

**Games industry**

## China 5G rollout to boost cloud gaming

Tencent and Alibaba to battle over game streaming market



Unlike in the US and Japan, most cloud gaming in China is likely to be on mobile phones © AFP

Tom Hancock in Shanghai YESTERDAY

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The rapid rollout of 5G mobile phone services in China, the world's largest video games market, will create the world's largest cloud gaming market and create a new rivalry between Alibaba and Tencent.

Cloud technology allows video games with complicated graphics and storylines to be streamed and played via low-powered devices such as mobile phones.

The technology requires the fast transmission speeds promised by 5G mobile networks, and China should have 600m 5G mobile subscribers by 2025, according to London-based trade body GSMA.

Unlike in the US and Japan, where cloud gaming will be predominately based around PCs, televisions and consoles, most cloud gaming in China is likely to be on mobile phones.

“We believe that China will become the largest cloud game market by 2023 as 5G and new business models for cloud services enable mobile gamers to play cloud games,” said Daniel Ahmad, an analyst at Niko Partners, a consultancy. Niko predicts that revenues will be more than \$1.1bn per year by then.

Spending on video games reached \$33bn in China last year according to Niko, but making profits from cloud gaming will be a challenge. Streaming games over the internet can cost companies up to Rmb5 (\$0.7) per user each hour, while the average hourly spend of a Chinese gamer was Rmb2.2 in 2018, according to brokerage Industrial Securities.

Tencent will rely on other revenue sources, such as in-game adverts and selling data to game designers allowing them to dynamically change their games according to player reactions, Tencent

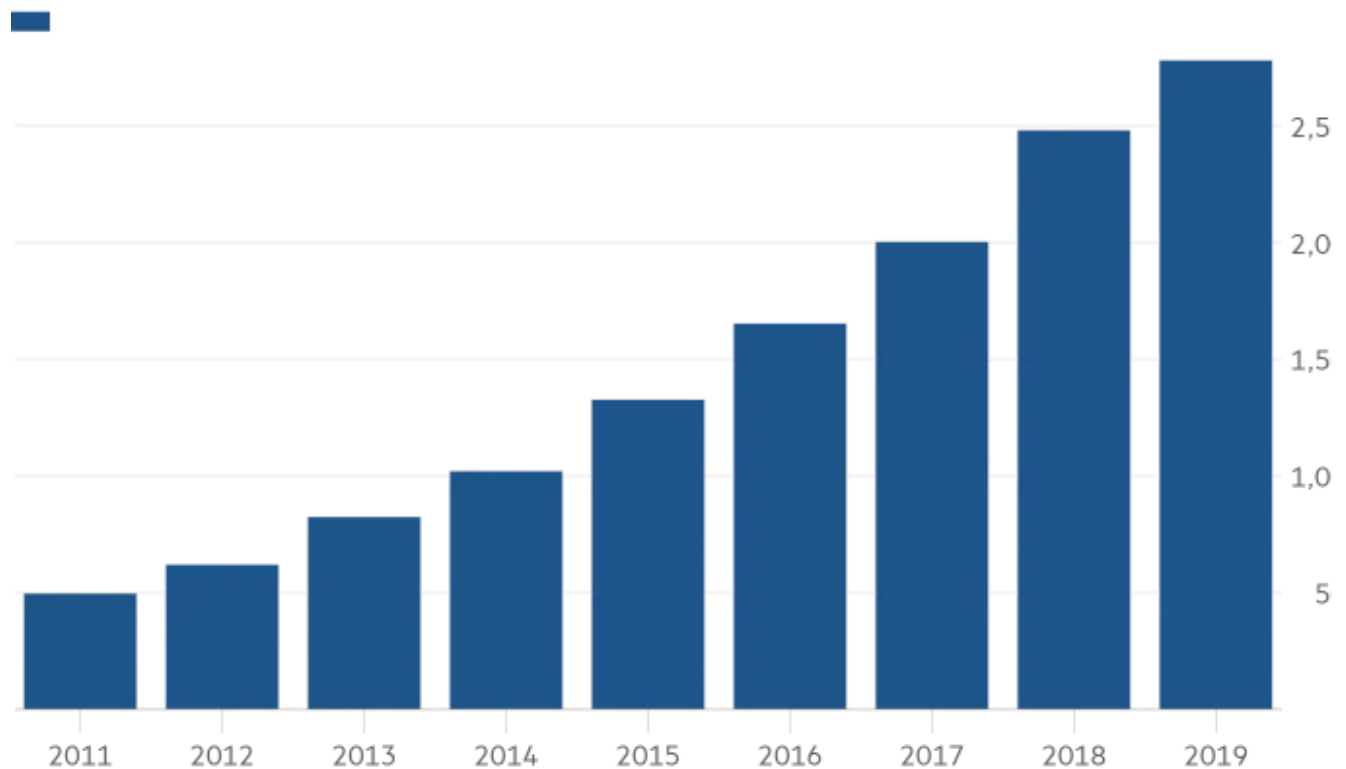
Cloud executive Yang Yu said last month.

US cloud gaming services such as Google's [Stadia](#) will rely on subscriptions, but Chinese gamers are used to downloading titles for free. "The domestic cloud game business model will not take the foreign subscription model," said Mr Yang.

In the short term, downloaded games will dominate the Chinese market, with cloud gaming revenues accounting for less than 3 per cent of the market in 2023, Niko said.

## The Chinese online gaming market is growing exponentially

Market size (\$m)



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Tencent, China's biggest gaming company, officially launched its WeGame cloud gaming client in August following [trials](#) earlier this year, allowing phone users to instantly play several titles through the service without needing to download them.

NetEase, China's second-largest game company earlier this year partnered with Huawei to offer a cloud gaming service. Ecommerce giant Alibaba, which has so-far had little success with gaming, teamed up with Intel last year to introduce a similar service.

Tencent is far ahead of Alibaba in game development, but it currently lags behind Alibaba in cloud computing services, according to analysts.

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"The two giants of cloud game development each have their own shortcomings," said Pacific Securities, a Chinese brokerage. "Tencent's problem lies in the



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development of cloud computing. Ali's problem lies in attracting good games to their cloud platform".

Gaming executives argue that Chinese users will be willing to pay more for games with better graphics and more complex storylines. But analysts caution that the costs of running cloud gaming services mean they may be lossmaking at the outset.

Regulatory risk has loomed large in China's games market, with tight restrictions on content and a near nine-month suspension on commercial licensing for

new games due to a bureaucratic reshuffle slowing the sector's growth last year.

But sales have recovered after new game approvals resumed in December. Mobile games in China generated Rmb38.4bn in revenue in the third quarter of 2019, up 8 per cent on the same period last year, according to consultancy Gamma Data.

China's propaganda ministry, which regulates video games, has endorsed the cloud concept. Guo Yiqiang, a senior propaganda official, told China's top games conference in August that cloud gaming would be an important application of 5G.

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