow of information provided, all the conversion will be listed in the table below:

Table 5: Tencent Condensed Consolidated Statements of Comprehensive Income (in HKD Million).

Item	2020 HKD million	2021 HKD million	2022 HKD million	2023 HKD million	2024 HKD million
Revenues	530,270	616,130	610,007	669,916	726,283
Gross profit	243,685	270,538	262,621	322,420	384,171
Operating profit	138,817	137,122	121,910	176,081	228,909
Profit before income tax	198,024	272,868	231,248	177,456	265,634
Profit for the year	176,138	250,591	207,580	129,853	216,114
Profit attributable to equity holders	175,832	247,304	207,067	126,738	213,480
Total comprehensive income for the year	309,290	319,429	65,520	117,900	312,776
Total comp. income attributable to equity	305,617	220,355	66,769	112,343	306,910
Non-IFRS operating profit	157,565	168,002	157,523	211,075	261,592
Non-IFRS profit attributable to equity holders	134,999	136,167	127,214	173,457	244,973

Table 6: Tencent Condensed Consolidated Statements of Financial Position (in HKD million).

Item	2020 HKD million	2021 HKD million	2022 HKD million	2023 HKD million	2024 HKD million

Non-current assets	1,117,356	1,240,307	1,113,356	1,164,680	1,413,296
Current assets	349,412	533,293	622,588	570,291	545,798
Total assets	1,466,768	1,773,600	1,735,944	1,734,971	1,959,095
Equity attributable to equity holders	774,382	886,929	793,530	889,450	1,070,903
Non-controlling interests	81,465	77,433	67,616	71,599	88,383
Total equity	855,847	964,362	861,146	961,049	1,159,286
Non-current liabilities	314,933	365,830	397,174	386,549	363,209
Current liabilities	295,987	443,408	477,624	387,373	436,600
Total liabilities	610,920	809,238	874,798	773,922	799,809
Total equity and liabilities	1,466,768	1,773,600	1,735,944	1,734,971	1,959,095

Revenues expanded from 530,270 million HKD (67.48 billion USD) in 2020 to 726,283 million HKD (92.43 billion USD) in 2024, reflecting a compound annual growth rate of approximately 8%. The trajectory was uneven: strong growth in 2021, when revenues reached 616,130 million HKD (78.41 billion USD), was followed by a contraction in 2022, coinciding with the freeze on new video game licenses in China, before growth resumed in 2023 and 2024. Gross profit trends reinforced this pattern. Gross margin is calculated as:

$$Gross\ Margin = \left(\frac{Gross\ Profit}{Revenue}\right) \times 100$$

This ratio measures how much of each unit of revenue remains after covering the cost of goods sold.

After peaking at 46% in 2020, gross margins declined to 43.9% in 2021 and further to 43.1% in 2022, reflecting regulatory headwinds and higher costs. From 2023 onwards, however, profitability improved significantly: gross margin recovered to 48.1% in 2023

and reached 52.9% in 2024: 384,171 million HKD (48.89 billion USD). Tencent's rising gross margin reflects improved efficiency and the growing weight of high-value digital services, confirming that the company was able to strengthen profitability even in a restrictive regulatory climate.

Operating profits displayed greater sensitivity to regulatory disruptions. After standing at 138,817 million HKD (17.66 billion USD) in 2020, Tencent recorded 137,122 million HKD (17.47 billion USD) in 2021 and 121,910 million HKD (15.51 billion USD) in 2022, reflecting a steady decline during the regulatory tightening. Operating margins followed the same trajectory, falling from 26.2% in 2020 to 22.3% in 2021 and 20.0% in 2022. By 2023 and 2024, however, the recovery was pronounced: operating profit rebounded to 176,081 million HKD (22.51 billion USD) in 2023 and further to 228,909 million HKD (29.13 billion USD) in 2024, equivalent to operating margins of 26.3% and 31.5% respectively.

Operating margin is defined as:

$$Operating\ Margin = \left(\frac{Operating\ Profit}{Revenue}\right) \times 100$$

It represents the efficiency of a company's core business operations, before accounting for financing and taxation. The improvement in Tencent's operating margin demonstrates how the company restructured costs and optimized monetization, successfully restoring efficiency after two years of decline.

Moving on, another ratio that is important to analyse is Net Profit Margin and is calculated is as:

$$Net\ Margin = \left(\frac{Net\ profit}{Revenue}\right) \times 100$$

It expresses the percentage of revenue that remains as profit after all costs are deducted.

Net profits for the year (IFRS) exhibited sharper fluctuations over the five-year period. In 2021, Tencent achieved 250,591 million HKD (31.89 billion USD) in IFRS net profit, supported by an exceptional net margin of 40.7%. In 2022 and 2023, however, profits contracted significantly, falling to 129,853 million HKD (16.52 billion USD) in 2023,

equal to a net margin of 19.4%, before recovering to 216,114 million HKD (27.50 billion USD) in 2024, equal to a net margin of 29.8%. This volatility highlights the strong influence of external shocks, yet the recovery by 2024 shows that Tencent remains capable of sustaining high profitability levels relative to peers in the global digital sector.

By contrast, non-IFRS profit attributable to equity holders grew more consistently, rising from 134,999 million HKD (17.18 billion USD) in 2020 to 244,973 million HKD (31.17 billion USD) in 2024. This smoother trajectory suggests that the company's underlying operations remained robust even during periods of regulatory pressure, as non-IFRS adjustments filter out extraordinary or non-recurring items that distort IFRS results.

Ratio analysis of asset and equity efficiency further illustrates Tencent's financial trajectory. Return on Assets (ROA), defined as:

$$ROA = \left(\frac{Net\ Profit}{Total\ Assets}\right) \times 100$$

This ratio measures the ability of a company to generate profits from its asset base. Tencent's ROA stood at 12.0% in 2020, peaked at 14.1% in 2021, and then declined to 11.9% in 2022 and 7.5% in 2023, before stabilizing at 11.0% in 2024. The fluctuation reflects weaker profitability during the regulatory adjustment phase but also shows that asset utilization efficiency improved again once profitability recovered.

Similarly, Return on Equity (ROE), calculated as:

$$ROE = \left(\frac{Net\ Profit}{Equity}\right) \times 100$$

This ratio measures the return delivered to shareholders on invested equity. Tencent's ROE stood at 20.6% in 2020, peaked at 26.0% in 2021, declined to 24.1% in 2022 and further to 13.5% in 2023, before rebounding to 18.6% in 2024. While below its historical highs, this still represents a solid return given the expansion of Tencent's equity base in recent years.

Finally, the evolution of Tencent's financial structure can be captured by the debt-to-equity ratio, defined as:

$$Debt\ to\ Equity = \left(\frac{Total\ Liabilities}{Equity}\right) \times 100$$

This ratio indicates the extent to which a company relies on debt compared to equity financing. Tencent's ratio stood at 71% in 2020, rose to 84% in 2021 and peaked at 102% in 2022, reflecting higher reliance on leverage during that year. From 2023 onwards, however, leverage declined sharply: the ratio fell to 81% in 2023 and further to 69% in 2024. This sharp reduction indicates a deliberate shift toward equity-driven growth, enhancing financial stability and lowering long-term risk exposure.

The evolution of Tencent's balance sheet further substantiates the trends identified in the income statement analysis. Between 2020 and 2024, total assets increased from 1,466,768 million HKD (186.68 billion USD) to 1,959,095 million HKD (249.33 billion USD), reflecting the company's sustained capacity to expand its resource base despite regulatory and macroeconomic headwinds. Equity exhibited an even stronger trajectory, rising from 855,847 million HKD (108.92 billion USD) in 2020 to 1,159,286 million HKD (147.54 billion USD) in 2024, a development that underscores Tencent's ability to retain earnings and reinforce shareholder value. By contrast, total liabilities, which had peaked in 2022 at 874,798 million HKD (111.34 billion USD), declined and stabilized at 799,809 million HKD (101.79 billion USD) in 2024. This simultaneous expansion of equity and reduction in leverage indicates a deliberate shift towards a more conservative and equity-driven financial structure, thereby strengthening the company's long-term solvency and reducing its exposure to risk.

Overall, Tencent's financial evolution during this five-year period reveals a company that has transitioned from regulatory-induced volatility to renewed stability and profitability. Improved gross and operating margins, stronger equity, and reduced leverage collectively point to a more sustainable growth model. The recovery of ROA and ROE ratios by 2024 underscores Tencent's restored efficiency, while the growth of profits demonstrates the resilience of its core operations. From a corporate finance perspective, Tencent has successfully repositioned itself: its balance sheet is stronger, its profitability base more stable, and its capacity to invest in emerging technologies such as artificial intelligence and cloud gaming more secure. These dynamics suggest that Tencent is not only a survivor of regulatory adversity but also a company positioned to reinforce its role as a global leader in the digital economy.

As for Tencent's main shareholders, below will be attached a list of its most recent and main investors as of 2025, using the data found in MarketScreener:

- **Prosus N.V.** holds about 23% of Tencent's shares.
- **Ma Huateng**, co-founder and CEO, owns approximately 8.8%.
- **China Asset Management Co., Ltd.** holds about 0.25%
- **Fidelity Management & Research (Hong Kong) Ltd.** owns roughly 0.22%
- **Fullgoal Fund Management Co., Ltd.** controls about 0.17%

When looking at Tencent's ownership structure, it becomes clear that the company is held together by a mix of strong international investors, its founder, and both Chinese and global financial institutions. The largest single shareholder is Prosus N.V**.**, which owns around 23% of Tencent. This makes Prosus a key stabilizing force in Tencent's shareholder base. Because it is such a large investor, it provides a sense of security and continuity, even though it has occasionally sold part of its stake to fund other activities. These sales sometimes put short-term pressure on Tencent's stock price, but overall Prosus's continued presence shows that there is strong international confidence in Tencent's long-term future.

Alongside this, Tencent remains very much a founder-led company. Ma Huateng**,** who is both the co-founder and the CEO, still owns around 8.8% of the company. This is significant because it means that he is not just leading Tencent as a manager, but also has a personal financial stake in its success. For Tencent, this has been important in keeping its strategy focused on long-term value creation rather than short-term gains. It also protects the company from potential hostile takeovers and reinforces the culture of innovation that has been central to Tencent's growth.

On the other hand, Tencent also relies on domestic institutional investors to maintain legitimacy and good relations within China. For example, China Asset Management Co., with about 0.25%, and Fullgoal Fund Management, with around 0.17%, may hold relatively small shares compared to Prosus, but they play an important role. Their involvement shows that Tencent is supported by local financial institutions, which is particularly important in China's political and regulatory environment. These investors help to balance the heavy foreign presence in Tencent's ownership, making sure that the company remains closely aligned with national priorities.

Tencent's global image is also supported by Fidelity Management (Hong Kong), which owns about 0.22%. This may not seem like much, but Fidelity's role as one of the world's most important asset managers gives Tencent additional visibility and credibility in international markets. It helps attract other foreign investors and makes Tencent's shares more liquid and appealing outside of China.

Overall, Tencent's ownership structure shows a very strategic balance. Prosus provides global stability, Ma Huateng keeps the company founder-driven, Chinese funds keep it connected to local institutions and policies, and global asset managers give it credibility abroad. This mix of different types of shareholders has helped Tencent to remain resilient, adaptable, and competitive both in China and internationally.

Tencent's future strategy hinges on diversification, compliance, and selective global expansion. The company is actively investing in emerging markets such as Southeast Asia, Latin America, and the Middle East, tailoring content to local cultures and regulations. Domestically, it continues to invest in AI-driven content moderation, cloud gaming infrastructure, and next-generation payment technologies.

More than two decades after its founding, Tencent's business model: where games are not just entertainment products but nodes in a broader cultural, social, and financial ecosystem, remains unique in scale and execution. Gaming is not simply a line of business for Tencent; it is the engine that drives monetization, user retention, brand influence, and China's digital soft power. This integrated approach has made Tencent not only the dominant force in China's gaming sector but a central player in the global interactive entertainment landscape, capable of shaping industry trends and public perception alike.

To summarize, Tencent's position is supported by several strategic choices:

- **Ecosystem Integration Drives Retention and Monetization**: embedding games within a broader platform of social media, payments, and content services creates cross-traffic, higher engagement, and multiple revenue streams.

- **Strategic IP Mix Reduces Risk**: balancing licensed global hits with self-developed titles ensures steady income while building proprietary assets.

- **Acquisitions as Global Leverage**: investing in or acquiring foreign studios accelerates international market entry and secures influence over critical technologies like game engines.

• **Cultural Localization Strengthens Market Position**: adapting content to reflect local values, regulations, and narratives increases acceptance and compliance in diverse markets.

• **Regulatory Agility Is a Survival Skill**: proactive compliance (such as, facial recognition for youth limits, rebranding for content control) preserves operating licenses and government goodwill.

• **Platform-Driven IP Recycling Maximizes Value**: extending game franchises into video, music, literature, and film amplifies brand equity and monetization potential.

• **Soft Power Can Be Commercially Viable**: subtly embedding national cultural elements in globally appealing formats can enhance both brand differentiation and geopolitical influence.

• **Financial Resilience Requires Diversification**: multiple revenue streams beyond gaming, such as fintech and cloud services, help buffer against sector-specific shocks.

3.2. NetEase.

This section will follow the same method used in the previous one, making a cross analysis about the history, evolution and success of NetEase company. To avoid repetition and lengthy text sections, all the formulas will not be explained again.

NetEase was founded in June 1997 in Guangzhou during the first great wave of China's internet development, at a time when fewer than one percent of the population was online and the very idea of internet-based business models was untested in the country. Its original mission was highly technical: to build large-scale distributed software systems for internet applications, with an early focus on providing search services and free web-based email. These products may appear basic today, but in the late 1990s they were transformative, giving first-time users a reason to connect daily and begin forming the online habits that would later drive more complex forms of engagement. The company's approach was pragmatic: make the access free, make the services indispensable, and scale as rapidly as the market allowed. Within a year, in 1998, NetEase had already expanded into a broader internet technology enterprise, launching and operating its own websites. These platforms were not simply passive information portals; they became living ecosystems where users browsed news, interacted socially, and consumed entertainment, giving the company a direct pipeline to millions of potential customers. This early infrastructure, built around scale and audience retention, would later prove invaluable

when NetEase transitioned into content-heavy, interactive products such as online games (Cao & Yang 2021).

The first major strategic pivot came in 2001. The global dot-com crash: the collapse of many internet-based companies after years of speculative overinvestment, when inflated valuations built on hype and unproven business models failed to deliver profits, wiping out trillions in market value; this collapse had demonstrated that free traffic alone was not a viable business model, and Chinese internet companies were under pressure to monetize or disappear. NetEase shifted decisively from offering entirely free services to introducing fee-based premium offerings, a move that was risky in a market where online payments were still new but essential for long-term survival. That same year it entered the online entertainment sector with the launch of Westward Journey Online, a PC-client MMORPG rooted in Chinese folklore and literature. The success of Westward Journey Online was a turning point: it showed that a domestically developed game could stand toe-to-toe with foreign imports, which had until then dominated the market. Investors noticed, after languishing in the wake of the dot-com collapse, NetEase's share price began to climb steadily, reaching around 1 USD per share by 2003. This was more than a small numerical milestone; it was a signal that the company's hybrid identity (part infrastructure provider, part entertainment innovator) was beginning to resonate with the market (Simon 2021; Snyder 2018).

From that point forward, NetEase developed what would become its defining dual strategy (or two-pronged strategy). On one side, it secured licenses for popular overseas titles, localizing them far beyond simple translation. It adapted gameplay mechanics, monetization systems, and thematic elements to align with Chinese cultural expectations, regulatory requirements, and player behaviour. On the other side, it invested heavily in developing its own intellectual property, giving it creative freedom, reducing reliance on foreign partners, and allowing it to experiment with game mechanics that appealed directly to domestic tastes. This combination of being both a gatekeeper for foreign games and a producer of deeply localized original content proved extremely effective. Over the next decade, NetEase steadily expanded its gaming portfolio to include MMORPGs, casual titles, and competitive eSports, each supported by a games-as-a-service model that kept players engaged for years. By 2015, its stock had climbed to roughly 31 USD per share, reflecting strong growth and signalling that the company had secured its place as

one of China's two dominant gaming publishers, second only to Tencent. (Snyder 2018; Simon 2021)

The mid-2010s brought the release of what would become one of NetEase's flagship franchises, 阴阳师 (*yinyangshi*), better known as *Onmyoji*, which is the Japanese pronunciation of the Chinese title. Launched in 2016, the game was an immediate phenomenon: within months it had reached 10 million daily active users and topped the global iOS revenue charts. The secret to its appeal lay in its meticulous design and cultural resonance: *Onmyoji* drew heavily on Japanese Heian-era folklore, reimagining *yōkai* (spirits and demons deeply rooted in the Japanese urban legends) as richly detailed characters brought to life by well-known Japanese voice actors and a soundtrack composed by Shigeru Umebayashi (one of Asia's most internationally acclaimed film composers). The game was conceived from the outset as the centerpiece of a transmedia ecosystem, expanding into manga, anime series, merchandise, and even stage musicals performed in both China and Japan. Seasonal updates, in-game events, and crossovers with other franchises kept it relevant year after year. NetEase understood that its audience (over 200 million registered players) was largely drawn from the ACG (anime, comics, games) fandom, and it embraced the participatory nature of that culture by releasing official character models and biographies for fan creators to use, and by hosting art and cosplay competitions. The emotional attachment this fostered translated into remarkable monetization: some players spent thousands of dollars annually, with Gacha mechanics built around rare SSR (ultra rare) characters driving both engagement and revenue. By the end of 2017, the market recognized the strength of NetEase's mobile IP strategy, pushing its share price to about 60 USD per share (Cao & Xu 2024).

Yet the years that followed were not without turbulence. In 2018, China's gaming industry faced a regulatory freeze on new game approvals, and the broader tech sector experienced a significant sell-off. NetEase's share price dropped sharply to around 41 USD, a decline of over 30% year-on-year. The company responded by doubling down on its dual strategy, continuing to launch original titles while strengthening partnerships with major Western publishers. Among these, its collaboration with Blizzard was especially significant. NetEase operated Diablo III in China, modifying it to better fit local monetization norms by introducing a real-money shop for cosmetic items, temporary gameplay boosts, and account-bound upgrades such as stash expansions and additional

character slots, features that edged toward a pay-to-win model but matched domestic market expectations. This partnership extended to the co-development of Diablo Immortal, a mobile-first title whose design philosophy closely mirrored NetEase's own Crusaders of Light (Che et al. 2022). This was a reversal of the older 山寨时代 (*shanzhaishidai*), or shanzhai era (the period, mainly from the late 1990s to the early 2010s, when China experienced a boom in counterfeit and copycat products, especially electronics, mobile phones, and cultural goods): rather than Chinese developers imitating Western games, Western developers were now adopting Chinese monetization strategies for the global market (Kshetri 2010).

NetEase also demonstrated an ability to integrate gaming with other consumer sectors. A prime example was its partnership with MasterKong, one of China's largest beverage producers. The cross-promotion was two-way: NetEase advertised its new game on millions of bottles of MasterKong tea, while MasterKong placed in-game advertisements for its products inside NetEase's Datang Online, complete with themed virtual locations, items, and characters. (Kshetri 2010). By 2019, these and other initiatives had pushed the company's revenues to 59 billion RMB (approximately 8.5 billion USD), supported by a workforce of nearly 21,000 employees. (Coe & Yang 2022).

The arrival of the COVID-19 pandemic in 2020 created a surge in global gaming activity, and NetEase benefited immensely, with its share price climbing back to around 88 USD per share. But the following years brought renewed challenges: in 2022, the combined effects of a global economic downturn and continued Chinese regulatory pressures drove the share price down to 68 USD, marking another major loss year. Despite this, NetEase showed resilience, stabilizing in 2023 at about 89 USD before slipping slightly to 88 USD in 2024, with a 52-week low of 76 USD, reflecting cautious investor sentiment (NetEase, inc. 2025).

By 2025, however, the narrative had shifted dramatically. Regulatory conditions stabilized, new game launches performed strongly, and investor confidence returned. On July 23, 2025, NetEase's stock hit an all-time closing high of 141 USD, with a year-to-date close of 131 USD, and as of the most recent market data trades at approximately 137 USD per share. These milestones tell the story of a company capable of weathering volatility, adapting to regulatory headwinds, and capitalizing on new market opportunities (NetEase, inc. 2025).

The Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income, find in NetEase's Annual Reports from 2020 to 2024, expressed in USD, provide a clear picture of the company's financial strategy, profitability, and risk posture. Over this five-year period, NetEase demonstrated a combination of liquidity strength, equity growth, and controlled leverage, which together shaped its corporate finance trajectory. The tables below were constructed using the annual reports from 2020 to 2024, extrapolating the data necessary for the discussion, however, the non-IFRS values were not provided in NetEase financial reports, therefore they will not be taken into consideration.

Table 7: NetEase Consolidated Statements of Operations and Comprehensive Income.

Item	2020 USD million	2021 USD million	2022 USD million	2023 USD million	2024 USD million
Revenues	7,902.50	13,654.45	13,990.58	14,573.19	14,425.39
Gross profit	5,974.47	7,321.00	7,650.37	8,882.29	9,015.53
Operating profit	2,228.11	2,558.52	2,845.88	3,902.75	4,052.99
Profit before income tax	2,355.88	3,290.19	3,515.96	4,796.82	4,893.31
Profit for the year	1,889.69	2,645.46	2,877.01	4,134.88	4,145.10
Profit attributable to equity holders	1,848.70	2,626.44	2,948.68	4,143.23	4,068.56
Total comprehensive income for the year	1,898.03	2,616.85	3,085.99	4,166.13	4,203.24
Total comprehensive income	1,880.58	2,682.34	3,131.77	4,169.80	4,122.53

attributable to equity holders					

Table 8: NetEase Consolidated Balance Sheet.

Item	2020 USD million	2021 USD million	2022 USD million	2023 USD million	2024 USD million
Non-current assets	5,217	6,359	5,967	6,089	5,845
Current assets	16,526	17,751	19,081	20,098	21,005
Total assets	21,743	24,110	25,048	26,187	26,851
Equity attributable to equity holders	12,586	14,959	15,185	17,505	18,999
Non-controlling interests	133	620	581	519	510
Total equity	12,720	15,579	15,765	18,024	19,509
Non-current liabilities	1,859	584	1,023	563	525
Current liabilities	7,164	7,925	8,239	7,584	6,804
Total liabilities	9,023	8,509	9,262	8,147	7,329
Total equity and liabilities	21,743	24,110	25,048	26,187	26,851

In 2020, NetEase generated revenues of 7,902 million USD with a gross profit of 5,974 million USD, resulting in a gross margin of 75.6%. Operating profit stood at 2,228 million USD, producing an operating margin of 28.2%, while profit for the year was 1,890 million USD, corresponding to a net margin of 23.9%. With total assets of 21,743 million USD, the company recorded a ROA of 8.7%, and thanks to shareholder equity of 12,720 million USD, the ROE reached 14.9%. Debt levels remained modest, with total liabilities at 9,023 million USD, giving a debt-to-equity ratio of 0.71.

In 2021, revenues surged to 13,654 million USD, but gross margin slipped to 53.6%, as gross profit was 7,321 million USD. Operating profit was 2,559 million USD, resulting in an operating margin of 18.7%, profit for the year was 2,645 million USD, yielding a net margin of 19.4%. With total assets of 24,110 million USD, the ROA was 11.0%, and equity at 15,579 million USD drove ROE up to 16.9%. Liabilities increased to 8,509 million USD, but the debt-to-equity ratio remained stable at 0.55.

In 2022, NetEase's revenues reached 13,991 million USD, with gross profit of 7,650 million USD, bringing the gross margin to 54.7%. Operating profit was 2,846 million USD, generating an operating margin of 20.3%, while profit for the year was 2,877 million USD, translating to a net margin of 20.6%. With total assets of 25,048 million USD, NetEase posted a ROA of 11.5%, and equity of 15,765 million USD produced an ROE of 18.2%. Total liabilities increased to 9,262 million USD, pushing the debt-to-equity ratio slightly higher to 0.59.

The year 2023 represented a consolidation phase. Revenues climbed to 14,573 million USD, with gross profit of 8,882 million USD, yielding a gross margin of 60.9%. Operating profit rose to 3,903 million USD, generating an operating margin of 26.8%, while profit for the year reached 4,135 million USD, with a net margin of 28.4%. Assets stood at 26,187 million USD, leading to a ROA of 15.8%, while equity rose to 18,024 million USD, pushing the ROE to 22.9%. At the same time, liabilities fell to 8,147 million USD, lowering the debt-to-equity ratio to 0.45.

Finally, in 2024, NetEase recorded revenues of 14,425 million USD. Gross profit was 9,016 million USD, resulting in a gross margin of 62.5%. Operating profit reached 4,053 million USD, producing an operating margin of 28.1%, while profit for the year was 4,145 million USD, equivalent to a net margin of 28.7%. With assets at 26,851 million USD, NetEase delivered a ROA of 15.4%, and equity of 19,509 million USD supported an ROE of 21.2%. Total liabilities decreased further to 7,329 million USD, with a debt-to-equity ratio of 0.38.

Across the five years, several clear trends emerge. NetEase maintained consistently high gross margins above 50%, a hallmark of the digital entertainment industry. Operating margins fluctuated in the early years but stabilized around 27-28% in 2023-2024, signalling cost optimization. Net margins improved materially by 2023-2024, after a dip in 2021, reflecting greater profitability and efficiency. Both ROA and ROE strengthened,

with ROE peaking at nearly 23% in 2023. Finally, the debt-to-equity ratio declined overall, from 0.71 in 2020 to 0.38 in 2024, with a temporary uptick in 2022, demonstrating conservative leverage management and reliance on internal capital generation.

NetEase main shareholders, listed in MarketScreener, as for 2025 are the following:

- **William (Ding) Lei**: founder, CEO, and largest individual shareholder, holds around 45% of the company's shares.
- **Capital Research and Management Company**: a large U.S. asset manager with a notable stake in NetEase of 3.3%
- **BlackRock, Inc.**: one of the world's largest asset managers, providing global institutional credibility having around 2.9% of company shares.
- **The Vanguard Group, Inc.**: another top U.S. asset manager, ensuring passive and index-fund participation holding 2.4% of company shares.
- **Ninety One UK Ltd.**: 1.08%
- **Norges Bank Investment Management**: the sovereign wealth fund of Norway, signalling international institutional trust. Around 1.0%
- **Fidelity International Ltd.**: a global investment firm with exposure to Chinese technology. Around 0.95%
- **China Asset Management Co., Ltd.:** a major Chinese fund, representing domestic institutional capital. Around 0.9%
- **Other Institutional Investors (each <1%)**
- **State Street Global Advisors, JP Morgan Asset Management, Orbis, T. Rowe Price**, etc. with smaller but notable holdings (0.5–1.5%).
- **UBS Asset Management (Hong Kong)**: 0.14%
- **Alliance Bernstein Investments Taiwan**: 0.17%

Looking at NetEase's ownership structure, the picture is slightly different from Tencent, but it also reveals some interesting dynamics. Unlike Tencent, which has a large foreign institutional anchor in Prosus, NetEase is much more directly controlled by its founder. William Ding (Ding Lei), the company's CEO and founder, owns around 45% of the shares, which makes him by far the most important shareholder. This level of ownership gives him enormous influence over the company's direction and strategy, and it also

means that NetEase remains a strongly founder-driven company. Compared to Tencent, Ding's control is much tighter, and this reduces the risk of external shareholders trying to push the company in different directions. It also ensures that the company's long-term vision is aligned with the person who built it from the ground up.

Alongside Ding's dominant shareholding, NetEase also attracts foreign institutional investors. For example, FMR LLC (Fidelity) holds around 0.95%, while BlackRock Inc. owns roughly 2.9%. These investors bring an important global perspective to NetEase's ownership. Their involvement signals international trust in the company and increases NetEase's credibility on foreign capital markets. They also contribute to higher liquidity of the stock, which is crucial for a Chinese company listed on the NASDAQ.

There are also other institutional investors like Baillie Gifford, a well-known UK-based investment management firm, which has taken positions in NetEase in recent years. This shows that NetEase is on the radar of major global funds that look for growth opportunities in China's tech and gaming sector. The presence of such investors is not only financial but also reputational, since being backed by respected institutions makes the company more attractive to other investors and partners.

However, the heavy concentration of ownership in the hands of Ding Lei means that institutional investors play a more supportive role rather than a controlling one. Unlike Tencent, where Prosus or other big investors can influence governance, in NetEase the founder's dominance ensures that outside investors cannot easily shift the company's direction. This can be both a strength and a weakness: on one hand, it gives the company stability and consistency; on the other, it means that decisions are highly centralized and rely heavily on the founder's leadership.

Overall, NetEase's ownership structure highlights its founder-centric governance model. Ding Lei's large stake ensures strategic continuity and protects against outside pressure, while international investors like Fidelity and BlackRock provide global legitimacy and financial depth. Compared to Tencent, which balances foreign and domestic shareholders, NetEase remains much more of a "founder-controlled" company, with external investors playing an important but secondary role. This unique setup has allowed NetEase to remain innovative and competitive while still being able to attract trust from the global financial community.

However, not all chapters in NetEase's history have been celebratory. The Immortal Conquest controversy in 2020 tested its relationship with its players. An update expanded the "Treasure system" in a way widely seen as making the game explicitly pay-to-win, triggering a wave of outrage. Players organized boycotts, staged in-game protests, and even initiated legal action, the first major litigation crisis faced by a domestic gaming company in China. NetEase's response evolved from minimization and requests for patience, to justification of the system, and finally to a rebuild phase involving a public apology, compensation, and acceptance of responsibility. Only the final step improved sentiment significantly, raising approval above 40% and reducing extreme negativity (Che et. al 2022).

NetEase's international strategy has been more focused and deliberate: by late 2023, it had risen to become the fifth-largest gaming publisher in the world by revenue (Newzoo 2024), operating over 140 live titles across both domestic and overseas markets. Strikingly, more than 90% of its revenue still originated from internally developed games, particularly from evergreen franchises like *Fantasy Westward Journey*, which continue to dominate in China's high-value mobile segment (NetEase Games 2022).

Officially, NetEase maintained its "two-pronged approach" unchanged, continuing to prioritize both internal development and selective overseas investments, but the tone of recent moves suggested a measured retreat from some risk-heavy bets in unfamiliar markets. The closures may reflect a desire to refocus on high-confidence opportunities, preserve margins in a tighter global funding environment, and double down on the company's proven core: original IP with strong monetization performance in China and selective co-development with established global partners.

NetEase today stands as one of the two dominant forces in China's gaming industry, sharing a near-duopoly with Tencent in a market where the two companies together account for more than 60% of domestic PC and mobile gaming revenue. This level of market concentration is extraordinary by global standards and has turned their rivalry into one of the defining dynamics of China's digital entertainment economy. While both companies operate at massive scale, their competitive advantages stem from fundamentally different strengths, making them less direct clones of one another and more like opposing poles, each excelling in areas where the other is relatively weaker.

Tencent's dominance is anchored in the gravitational pull of its vast digital ecosystem, built primarily on WeChat and QQ. These platforms give Tencent unrivalled reach and integration, enabling instant promotion of new games to hundreds of millions of daily users, seamless payment systems, cross-platform social features, and a powerful network effect that keeps players within its ecosystem. This distribution advantage is complemented by Tencent's aggressive global investment strategy, which includes majority stakes or full ownership in some of the world's most successful studios, such as Riot Games, Supercell, and significant stakes in Epic Games, Ubisoft, and dozens more. This not only diversifies Tencent's revenue streams but also gives it a presence in virtually every major gaming market worldwide.

NetEase, by contrast, operates without a comparable social super-app infrastructure or a portfolio of equity stakes of similar magnitude. Instead, its competitive edge is built on the strength and longevity of its internally developed intellectual property. The company specializes in creating richly detailed, culturally resonant game worlds, such as Fantasy Westward Journey and Onmyoji, that retain player engagement for years through frequent updates, live-service events, and deep integration with fan culture. NetEase's monetization approach, refined over decades, relies on sustained content pipelines and complex in-game economies that encourage long-term spending without requiring the kind of mass-distribution leverage Tencent commands.

This divergence has defined their rivalry for nearly two decades. Tencent's model ensures maximum audience reach and resilience, allowing it to absorb international setbacks with minimal disruption to its core business. NetEase, with fewer systemic buffers, must balance its domestic revenue stability against calculated risk-taking in global markets. Its international expansion has been more focused and selective, targeting markets such as Japan, North America, and Southeast Asia through publishing deals, studio acquisitions like Quantic Dream, and partnerships with global IP holders. While Tencent can afford to scatter investments widely, NetEase tends to commit deeply to fewer projects, seeking to replicate its domestic live-ops successes abroad.

In practice, this means Tencent often moves first in acquiring high-profile partnerships and licenses, while NetEase differentiates by turning original concepts into enduring ecosystems and by exporting Chinese free-to-play and mobile monetization frameworks to Western partners. Its co-development of Diablo Immortal with Blizzard is a prime

example of this influence flowing outward rather than inward, reversing the older dynamic in which Chinese studios primarily adapted Western models.

Both companies face the same overarching challenges: China's strict regulatory environment, unpredictable approval cycles for new games, and shifting consumer preferences; but the way they absorb and respond to these pressures differs. Tencent can cushion regulatory delays through its vast portfolio and ecosystem synergies, while NetEase must rely more heavily on the continued health of its core franchises and the disciplined scaling of its overseas ventures. This difference in structural resilience is both a risk and an opportunity for NetEase: it lacks Tencent's safety net but also operates with greater agility, capable of pivoting faster in response to market shifts.

Ultimately, the Tencent-NetEase rivalry has created a stable but highly competitive balance at the top of China's gaming economy. Tencent's empire thrives on platform dominance and investment breadth; NetEase's strength lies in creative depth and operational endurance. As the industry globalizes further and as Chinese companies increasingly seek influence abroad, these contrasting strategies are likely to remain complementary forms of dominance, two models for success in an industry where scale, cultural relevance, and monetization mastery all matter, but in different proportions.

To summarize, this short list emphasizes the reasons behind NetEase success:

- **Build early infrastructure to capture future markets**: NetEase's free email and portal services in the late 1990s created a captive audience that later fuelled its gaming launches.
- **Adopt a dual-content strategy**: balancing localized foreign hits with homegrown IP allowed NetEase to diversify revenue streams and reduce dependency on external licensors.
- **Invest in culturally resonant products**: games like *Onmyoji* leveraged deep cultural storytelling to achieve both domestic loyalty and cross-border appeal.
- **Master long-term monetization**: the "games-as-a-service" model with steady updates, events, and fan engagement can keep titles profitable for years.
- **Use cross-industry synergy**: partnerships like MasterKong tea promotions blended physical goods with in-game integration to expand reach.

- **Localize beyond language**: adapting monetization, gameplay, and systems to fit cultural norms proved crucial in foreign game launches in China.
- **Manage crises through adaptive communication**: the Immortal Conquest backlash showed that acknowledging mistakes and compensating users can restore sentiment faster than denial or deflection.
- **Balance domestic strength with global ambition**: overseas expansion offers growth but must be managed carefully to avoid overreach and cost blowouts.
- **Innovate with technology**: adoption of AI in game development can shorten cycles and broaden product lines, enhancing competitiveness.
- **Prepare for regulatory volatility**: success in China's gaming market requires operational flexibility to adapt to sudden policy changes.

3.3. miHoYo.

As stated in the previous sections, the video game industry in China is almost a duopoly split between Tencent and NetEase, with the other myriad of small or medium companies having only 40% room to grow and compete; among these companies, miHoYo has had the fastest ascent into the top 10 Chinese companies in only 5 years. In chapter two, some of miHoYo milestones were already been briefly discussed; therefore, this section will deepen more on the company's history, evolution and success, avoiding the repetition of previously accounted information.

A preliminary note must be made on the company's structure. MiHoYo is a privately held enterprise: it is not publicly listed, issues no shares, and has no obligation to disclose financial statements. Ownership remains concentrated in the hands of its three founders, a structure that has enabled long-term strategic continuity and shielded the firm from shareholder pressure. While this lack of transparency limits the availability of official data, it also makes the company an intriguing case study: a privately controlled firm that, in less than fifteen years, has become a global competitor capable of challenging industry giants.

Founded in 2011 by three graduate students from Shanghai Jiao Tong University, who are also the only investors and shareholders of the company: Cai Haoyu, Liu Wei, and Luo Yuhao, miHoYo was at its inception a passion project rather than a conventional commercial venture. The founders were self-described ACG (anime, comics, games)

enthusiasts who shared a conviction that the expressive and aesthetic traditions of Japanese anime could be integrated into high-quality, technologically sophisticated Chinese games. Unlike Tencent or NetEase, whose operations were increasingly corporate and profit-driven, miHoYo's ethos was that of a fan community turned developer, seeking to channel subcultural passion into professionalized production. This orientation shaped its early trajectory, giving rise to titles that foregrounded character design, narrative immersion, and visual artistry rather than the utilitarian monetization loops characteristic of many early Chinese online games (Kong 2024; Liu 2025; Yuan 2025).

The Honkai series, beginning with *Guns GirlZ* and evolving into *Honkai Impact 3rd*, provided the company's first major breakthrough. Released in 2016, *Honkai Impact 3rd* quickly attracted a loyal player base, particularly among younger audiences attuned to anime aesthetics and fast-paced action combat. Its technical sophistication, including high-fidelity character models, fluid combat systems, and extensive narrative arcs, marked a departure from the conventional image of Chinese games as cheaply produced. In many ways, *Honkai Impact 3rd* was the proof-of-concept for miHoYo's model: games could be designed not merely as consumables but as long-term cultural ecosystems, with characters functioning as the anchors of community identity, fan production, and transmedia engagement (Kong 2024; Liu 2025).

The success of *Honkai Impact 3rd* was sufficient to place miHoYo on the domestic map, but it also revealed the risks of over-reliance on a single property. When the company attempted to apply for a stock market listing, regulators rejected the application, citing the vulnerabilities associated with having only one major intellectual property. Rather than deterring the studio, however, this setback spurred a strategic pivot: diversification and global expansion would become the central imperatives of the next stage of development. It was this orientation that eventually led to *Tears of Themis* in 2020, a romance-detective game that experimented with new genres, and most importantly, to *Genshin Impact*, the title that would transform not only miHoYo but the global perception of Chinese gaming (Liu 2025).

The launch of *Genshin Impact* in September 2020 was met with scepticism from multiple fronts. Industry observers doubted that a Chinese studio could deliver a global-scale, open-world action RPG. Critics accused the title of imitating Nintendo's *The Legend of*

Zelda: Breath of the Wild, pointing to similarities in mechanics such as climbing, gliding, and elemental puzzles. Online forums were full with derision, and many assumed the game would achieve only modest traction, particularly outside of Asia. Yet within weeks of release, these assumptions were overturned. *Genshin Impact* became the first Chinese-developed game to be launched simultaneously across all major platforms: PC, mobile, and console, and within six months it had generated over 1 billion USD in mobile revenue alone. By 2024, its total revenues surpassed 5 billion USD, placing it among the most successful games of all time (Cao 2023; Liu 2025).

The reasons for this success were manifold. On a technical level, miHoYo had invested heavily in mastering and rewriting the Unity engine, enabling cross-platform optimization that few studios in the world had achieved. As co-founder Cai Haoyu later explained, many projects fail not because of creative deficits but because of inadequate understanding of engine architecture. By painstakingly reengineering Unity to suit the demands of multi-platform release, miHoYo created the conditions for *Genshin Impact* to run smoothly on everything from low-end mobile devices to high-end consoles. This technical feat not only ensured accessibility but also positioned the game as a benchmark in the global industry, demonstrating that a Chinese studio could set new standards of engineering excellence (Bloomberg 2025; Liu 2025).

Yet the game's resonance cannot be reduced to technical factors alone. What distinguished *Genshin Impact* was its ability to integrate cultural expression into a globally legible fantasy environment, as previously stated in chapter 2. Unlike Tencent's *Honor of Kings*, which directly adapted historical figures and symbols, miHoYo embedded cultural references more subtly, weaving them into the texture of a universal narrative. This approach allowed players worldwide to experience Chinese-inspired environments as part of a larger cosmology, sparking both curiosity and appreciation. In this sense, *Genshin Impact* functioned as a form of digital soft power, exporting Chinese culture through interactive media in ways that felt organic rather than didactic. It exemplified a new mode of cultural diplomacy, one in which global audiences internalize and enjoy foreign cultural motifs through play rather than passive consumption (Yuan 2025; Kong 2024).

Commercially, the title inaugurated a new phase for miHoYo. Not only did it secure unprecedented revenues, but it also elevated the company to the ranks of Tencent and

NetEase, making it the third-largest Chinese gaming firm by mobile revenue. Internationally, it positioned HoYoverse (the company's rebranded global identity in collaboration with Cognosphere in 2022) as a household name, particularly among younger demographics familiar with anime aesthetics and mobile gaming. The symbolic weight of this achievement was immense: for decades, Chinese games had been peripheral in the global imagination, overshadowed by Japanese, Korean, and Western titles. With *Genshin Impact*, a Chinese studio had produced a title that was not merely competitive but dominant, altering perceptions of what China could contribute to global gaming (Cao 2023; Liu 2025).

The broader industry context magnifies the significance of this breakthrough. At a time when global gaming revenues were flattening and development costs were rising, the ability of a relatively young studio to generate billions in revenue from a new intellectual property challenged long-standing assumptions about market concentration. Whereas the global industry had often been seen as consolidated around established players, such as Nintendo, Sony, Microsoft, Activision Blizzard, and a handful of others; *Genshin Impact* demonstrated that new entrants could disrupt the hierarchy by combining technological sophistication, cultural resonance, and aggressive monetization models such as Gacha systems. This disruption was not lost on competitors: Japanese, Korean, and Western studios took note of the title's mechanics, community management strategies, and transmedia expansions, many of which have since been emulated in varying forms (Kong 2024; Liu 2025).

At the same time, *Genshin Impact*'s success foregrounded challenges that would haunt miHoYo in subsequent years. The reliance on Gacha monetization, randomized draws for characters and weapons, raised questions about sustainability and player welfare, echoing wider global debates about loot boxes and gambling-like mechanics. Moreover, the rapid expansion of HoYoverse's portfolio introduced the problem of self-cannibalization, with each new release drawing players and revenues away from its predecessors. These issues, while more fully developed in later years, were already implicit in the *Genshin* phenomenon: extraordinary success created extraordinary expectations, and meeting them required constant innovation under conditions of rising cost and regulatory uncertainty (Kong 2024; Liu 2025).

Nevertheless, the launch of *Genshin Impact* remains a watershed moment not only in the history of miHoYo but in the trajectory of the Chinese game industry as a whole. For the first time, a Chinese studio had produced a title that was globally competitive on every dimension (technical, cultural, commercial) and had thereby reconfigured the global hierarchy of gaming. If Tencent and NetEase represented the capacity of Chinese firms to dominate domestically through platform power and operational excellence, miHoYo represented the possibility of cultural creativity and technical sophistication propelling Chinese games to the global mainstream. In this sense, *Genshin Impact* did not merely succeed as a game; it succeeded as an inflection point, signalling that the era of Chinese gaming marginality was over (Yuan 2025; Kong 2024).

The global success of *Genshin Impact* not only transformed the fortunes of miHoYo but also reframed debates about the cultural exportability of Chinese video games. For decades, scholars and industry observers had questioned whether Chinese studios could move beyond domestic audiences to capture the imagination of international players. The prevailing assumption was that linguistic, cultural, and regulatory barriers would prevent Chinese games from achieving the kind of global resonance enjoyed by Japanese franchises like *Pokémon*, *Final Fantasy*, or *Monster Hunter*. Yet *Genshin Impact* challenged this assumption in decisive fashion, not by explicitly marketing itself as a Chinese cultural product but by embedding elements of Chinese heritage into a cosmopolitan fantasy world (Yuan 2025; Kong 2024).

The region of *Liyue* exemplified this cultural strategy, as said in chapter 2, becoming more than a setting; it was a subtle introduction to Chinese culture through interactive play. Crucially, this cultural integration was not framed as national branding in the way that *Honor of Kings* was in domestic markets. Instead, it was woven into the narrative fabric of an expansive world that also drew on European, Japanese, and pan-fantasy influences. The result was a game that could be appreciated universally while still carrying distinctively Chinese imprints. In this sense, *Genshin Impact* became a case study in "soft power by stealth": the ability of a cultural product to project influence not through explicit nationalism but through the immersive appeal of fictional environments inspired by local traditions (Yuan 2025; Kong 2024).

This mode of cultural diplomacy was further reinforced through miHoYo's approach to localization. Unlike many Chinese studios that had historically prioritized domestic

markets and treated overseas releases as afterthoughts, miHoYo developed *Genshin Impact* with simultaneous global release in mind. Localization extended beyond translation to encompass voice acting in multiple languages, region-specific community management, and engagement with global fan cultures through social media platforms such as Twitter, YouTube, and Discord. By investing heavily in these infrastructures, miHoYo ensured that international players did not feel like secondary audiences but rather integral participants in the game's ongoing development. This strategic attention to localization helped establish a global fan base that was not only financially lucrative but also culturally influential, producing an enormous volume of fan art, cosplay, memes, and derivative content that amplified the game's reach across digital platforms (Liu 2025).

The post-*Genshin* period further solidified miHoYo's strategy of diversification through distinct intellectual properties. In 2020, *Tears of Themis* demonstrated the company's willingness to experiment with genres outside of action RPGs. As a romance-detective game aimed primarily at female players, it reflected broader industry trends toward "otome" experiences: narrative-driven games in which players pursue romantic relationships with male characters. Although less commercially significant than *Genshin Impact*, *Tears of Themis* was important symbolically: it showed that miHoYo was not content to remain a one-franchise company, and that it sought to explore new markets and demographics (Liu 2025).

The real consolidation of this strategy arrived in 2023 with *Honkai: Star Rail*. By extending the Honkai universe into a turn-based RPG format, miHoYo both leveraged existing brand equity and diversified gameplay mechanics. The game's success was immediate, surpassing even the initial momentum of *Genshin Impact* in terms of pre-registrations and early revenues. *Honkai: Star Rail* not only reaffirmed the company's ability to launch blockbuster titles but also demonstrated the scalability of its intellectual property strategy: characters, aesthetics, and narrative traditions could be reimagined across genres, creating a multi-franchise ecosystem rather than a single-product dependency (Liu 2025).

In 2024, *Zenless Zone Zero* introduced yet another dimension to miHoYo's portfolio: an urban fantasy setting with stylistic affinities to cyberpunk and modern anime subcultures. The game's early promotional campaigns emphasized fast-paced combat, contemporary music, and edgy character designs, signalling an attempt to capture both domestic and

international youth audiences attuned to urban aesthetics. Although still in its early phases, *Zenless Zone Zero* quickly accumulated more than 11 million pre-orders, underscoring the company's capacity to generate anticipation and mobilize fan communities even prior to release (Liu 2025).

Figure 9:App Revenue Generated by Genshin Impact Worldwide from September 2020 to May 2025.[9]

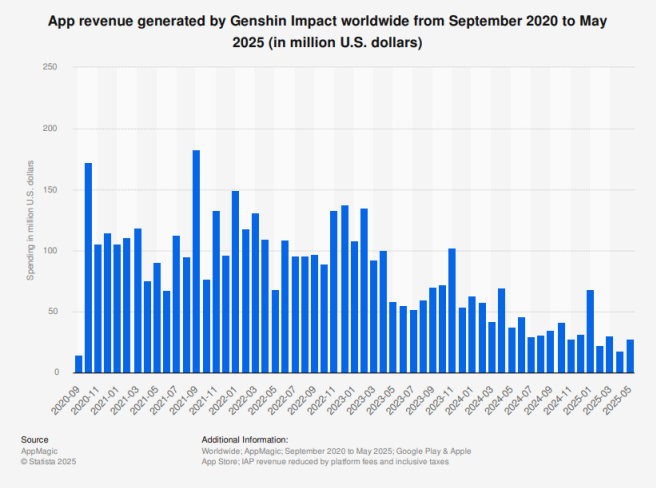
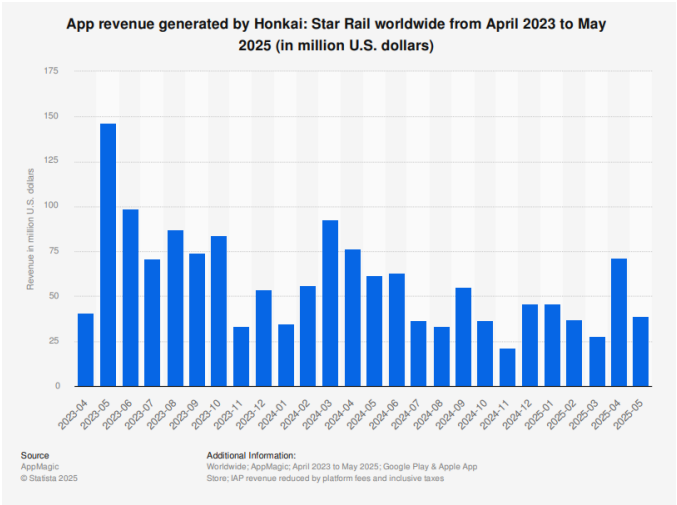


Figure 10:App Revenue Generated by Honkai: Star Rail Worldwide from April 2023 to May 2025.[10]



[9] STATISTA (2025). *Genshin Impact: Player spending in app (Stat. 1208573)*. *Statista*. https://www.statista.com/statistics/1208573/genshin-impact-player-spending-app/ (consulted on 18/08/2025).

[10] APPMAGIC (2025 9 January). *App revenue generated by Honkai: Star Rail worldwide from April 2023 to December 2024 (in million U.S. dollars) [Graph]*. In *Statista*. https://www.statista.com/statistics/1403891/honkai-star-rail-player-revenue-app/ (consulted on 18/08/2025).

As can be seen in these two graphs found in Statista.com, it is evident that the launch of *Honkai: Star Rail* has redistributed the player base of *Genshin Impact*, with a net decline in IAP revenue of GI in concomitance with the sharp increase of HSR IAP revenue, with only November 2023 and January 2025 being exceptions, due particularly satisfying updates. In general, the revenues of miHoYo are evenly distributed among their most famous titles (Liu 2025).

Financially, miHoYo has experienced meteoric growth. Company overall revenues rose from 10.1 billion RMB (1.40 billion USD) in 2020 to over 27.3 RMB (4.2 billion USD) in 2022, with net profit reaching 16.15 billion RMB (2.2 billion USD) which derived not only from IAP but also from collaborations, deals and merchandisable items. This nearly threefold increase in three years positioned miHoYo as one of China's "Top 30 Cultural Enterprises," according to official state media, and placed Cai among the entrepreneurs with the fastest-growing wealth in the country. In 2023, Honkai: Star Rail eclipsed Genshin Impact to become the most successful global launch of a Chinese video game to date, as can be seen in the graphs above. At several points in 2023, miHoYo's monthly mobile revenue even surpassed that of NetEase, briefly making it the second-highest grossing mobile publisher in China after Tencent (Cao 2023; Liu 2025).

Collectively, the 3 main titles, positioned HoYoverse as a diversified publisher with multiple high-value franchises. By 2024, the combined revenues of *Genshin Impact*, *Honkai: Star Rail*, and *Zenless Zone Zero* exceeded 8.4 billion USD in mobile sales alone, situating miHoYo as a peer competitor not only to Tencent and NetEase but also to global publishers like Activision Blizzard and Electronic Arts. This revenue concentration in a single privately held company underscored the transformation of miHoYo from a student-founded start-up into one of the world's most influential gaming firms within little more than a decade (Liu 2025).

Beyond game releases, miHoYo invested in the creation of intellectual property ecosystems designed to extend the cultural and commercial lifespan of its titles. Rather than treating games as discrete products, the company nurtured them as narrative universes capable of supporting transmedia expansion. Concerts, exhibitions, merchandise, and animation tie-ins became routine, ensuring that players engaged with franchises not only in digital spaces but also in physical and cultural domains. This strategy aligned with the broader logic of contemporary entertainment industries, where

value increasingly derives from IP ecosystems rather than single media formats. Disney's Marvel Cinematic Universe exemplifies this approach in film, while Japanese franchises such as *Pokémon* and *Naruto* have long demonstrated the commercial viability of cross-media storytelling. By adopting and adapting these models, miHoYo ensured that its titles could function as enduring cultural phenomena rather than transient hits. (Kong 2024; Yuan 2025).

A particularly illustrative example of this approach was the most recent collaboration between *Genshin Impact* and Mizone Electrolyte Water, launched under the Nongfu Spring beverage brand. The campaign was striking not only for its commercial success but for the way it fused gaming culture with lifestyle consumption. Each bottle contained QR codes under the cap, which could be redeemed for in-game rewards such as in-game currency, character skins, or materials. Characters like Yae Miko and Sangonomiya Kokomi were featured in sports-themed promotional artwork, linking the world of athletics with the symbolic universe of *Genshin Impact*. The results were extraordinary: within the first hour of pre-sales, revenues exceeded 10 million RMB (1.3 million USD), Mizone's Tmall store ranked first in its category, its Douyin (Chinese TikTok) livestream topped the beverage sector, and JD.com recorded its strongest beverage launch in five years (miHoYo 2025; Mu 2025; Na Shi Jituan 2025).

Figure 11: Gamification of the Purchase Via WeChat Mini program.[11]



[11] MACCAFERRI, Alex (2025). "Screenshot of the Gamification Miniprogram of the Minzone and Genshin Collaboration". Personal archive.

This collaboration highlights the commercial and cultural logic of gamification in contemporary China. By embedding game mechanics (rewards, rarity, collection) into offline products, companies like Nongfu Spring and miHoYo created hybrid experiences that blurred the boundary between consumption and play. For miHoYo, such collaborations served multiple functions: they extended the reach of its IP into new markets, reinforced brand loyalty by integrating gameplay with daily routines, and generated new revenue streams beyond direct game monetization. For industry observers, the campaign represented a benchmark in cross-industry marketing, demonstrating how digital IPs could restructure consumer behaviour in adjacent markets such as beverages, fashion, or lifestyle products (Na Shi Group., 2025; miHoYo., 2025).

These strategies were underpinned by a distinctive business model rooted in Gacha monetization and live operations. Unlike traditional Western AAA games that rely on one-time purchases or expansion packs, miHoYo adopted a free-to-play model in which revenue is generated through microtransactions for randomized character and weapon draws. This system, while controversial, proved extraordinarily lucrative: *Genshin Impact* and *Honkai: Star Rail* consistently ranked among the highest-grossing mobile titles worldwide, often surpassing Western competitors in monthly revenue. miHoYo's monetization model cannot be understood merely as extraction; it functioned as a form of affective economy in which fans willingly invested money to deepen their relationships with characters and worlds that had become integral to their cultural lives (Kong 2024; Yuan 2025).

The IP-based strategy extended into merchandising, where physical products became symbolic anchors for digital identities. In 2024, the official HoYoverse flagship store recorded over 100 million RMB (13.9 million USD) in toy sales during the Double Eleven shopping festival, a figure that underscored the profitability of extending game characters into tangible commodities. Collaborations with entities such as Wanda Cinemas generated tens of millions in revenue, while fan events and exhibitions attracted enormous crowds, further blurring the line between digital entertainment and offline cultural participation. Each of these initiatives reinforced the logic of IP ecosystems: by diversifying revenue streams across multiple domains, miHoYo reduced its dependence on any single market segment and ensured that its franchises remained culturally omnipresent (Liu 2025; Kong 2024).

Taken together, these developments illustrate the transition of miHoYo from a single-title studio into a diversified cultural enterprise. Whereas Tencent's dominance rests on distribution power and NetEase's on operational depth, miHoYo's strength lies in its ability to cultivate intellectual properties that function as cultural ecosystems. Through games like *Genshin Impact*, *Honkai: Star Rail*, and *Zenless Zone Zero*, the company has demonstrated that the future of gaming may belong not only to those who control platforms or infrastructures but also to those who can create enduring narrative worlds that capture the imagination of global audiences.

The remarkable growth of miHoYo from a university start-up to one of the largest private gaming companies in China is perhaps best illustrated through its financial trajectory, which was already described previously in this section. What was striking was not merely the raw growth but its composition: more than half of miHoYo's revenue derived from overseas markets, a reversal of the long-standing pattern in which Chinese companies depended almost entirely on domestic consumption. This global revenue base positioned miHoYo as one of the first truly international Chinese gaming firms, capable of competing not only with domestic giants but also with global publishers like Activision Blizzard, Sony Interactive Entertainment, and Nintendo (Cao 2023; Liu 2025).

Valuation estimates reflected this rapid ascent. Based on price-to-earnings ratios of comparable listed firms, analysts in 2022 placed miHoYo's value between 242 and 290 billion RMB (35-42 billion USD). Importantly, these figures did not account for the company's intangible assets, which include nearly 500 patents, hundreds of original musical compositions, proprietary AI technologies like the Glossa large language model, and its extensive intellectual property catalogue. When these factors are included, miHoYo's intrinsic value could easily surpass estimates, further justifying its status as one of the "Top 30 Cultural Enterprises in China." In a sector where intangible assets often outweigh tangible ones, miHoYo's portfolio of patents, IP, and proprietary technologies situates it closer to a Disney or Marvel in cultural terms than to a traditional game publisher (Liu 2025).

Technological innovation did not end with the reengineering engines. In 2021, miHoYo launched *Cloud Genshin*, a cloud gaming initiative that allowed players to experience high-quality graphics on low-performance devices. This initiative reflected a forward-looking strategy: preparing for a distribution environment in which cloud infrastructures,

rather than local hardware, dominate. The company's investment in WeLink Era, a cloud service provider, further demonstrated its desire to align with future trends in digital distribution. In parallel, the company invested heavily in artificial intelligence. Cai Haoyu stepped back from daily leadership of HoYoverse to establish Anuttacon, a California-based AI start-up aimed at producing generative content for gaming. Anuttacon's goal was ambitious: to create three-dimensional virtual assets on demand, akin to Roblox's user-generated model but enhanced by AI's capacity for automation (Bloomberg 2025; Liu 2025).

Anuttacon attracted leading talent, including Xin Tong, a 25-year veteran of Microsoft Research Asia, and Xiaojian Wu, a former engineer at Microsoft and Meta. Its first experimental project, *Whispers from the Star*, was positioned as a space-themed AI-driven game. While early reception was muted and critics expressed concern about the loss of "human touch" in creative design, the project symbolized miHoYo's, and particularly Cai's, commitment to remaining at the technological frontier. The move also sparked controversy within HoYoverse itself, as the replacement of voice actors who opposed AI initiatives generated backlash from fans. These events underscored a broader industry debate: whether automation and generative AI will enhance creativity by lowering barriers to production or erode the artisanal qualities of game design, displacing human talent in the process (Bloomberg 2025).

Global recruitment became another axis of growth. HoYoverse aggressively sought talent from leading Western studios such as Ubisoft, Electronic Arts, and Activision Blizzard, positioning itself as an attractive alternative for developers facing layoffs in Western markets. The company's ambitions were evident in "Project Shanghai," an open-world title reportedly inspired by *Grand Theft Auto*. The project faced multiple reboots, reflecting both its scope and the difficulties of coordinating transnational development teams. Yet the mere existence of such a project revealed miHoYo's intention to move beyond anime-inspired RPGs and compete directly with Western AAA genres. In doing so, the company mirrored the path once taken by Japanese studios in the 1980s and 1990s, when they expanded from culturally specific genres into global market leaders (Bloomberg 2025; Liu 2025).

Moreover, miHoYo's emergence as a "third pole" against Tencent and NetEase was extraordinary. Its rise demonstrated that a company without control over distribution

channels or legacy franchises could nevertheless ascend through innovation in content, IP ecosystems, and cultural resonance.

Comparisons with global studios further clarify this dynamic. Nintendo, for example, has long emphasized polished, family-friendly IPs such as *Mario* and *Zelda*, which rely on cross-generational familiarity. Western publishers like Activision Blizzard built their fortunes on franchises like *Call of Duty* and *World of Warcraft*, but in recent years have struggled with declining revenues, labour controversies, and accusations of creative stagnation. By contrast, miHoYo's trajectory has been characterized by rapid innovation, aggressive diversification, and the cultivation of fandom-driven ecosystems. Its reliance on gacha monetization, however, aligns it with mobile-first Asian companies like DeNA or GREE, raising questions about sustainability in the long run (Bloomberg 2025; Cao 2023; Kong 2024; Liu 2025; Yuan 2025).

Regulation has played a complex role in this story. In 2021, the National Press and Publication Administration (NPPA) halted new game approvals for eight months as part of a campaign to curb gaming addiction among youth. This regulatory freeze created turbulence across the industry, but miHoYo weathered the storm more successfully than smaller firms, thanks to its global revenue base. When approvals resumed in 2022, miHoYo's titles, including *Zenless Zone Zero*, were among those granted licenses, benefiting from the pent-up demand created by regulatory uncertainty. By 2023, approvals had stabilized at more than 80 titles per month, signalling a return to growth. Nevertheless, the possibility of future freezes remains a persistent risk, highlighting the vulnerability of even the most successful firms to state intervention. (Shen 2023).

Leadership and corporate structure also evolved during this period. In September 2023, the company shuffled the chairman role and reduced its registered capital, signalling internal adjustments amid rapid growth and strategic restructuring (Cao 2023).

Yet the risks confronting miHoYo are substantial, as already exposed in this section, however, despite these challenges, the outlook for miHoYo remains one of cautious optimism. Its achievements have already redefined the possibilities for Chinese gaming, proving that domestic studios can create globally resonant IPs without relying on Western distribution. Its investment in technology, its cultivation of IP ecosystems, and its engagement with global fan cultures position it to remain a central actor in the future of

interactive entertainment. At the same time, its trajectory underscores the volatility of the industry: sustainability will depend not only on creative innovation but also on regulatory adaptation, cultural sensitivity, and technological foresight (Yuan 2025; Kong 2024; Shen 2023).

Ultimately, the case of miHoYo exemplifies the maturation of China's gaming sector. Once dismissed as peripheral or derivative, Chinese games now stand at the centre of global cultural flows. Whether through the anime-inspired fantasy worlds of *Genshin Impact*, the turn-based science fiction of *Honkai: Star Rail*, or the urban energy of *Zenless Zone Zero*, HoYoverse has demonstrated an unprecedented capacity to bridge local traditions and global audiences. Its story illustrates the convergence of creativity, technology, and cultural strategy in twenty-first century entertainment, and it will likely serve as a reference point for both scholars and industry practitioners seeking to understand the future of global gaming.

To summarize and conclude this chapter, a list of miHoYo strategic choices will be provided:

- **Passion-Driven Creativity**: founded by ACG enthusiasts, prioritizing narrative, artistry, and character-driven worlds over short-term monetization.
- **Diversified Game Portfolio**: expanded beyond Honkai to multiple franchises (Genshin Impact, Star Rail, Zenless Zone Zero, Tears of Themis) across different genres.
- **Global-First Orientation**: designed games for simultaneous worldwide release with deep localization (voice acting, community platforms, fan engagement).
- **Technical Mastery**: rewrote Unity engine for cross-platform optimization, invested in cloud gaming, and developed proprietary AI technologies.
- **Free-to-Play + Gacha Model**: leveraged microtransaction-based monetization and live operations to sustain long-term engagement.
- **IP Ecosystem Expansion**: built cultural universes through concerts, exhibitions, merchandise, anime tie-ins, and fan-driven content.
- **Cross-Industry Collaborations**: partnered with lifestyle brands (e.g., Nongfu Spring's Mizone) to gamify offline consumption and extend reach.

- **Founder-Led Ownership Stability**: maintained concentrated equity among founders, enabling long-term strategic focus without external shareholder pressure.
- **Global Talent Recruitment**: attracted developers from Ubisoft, EA, and Activision, raising creative and technical standards.
- **Resilient Market Positioning**: established itself as the "third pole" of Chinese gaming, balancing risks of regulation, cannibalization, and global competition through diversification.

4. Conclusions and Future Remarks.

Nearing the end of this elaborate, it is necessary to draw some conclusions and make some future remarks about the findings of these three chapters.

As this analysis has shown, recent geopolitical and economic fluctuations reveal a broader trend: a progressive shift toward Eastern-based economies, driven largely by the structural weaknesses of Western-led economic models. The so-called *"Rising East"* emerges as a direct response to the overconfidence and inefficiencies embedded in Western systems, with Asian economies successfully exploiting these gaps to fuel accelerated growth. This momentum has been sustained by their privileged access to indispensable raw materials and advanced technologies, combined with economies of scale and lower production costs. Moreover, the global transition from commodity-based to service-oriented economies has further amplified Asia's technological development, enabling Chinese companies in particular to consolidate their role as innovators within the broader technological ecosystem. Looking ahead, this steady eastward rebalancing of global economic hegemony suggests a future in which BRICS economies will no longer occupy a peripheral position, but rather constitute the core of a new global equilibrium, one that significantly diminishes the economic dominance of the West.

Perhaps the most significant aspect highlighted in this study is the growing relevance of the video game industry as an anti-cyclical sector, whose importance has been reinforced since the COVID-19 pandemic. During this period, video games not only maintained resilience but also accelerated their expansion, ultimately surpassing other entertainment industries to secure the leading position worldwide. Having consistently expanded since their inception, video games have demonstrated extraordinary adaptability to

technological innovation, systematically integrating and capitalizing on each new development, and evolving in parallel with broader digital ecosystems.

Yet, this remarkable success also has a darker counterpart. The widespread diffusion of games has fostered maladaptive and addictive patterns of use, where individuals increasingly rely on virtual environments as an escape from real-world challenges. Unlike real-life problems, which often require critical thinking, patience, and long-term solutions, video games offer instant gratification by rewarding or punishing players immediately for their actions. This feedback loop can encourage avoidance of reality in favour of the virtual, raising growing concerns about the psychological and social costs of such engagement.

In response, governments and institutions have introduced regulations and norms aimed at curbing excessive play and mitigating harmful behaviours. While such policies continue to evolve, it remains clear that the influence of video games extends far beyond the confines of entertainment. Their mechanics are increasingly being applied across industries to foster customer loyalty, encourage environmentally responsible behaviour, and enhance user engagement in non-gaming contexts. As a result, video games are becoming an integral part of daily life for a broadening global population.

Looking ahead, the industry is likely to continue its steady expansion, closely tied to technological progress and potentially reinforced during future economic downturns, given its anti-cyclical nature. Within this global dynamic, China's video game sector is poised to play a leading role. Companies such as Tencent and NetEase have already established themselves as dominant forces, leveraging both domestic scale and international acquisitions. Meanwhile, newer players like miHoYo, recently ranked among the top ten most influential Chinese companies, are rapidly consolidating their global presence. Through ambitious campaigns, cross-publisher collaborations, and the development of new titles building on the success of previous ones, miHoYo is well-positioned to rival NetEase and emerge as Tencent's most direct competitor.

Further research is required on the integration of artificial intelligence into game development and design, particularly given the unresolved legal and ethical issues surrounding copyright in digital art and creative content. At the same time, the industry is increasingly expected to transition toward cloud-based gaming, potentially eliminating the dependence on consoles or dedicated hardware. Such a shift would make gaming even

more accessible, leveraging its ubiquity across devices to broaden global participation. Since both AI integration and cloud-based development are still in their early stages, these areas demand deeper academic and industry investigation to better understand their implications and future trajectories.

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