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Regulating Online Games in China: Policy, Practice, Innovation, and Change

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Thesis Declaration

I hereby certify that this thesis has been composed by me. All work, unless otherwise referenced, is my own. This work has not been submitted for any other degree or professional qualification except as specified.

Stephanie Lara Arnason

Abstract

The policy and practice of media regulation in China is quickly evolving to cope with the regulatory challenges presented by the rapid development and convergence of new media technology. These challenges include the increasing economic power of international and private stakeholders within this space, as well as the constantly evolving uses of highly converged media. Online games are a central part of this evolving dynamic, which is characterized by strong tensions between producers and operators, government regulators, and users of online games. This research explores the changing dynamic of online games regulation in China as it responds to the forces of internationalization and privatization. It also seeks to identify critical issues for policy development in China that are raised by the new and innovative ways that this media is being used. It draws from and contributes to scholarship from a number of disciplines, but primarily approaches the research from a media studies and area studies perspective.

The thesis is presented in five chapters. Chapter I begins with a discussion of emerging practice in online games and its wider policy implications. This is followed by a literature review and an explanation of the methodological approach, which included: case study methodology, participant observation, and key informant Interviews with policy, legal, and game industry experts in China. The core research is then presented in three chapters. Chapter II is a detailed contextual narrative that describes China's online games policy and places it in historical perspective. Chapter III is an exploratory analysis of key institutions, stakeholder interests, and interactions that shape practical regulation of online games in China. Chapter IV presents a focused analysis and discussion of the gold farming case. The thesis concludes with a summary and discussion of research contributions in Chapter V. The final discussion highlights how the thesis contributes to knowledge in three key areas: new media in China, policy studies of China, and media convergence.

Dedication

To my parents: Thank you doesn't begin to cover it. Thank you anyway. Without your persistent belief that I can do anything, I may not have dared begin.

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Table of Contents

ABSTRACT ..... **III**

DEDICATION ..... **IV**

ACKNOWLEDGEMENTS ..... **V**

TABLE OF CONTENTS **1**

LIST OF ABBREVIATIONS **3**

CHAPTER I: INTRODUCTION AND METHODOLOGY **4**

Introduction and Background 4

Literature Review 7

Methodology 29

CHAPTER II: POLICY **58**

History, Challenges, and Recent Developments in China's Online Games Policy Environment 58

Regulatory Challenges 85

CHAPTER III: PRACTICE **93**

Structures, Interests, Interactions 93

Tensions 94

External Factors 98

Exploratory Analysis: Structures, Interests, & Interactions of Stakeholder Groups 100

Summary 158

CHAPTER IV: INNOVATION **165**

The Case of Gold Farming 165

Industry & Mechanics of Practice 173

Policy & Practice 191

Examination of Stakeholders and Interests 197

Conclusion 206

CHAPTER V: CHANGE **209**

Conclusion 209

Policy 209

Practice 210

Innovation 212

Change 213

APPENDIX I: MAJOR REGULATIONS RELATED TO ONLINE GAMING IN CHINA..... 217

APPENDIX II: INTERACTION TYPES FROM CASE STUDY (CHAPTER IV) & CASE EXAMPLES (CHAPTERS II-IV) 229

APPENDIX III: INTERVIEW STRUCTURE 230

APPENDIX IV: TABLE OF RESULTS 231

REFERENCES 271

List of Abbreviations

CCPPD	Chinese Communist Party Central Publicity/Propaganda Department
CGCBSC	Central Guidance Commission on Building Spiritual Civilization
CGIA	China Games Industry Association (a.k.a. China Games Publishers Association)[1]
CLGPIW	Central Leading Group for Propaganda and Ideological Work
CNNIC	China Internet Network Information Center
EPLG	External Propaganda Leading Group
GAPP	General Administration of Press and Publication
ISC	Internet Society of China
MII	Ministry of Information Industry
MIIT	Ministry of Industry and Information Technology
MOC	Ministry of Culture
MOE	Ministry of Education
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MPS	Ministry of Public Security
NDRC	National Development and Reform Commission
SAIC	State Administration for Industry and Commerce
SARFT	State Administration for Radio, Film, and Television
SCIO	State Council Information Office
SGAPPRFT	State General Administration for Press, Publication, Radio, Film, and Television
SIIO	State Council Internet Information Office

[1] Official English-language discourse, such as the official website for the organization, consistently uses the acronym CGIA (China Games Industry Association) but translates the full term as *China Games Publishers Association.*

Chapter I: Introduction and Methodology

Introduction and Background

Over the last two decades, there has been a significant shift in the nature of communications media. The internet has increasingly become a platform for widespread human communication and interaction, creating communities and connecting people across national boundaries. One increasingly significant forum for such activity is provided by online games.

Computer games have evolved from their original single or double-player format into a complex medium that connects hundreds of millions of people around the world[2] over the internet. They have transcended traditional definitions of games to become complex, sometimes persistent environments that in many ways mimic real life. Once the recreational activity of a marginal population, these games have become widely popular: a 2014 report from one international market research firm indicates that forty percent of internet users worldwide play games online (yStats). China has the largest number of internet users in the world, and 368 million people, or fifty-eight point two percent of them, play online games (CNNIC, *34th Statistical Report*).

Online games often involve high levels of interaction and cooperation among players, who can participate from any internet-connected modern computer. Some of the most popular online games are Massively Multiplayer Online games, or MMOs. MMOs provide an extremely effective form of communication and medium for social engagement. They converge communication capacities available in the wider internet and take them a step further: a single game often combines the social networking capacity of Facebook, the persistence of instant chat programs and the voice connection capabilities of Skype, along with visual representation of place, avatar embodiment, team co-operation, and economic activity. The simultaneous channels of communication regularly used in MMO environments place them at the forefront of a trend toward media convergence.

The term "media convergence" describes a trend in the global media landscape toward increased integration of media technologies, products, and services[3]. This integration

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[2] According to a report by games market research company *Spilgames*, over 1.2 billion people played online games globally in 2013 (Takahashi 2013).

[3] This definition applies common interpretations of the term (described in Dwyer, 2 and Flew, 1) to the phenomena directly observed in the research. For a fuller explanation of the wider phenomenon of media convergence, see Flew, Dwyer, and Jenkins.

is performed at three levels: at the corporate level, through multimedia ownership and company conglomeration; at the user level, through simultaneous consumption, and at the platform level, where hardware and software are consolidated into a single platform or planned user experience. In the case of online games, media convergence takes place at all three levels. They are platforms of consolidated hardware and software; they are commonly owned by companies that offer many media products and services; and they are commonly used along with complementary hardware and software. Online games, and MMOs in particular are examples of highly converged media.

The highly connected nature of online games creates opportunities for domestic and international social and economic interaction on a massive scale. Today, online games offer the same opportunities for economic and social interaction as the rest of the internet: people can connect with friends, create communities, and make real money. New and innovative ways of using these opportunities are constantly emerging, creating space for a wide range of human activity.

Emerging practices within MMOs raise a number of issues that are cause for regulatory concern from both domestic and international regulatory bodies and stakeholders. Real economic exchange takes place in MMOs, and provides opportunities for both economic development and for criminal activity. This activity is not formally regulated or tracked by anyone but the game companies themselves. One prevailing example of this is the domestic and international trade of virtual currency, goods, and services through online games.

As MMOs have gained popularity, their users have found ways to exchange game-issued items and services for real currency, in a practice known as Real-Money Trade, or "RMT". This term describes both the sale of game items between players, and the direct sale of game items to players by companies. Over the last fifteen years, an entire industry known as "gold farming" has emerged that is based around the practice of player-to-player RMT. "Gold farming" refers to the systematic accumulation of MMO-issued assets, and is commonly used to describe the RMT industry that has emerged around the player-to-player sale of game-issued assets.[4] This research uses the term to refer to the RMT industry, where third-party entrepreneurs or organizations sell "farmed" assets for real currency.[5] A recent report from the World Bank estimates that virtual goods and services traded in online games account for multi-billions of dollars in real world currency (Lehdonvirta & Ernkvist). The technical and commercial

[4] The term can also be used to describe asset-hoarding behaviour by players that may not result in exchange with real currency.

[5] The "gold farming" practice and its surrounding RMT industry are explained in detail in Chapter II.

infrastructure used to conduct this exchange allows this trade to circumvent the established infrastructures that are designed to regulate domestic and international economic trade.

National governments and international governing bodies are increasingly recognizing that, with both advantages and drawbacks, activity in online games has tangible and powerful impact on the real world and real economies. Advantages have been recognized in reports published recently by the OECD and the European Commission, who have recognized the potential for social interaction in online games to positively impact education, empowerment and social inclusion (OECD; Stewart et al.). The United States Government Accountability Office has also recognized potential for collection of tax revenue from the emerging industry of virtual goods trade (1), and has recently issued guidance on its treatment for income tax purposes (Internal Revenue Service). Governing regulators have additionally recognized the potential for emerging activity in online games to facilitate criminal operations. Regulators from Australia (Pearce), the United States (Bureau of International Narcotics and Law Enforcement Affairs), and the European Union (European Central Bank) have recognized the potential for money laundering activity to thrive in online games, and recent reports expressing concern about this issue have also been released by the European Central Bank and the United Nations Office on Drugs and Crime.

While regulators are beginning to understand the power of this new medium, developing ways to effectively regulate it is extremely difficult. The private and often international nature of the medium, as well as the commercial and technical infrastructure that underpins the industry, raise critical issues for policy development. Governments and governing bodies are just beginning to identify some of these critical issues, some of which are highlighted in the reports described above. Regulatory development in this area is likely to become more significant as the activity that takes place in MMOs extends beyond the gaming demographic to affect the wider internet community.

China's regulators have taken a leading role in the efforts to understand and regulate online games and their innovative use. As host to the world's largest number of internet users (CNNIC, *The 34th Statistical Report*) and largest population of MMO gamers (CNNIC, *The 26th Statistical Report*; Newzoo, "Infographic: the Chinese Games Market"), governing bodies and stakeholders in China are among the first to encounter many of the issues for policy development that are raised by emerging practices in MMOs and other new media. The country was among the first to see court cases about virtual property theft (Chew 3), and has begun to develop policies that target user activity in online games. While China's policy in this area represents some of the first global efforts to regulate online games and the activity that takes place within them, the relevant policy and regulatory infrastructure is still at an early stage of development. High-level decision-makers and institutional structures are still

becoming familiar with and adapting to the challenges of this new technology and its emerging uses. Understanding this policy dynamic and the critical issues for policy development that it is facing can help the international community to understand the country's policy priorities in this area. It can also facilitate international cooperation as China and other nations look to balance the opportunities for growth with the potential for criminal activity and negative social impact that the evolving uses of online games and converged media present.

Literature Review

This exploration included extensive research on topics from a variety of disciplines. Scholarship reviewed for the project includes publications in the following fields: economics and economic development, game studies, law, management, media and communications, politics, and policy. Both English-language and Chinese-language scholarship and sources have been examined, both for reference and analysis. This section reviews the sources and scholarship consulted for this research.

While this project draws from and contributes to knowledge in a number of fields, it primarily builds knowledge in three areas. The research builds understanding about new media in China, about media convergence, and about policy studies of China. The literature review below outlines how these fields have evolved in recent years and highlights how this project fits into and builds on existing scholarship in these areas. It describes how this research uses established knowledge and qualitative research methodologies to explore how the evolving regulation, technology, and uses of online games in China are changing media and regulatory landscapes both in China and globally.

Chinese Media Scholarship

Frameworks for Discussion

Much mainstream scholarship on media ethics to date has operated within an ethic shaped by the geopolitical and cultural mores of juddNorth America and Western Europe (Winfield, Mizuno and Beaudoin 324). The origins of this ethic have been traced to Enlightenment philosophy (Freedman and Shafer 143; Siebert and Schramm 3) and the 'liberal worldview', which Nerone notes has been shaped by the philosophical and political atmospheres of the so-called "western world" (Nerone 6-7, 17). This paradigm has been extremely influential on mainstream media scholarship; the foundational *Four Theories of the Press* was conceived within it (Nerone 21), while Habermas' seminal description of the media's

role in facilitating civil engagement further established its ties with democracy[6]. Discussion of media ethics in Europe and North America has been shaped by this dominant ethic as scholars, journalists, and international organizations continue to frame their research within "western" geopolitical and philosophical traditions[7]. This liberal framework has served as a foundation for conceptualization of China's media in a variety of disciplines.

Early scholarship on Chinese media worked within what Haiqing Yu refers to as the 'Cold War framework' (2011, 68). This framework 'viewed Chinese mass media as solely the propaganda tool and ideological apparatus of the Communist Party, or Chinese newspaper readers and television audiences as passive Mao-indoctrinated masses' (68). These 'functionalist' explanations (70), most influentially Schramm's 'Soviet Communist' theory (1956) and, later, Altschull's Marxist model (1995), were popular among Chinese media scholars for several decades[8]. Although from 1949 to 1978, these models may have been useful for scholars outside of China to conceive of a highly inaccessible media system[9], they promoted a simplistic view of the interaction between the Chinese state and China's society[10], and considered only political factors as shaping influences on Chinese media.

After the open-door policy of 1978, scholars began to realize that these early political models failed to describe what they saw (C. Huang 447). In addition to increased access for foreign scholarship and fieldwork, the 1978 policy changes resulted in what Scotton and Hachten call 'an unprecedented boom in media development' that was characterized by a loosening of state media control (21). In response to this, a new political explanation was popularized that understood China's media to be in a state of "transition" from the former Communist media system[11] to a more open, democratic media system (Sparks 9). This

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[6] The tie between Habermas and democratic theory is noted by Thomas McCarthy in the introduction to his 1991 translation of Habermas' 1963 *Structural Transformation of the Public Sphere* (xii).

[7] Winfield, Mizuno & Beaudoin (324) note this trend in American journalistic discussion before 2000. International (and recent) examples include Meyer (2011), Belsey (1998), and Ingenhoff and Koelling (2012). This framework has also defined the political agenda of international organizations such as UNESCO, as highlighted by Freedman and Schafer (136).

[8] For an explanation of these models and their influence, see C. Huang.

[9] From the founding of the PRC in 1949 until the post-Mao open-door policy of 1978, China was highly inaccessible to outside scholars. Keane notes that this trend has continued until recently (81). Yu notes that this lack of access to fieldwork data perpetuated use of the Cold War framework in Chinese media studies (68).

[10] Zheng problematizes this simplistic approach in his 2008 *Technological Empowerment* (11)

[11] The early "Cold War" models were understood to have still 'basically applied' to Maoist media (Huang 447)

interpretation marked the beginning of what has been termed the ‘modernization approach’ (Himelboim & Limor 73) to media research on China. Himelboim and Limor describe this approach: 'scholars posit developmental communication as an engine of change from “traditional” to “modern” society, as technology and Western values diffuse toward the developing world’ (73). This perspective exerted a significant shaping influence on post-Mao scholarship on Chinese media (Sparks 9).

Since the media commercialization that followed the Deng reforms of the 90s, political discussion of China’s media ethic has gained complexity (Yu 68), however liberal normative interpretation maintains a strong presence in academic debate. In her historical overview of the field, Haiqing Yu describes these newer studies of Chinese media: 'they have ranged from the optimistic (focusing on the uptakes in media marketisation and globalisation and their democratic potential) to the pessimistic (focusing on media censorship and control, and the continued power-money hegemony)' (69). Yu's description highlights the endurance of liberal normative interpretation; optimism and pessimism align with the achievement or lack thereof of democratization in both media and politics. While political and value-laden interpretations of China's media ethic continue to occupy space in international discussions[12], a parallel discussion that recognizes its weaknesses has gained significant academic ground (Hong 89).

Attempts to depart from the simplistic assumptions of early ‘democracy-centred approaches’ (Hong 89) and perspectives have emerged from a variety of disciplines, most decisively, perhaps, with the 2000 publication of Curran and Park’s *De-Westernizing Media Studies* (Keane 2011, 83). Other studies have taken a comparative approach to highlight the need for contextual understanding of China’s media. In Hallin and Mancini's 2012 *Comparing Media Systems beyond the Western World*, the editors note the importance of understanding unique political and historical contexts when comparing media systems, and Zhao examines what insight the Chinese context can bring to comparative media studies (Y. Zhao 2012). Himelboim & Limor, Freedman & Shafer, and Winfield et al. have also emphasized the importance of contextual understanding to studies on China's media. In some cases, studies have sought to provide this context, with varying degrees of success. These contextual elaborations vary widely in academic approach and perspective. Some scholars have offered interpretation of China's historical and philosophical context (particularly Confucianism and collectivism) to expand on existing political conceptualizations (Q. Cao 2011; Fu & Tsui 2003) or to explain the unique nature of China's media ethic (Winfield et al. 2003). These interpretations tend to be normative, rather than evidence-based, however, and their conclusions and assumptions therefore tend to be highly speculative and of limited analytical

[12] See Keane 2011, 83 for a detailed account of this discourse.

use. More successful contextual insight has been contributed from Chinese area studies, whose systematic historical elucidation[13] has been acclaimed for meticulous methodology and concrete evidence (Hong 92). Although Hong notes that at times the area studies approach is framed within a wider theoretical discourse, she emphasizes that its primary strength and focus consists of microscopic analysis and contextualization (92). Micro analysis has seen some success in escaping the bonds of the liberal framework, however it provides limited insight toward the wider relationships between stakeholders and institutions that shape the production, consumption, and regulation of China's media. A variety of disciplines have contributed new approaches and models for macro analysis[14], however to date no single approach has garnered widespread support. The most widespread support for future investigation seems to lie in ecological conceptualizations of China's media (Keane 2011, 84; H. Yu 2011, 64) as well as a combination of interdisciplinary perspective and collection of solid empirical field data (Hong 94).

New Media Scholarship

English-language scholarship on new media in China fits well into the theoretical trajectory of wider academic literature on Chinese media. The modernization and transition theory characteristic of English-language scholarship on older forms of Chinese media found renewed life in the political internet discourse of the nineteen nineties. Technology determinists anticipated that the internet would be a catalyst for China's long-anticipated transition toward democracy (Deibert 143; Lagerkvist 2005, 120). This 'democracy optimism' (Chadwick 58-9), was contrasted by a counter-argument that gained popularity following the success of state control of the internet in China; 'democracy-pessimism' (Chadwick 58-9) argued that internet technology would not change politics, but rather serve as a perpetuating instrument of authoritarian regimes (eg., Hachigian 2002, 41; Jiang 2010; Qiu 2000, 1). This debate focused early new media scholarship on the democratizing capacity and potential of the internet and shaped much scholarship on new media in China (Leibold 1023; Qiu 2000, 2).

The tendency toward division of scholarship along the lines of democracy-centred optimism and pessimism (H. Yu 2011, 69) has extended into the realm of new media; optimism can be observed in the trend toward research on civil society and social activism as it is facilitated by new technology (eg., Tai 2006; Yang 2009; Li 2010; Liu & McCormick 2011; Tang & Sampson 2012; Weber 2011) while pessimism is manifested in the continued centrality of state censorship to academic discussion (eg., A. Chan 2007; Feng & Guo, 2012; M. Jiang

[13] For an overview of major authors that have published in this field, see Hong, 92.

[14] See Hong, Keane 2011, and Yu 2011 for an overview of major approaches in recent years.

2010; Hachigian 2002; Harwit & Clark 2001; Hu 2011; Stockmann & Gallagher 2011; Zhao 2004). Despite the sustained influence of the censorship-freedom framework, the last decade of new media scholarship has seen an increase in acknowledgment of the complex nature of China's media system.

On the level of macroanalysis, scholars have worked to increase the complexity of the state-versus-society 'paradigm of information control and resistance' (Leibold, 1023) by proposing new models for conceptualizing China's media that include multiple actors and complex relationships between them. Some of these models maintain a political focus, increasing the complexity of early conceptualizations to explain the continued legitimization of authoritarian rule in the age of new media. These include: Min Jiang's "Authoritarian Informationalism" (2010), Stockmann and Gallagher's "Authoritarian Resilience" (2010), Lin's "Three-Dimensional State-Media Regime" (2007), and Sparks' "Elite Continuity" (2008). Others aim more at systemic understanding (eg., Lee, He & Huang 2007; Y. Zheng 2008; J. Zhao 2008 & 2009) and include a wide variety of actors and relationships in their analyses. The recent academic work accounts for the variety of possibilities presented by new media technology; that it can be used at cross-purposes by a variety of interest groups, and that its future depends on a variety of factors (Brady 2009; Shirk 2007; Qiu 2005; Wang 2010; J. Zhao 2008; Y. Zheng 2008). Increasingly, micro-level empirical research is informing these studies. While macro level academic understanding of China's media system and media ethic has generated new models and systemic conceptualizations, micro level research has highlighted the complexity and multiplicity of the stakeholders and the ways in which they interact.

Media Convergence

Media convergence in China has resulted in new ways of participating, producing, and regulating media. As these changes have taken place, scholars have demonstrated an increasing interest in case-informed research that encourages more complex consideration of the most commonly identified macro-components of China's media sector: "society" "state" and "market"[15]. Academic understanding of "society" is significantly enhanced by research on public activism, participation, roles, identities, and communities (Yang 2007; Hockx 2005; Yu; Weber 2011; Wang 2009) as well as the effects of access to technology (Qiu; Guo & Chen, 2011). The multiplicity and variation of interests that comprise the Chinese "state" as a media regulator have also been acknowledged by micro-level research. Zheng Yongnian ("Technological Empowerment") explicitly disaggregates competing interests that vary along

[15]The term "market" is somewhat problematic in that it is used in different ways by different authors; because of this, it has become an aggregative term which may include: the market economy, the consuming public, or commercial and/or capitalist influence.

with jurisdictions and levels of government, while Liebman (2005), Tong (2010), and Qiu (2005) refute the idea of a "centralized media control" in their examination of local regulatory implementation and the relationship between the media, public opinion, and the legal system. The complexities of the market influence on various stakeholders within China's media system have been addressed by a number of scholars (eg, R. Bai 2012; Brady 2006 & 2008; Lee, He & Huang 2007; Scotton & Hachten 2010; Winfield & Peng; X. Xin 2008; Y. Zhao 1998). However, the complexity of market influence increases as technology provides increased opportunities for economic interaction. Qiu (2009) and Guo & Cheng (2011) have addressed the economic and spatial stratification associated with access or lack of access to this technology, while other scholars have explored new aspects of market influence, such as Real-Money Trade and virtual economics. These new forms of economic interaction have been investigated in relation to their potential legal and development implications (Huhh 2008; Heeks 2008; Lehdonvirta & Ernkvist 2011) as well as their cultural impact (Arnason 2008; Nakamura 2010). The above researchers have emphasized the multiplicity and complexity of actors involved in China's media. Another line of scholarship highlights the importance of historical and cultural aspects of new media.

An increasing body of research explores the historical and cultural contexts of new media in China. Golub and Lingley (2010) and Jiang (2010) provide normative historical and cultural explanations; the former interprets internet addiction discourse in China as a cultural construct related to Qing-dynasty fear of foreign influence and opium addiction, while the latter notes elements of Confucianism in China's approach to internet regulation. Zheng engages in detailed historical comparative analysis, exploring the Qing dynasty regulation of telegraphy in order to illuminate modern approaches to regulation of the internet. Cultural contextualization of new media has included exploration of cultural perceptions of various forms of internet use (Golub & Lingley; Liu 2009) as well as observation of, and investigation into, China-specific new media phenomena. Recent scholarship explores forms of media production and participation that have evolved along with media convergence. These include: Hockx's 2005 research into Chinese web literature, the research of Lindtner et al. into China's internet cafe culture and mega-guilds (2010), Zhang and Fung's research on the commercialization of guilds, Ge Jin's 2007 documentation of the gold farming phenomenon, and Chew's 2012 research on China-specific forms of play in MMOGs (Presentation at the VWRN inaugural conference). Other China-specific new media phenomena relate to innovative use of new media in a heavily regulated environment. This is a subject of growing research, and is reflected in the academic discussions of digital self-expression versus self-regulation (Weber & Jia, 2007; Zhang 2012), and the discussions about the symbolic language of censorship-driven online parody or *e gao* (Esarey 2005 & Qiang 2011; Meng 2011; Gong & Yang, 2010). Increasingly, spatial context is discussed as an important aspect of new media and media convergence in China; Information Communication Technology (ICTs), human

geography and urban planning have come into play as discussion focuses on differences in technology experience and access in urban versus rural environments (Puel & Fernandez, 2012; Li & Ranieri, 2013; Zhao, 2008), the spatial aspects of the online gaming and the virtual world (Nardi; Liu, 2009), and the internet as a transnational space (Yang 2003; Chen 2006).

The usefulness of the macro level models that have been proposed to date is limited; there is no single analytical model that has been acknowledged as widely useful. Additionally, much of the macro level analysis to date is rooted in the political economy research tradition that, according to Keane, 'has aligned itself with the grand narratives of democratisation and freedom of speech' (Keane, 83). What can be determined from the macro-level literature is a general categorization of actors that comprise China's media system. The state, society, the market, and the media itself constitute the primary stakeholders in a multitude of conceptualizations.

Scholarship on Chinese media reveals some consensus on major actors that comprise and factors that influence the shape of China's media ethic. The state, society, and the media itself are most commonly identified as macro level stakeholders whose actions work to shape practice. These actors are prevalent in scholarship that focuses on public opinion and civil society in Chinese media (eg., Lagerkvist 2005 & 2011; Tai 2006; Weber 2011; G. Yang 2003), mechanisms of state control over Chinese media (eg., Deibert 2002; Esarey 2005; Hachigian 2002; Harwit & Clark 2001; Kalathil & Boas; Ström and Ernkvist 2008), and the media's negotiation role between the state and society (R. Bai; Q. Cao 2011; Lee, He, & Huang 2007; Keane 2001; Haiqing Yu 2011; Zhang 2011). Major factors that can influence the balance of power between these stakeholders have also been indicated. For example, technological development and the market economy are consistently discussed in terms of their capacities to change the power balance in China’s media system (eg., Cartier, Castells and Qiu 2005; Esarey 2007; Gong & Yang 2010; Hachigian 2001; Lagerkvist 2005; Leibold 2011; Lin 2007; Qing & McCormick 2011; Qiu & Zhou 2005; Qiu 2010; Zhao J. 2008; Zheng 2005; 2008). Chinese media scholarship also identifies some key mechanisms of practice that characterize China’s media regulation. Among government stakeholders, selective enforcement of policy (Shambaugh, 27) and prioritization of private or local interests over those of a central authority have been highlighted (Keane 2001, 10; Qiu & Zhou 2005, 262-3, Lagerkvist 2012, 2640; Weber, 26). Among media stakeholders, the process of balance and negotiation between the interests of government and public stakeholders has been emphasized (eg., R. Bai 2012; Q. Cao 2011; Lee, He & Huang 2007; Keane 2001; Lagerkvist 2012; Yu 2011; L. Zhang 2011). Mechanisms of regulatory practice identified in Chinese society relate to circumvention and challenges for implementation. These include innovative circumvention of regulatory restrictions (Keane 2001; Human Rights in China; Meng 2011;

Lagerkvist 2012; Qiu & Zhou 2005), and direct challenges to regulation through activism (de Burgh et al. 2012; Lagerkvist 2005; Weber 2011; G. Yang 2003).

Microanalysis has begun to provide invaluable insight into the relationships and mechanisms of practice so often discussed in macro-level studies that are shaping modern media practice and emerging media culture. Empirical data collection allows for application of rigorous methodology, and as a result many scholars favour this approach. However, in order to work toward a systemic understanding of China's media ecology, macro analysis is also necessary. Recent scholarship suggests that systemic understanding be reached through a combination of micro and macro analysis (Keane 2011, 81; Hong 2011, 94; H. Yu 2011, 70). In her 2011 reflection on the field, Haiqing Yu describes this approach to be part of a promising new conceptual framework:

> The turn-of-the century new paradigm recognises media as culture and practice. It pays attention to localised practices without losing sight of media across a whole range of situations and contexts...it recognises the mutual articulation and constitution of the state and the market...it allows one to approach macro-issues at a politico-socio-cultural level from a micro-analysis approach, while paying attention to the spatial, temporal and relational embeddedness of particular media practices (70).

The trend toward evidence-based research and micro analysis in the scholarship on China's media landscape allows scholars to shed light on China's media production, consumption, its regulation by engaging directly with the actors and processes that comprise it. This engagement has increased academic acknowledgement of the complexity and unique nature of Chinese media, however much more research is needed before widespread consensus can be reached about macro level implications.

Overall, the Chinese media literature reviewed above points to a number of areas where new research can contribute to knowledge about new media in China. The recent scholarship on Chinese media calls for future investigations in the field to maintain awareness of both the complex realities of everyday practice and the wider contexts that surround and shape them (Keane 2011, H. Yu 2011, J. Hong 2011). It underlines the potential for empirical research, microscopic analysis, and local-level knowledge of cases to contribute to broader, ecological understandings of China's media system. It also emphasizes the importance of contextualizing micro level research, by recognizing that empirical data and local phenomena are embedded within complex and unique technical, social and political contexts.

The investigative approach to this research builds on these suggestions from the Chinese media scholarship. The investigation focuses on understanding everyday practice, using micro-level research to build understanding of how online games regulation in China actually works. It also emphasizes context, and describes the unique historical, political, policy, and technological contexts of China’s online games industry and regulation. This project is

based on micro-level research and analysis, which includes: key informant interviews, participant observation, autoethnographic reflection, case-based research, textual analysis of policy documents, and analysis of a variety of other documentary and archival sources (including Securities Exchange Commission filings by China's foreign-listed online games companies). This microanalysis is also used to inform a macro-level perspective: the exploratory analysis in Chapter III uses the micro-level data collected throughout the research to build a broader, more systemic understanding of the relationships between key actors in China's online games regulation. This research approach builds on suggestions from recent scholars about ways to address current gaps in the field of new media studies of China. The literature review above points to a need for broad understanding of how new media in China is being used, regulated, and produced, that is based on and informed by reliable, micro-level data. The combination of case-level insight and detailed data collection with broad scale exploratory analysis of major stakeholder institutions, interests, and interactions, is one of the major ways that this research advances knowledge about new media in China. By applying this approach to studying the under-researched new medium of online games, the research makes an important contribution to knowledge about new media in China.

This close analysis also contributes to knowledge about the policy and practice of China's new media regulation. As the literature review above demonstrates, there is a close relationship between Chinese media and the political and policy contexts that surround it. Scholarship about new media in China therefore often overlaps to some degree with policy scholarship in this area. In this research, relevant policy scholarship includes literature from a variety of academic disciplines, including: policy studies of China, Chinese politics, law, economics, economic development studies, sociology, and communications, among others. The next section reviews the academic literature most relevant to the study of China's online games policy and implementation. The review begins with an overview of literature about China's technology policy and its historical development over the last hundred years.

Policy Scholarship

History of technology policy in China

The scholarship allows recent changes in technology and policy to be interpreted in light of what is known to date about China's technology policy as it has developed over the last century. This scholarship provides an overview of the approaches to new media policy development and implementation that the CCP have taken over the last hundred years. By exploring the challenges raised by new media technology and media convergence in the past, the research provides essential historical context for a close examination of the policy context that surrounds online games. The author uses the historical information from this literature to build the following overall argument: while the policy challenges raised by online games and their emerging uses are not entirely new to the CCP, the increasing rates at which technology

develops, media converges, and users innovate mean that the regulatory responses that have worked in the past are no longer able to cope with the size and nature of the emerging challenges.

Literature that provides important historical context to China's technology policy includes a number of authors. Huang and Yu's 1997 *Broadcasting and Politics* elucidates the relationship between radio and television technology and the political landscape of early modern China. Zheng Yongnian's *Technological Empowerment* is a general exploration of internet policy in China and the dynamics between society and the state. Zhou Yongming offers historical perspective on China's internet policy in *Historicizing Online Politics*, comparing recent policy approaches to those that followed the introduction of telegraphy in the late Qing dynasty. Xing Fan's *Communications and Information in China* provides a detailed account of state responses to regulatory challenges that emerged along with the decentralization of telecommunications and the popularization of internet use in China. The literature on technology policy in China also sheds light on the history of institutional change that has accompanied technological development. The above texts engage in direct discussion of the political and historical context of China's technology, and in the policy strategies that surround it. Chapter II draws on heavily on this research to explain the historical context for online games policy in China. This topic overlaps to some extent with scholarship on internet regulation in China, such as: Keane (2001); Barmé (1999); Kim & Douai (2012); Harwit (2001); Esarey & Qiang (2011); Lagerkvist (2005); Deibert (2002); H. Hu (2011); Weber & Jia (2007); L. Cao (2007), Hachigian (2001;2002), Shirk (2007), and Palfrey (2010). This second group of texts describes regulatory strategies that form part of China's new media landscape, and also informs this research.

Political Science and Policy Studies

This project was informed by existing knowledge about China's political structures and processes of policy development and implementation. Bureaucratic structures, key actors and interests, and mechanisms of interaction often serve as the analytical focus of policy research on China from the perspective of political science. Lieberthal & Oksenberg (1988), Shambaugh (2007), and Law & Pan, for example, all identify these aspects of governance as key factors in their research on China's policy negotiation. Shambaugh uses similar categories to guide his analysis of China's propaganda system; the roles of key individuals and institutions are explored within a larger framework of Scope, Structures, and Processes. Lieberthal and Oksenberg structure their seminal analysis of *Policy Making in China* according to 'Leaders, Structures and Processes'(1). The research in Chapter III draws on this analytical approach as an effective way to examine key factors and relationships that affect policy development and policy outcomes. The approach is used as an heuristic device to investigate how

regulatory practice is determined for online games. Political science scholarship[16] typically focuses on the roles of these structures, stakeholder interests, and processes within the realm of government as factors in policy outcomes. However, this research seeks to build understanding of the relationships between all the key stakeholders involved in negotiation of regulatory practice in China's online games industry.

The importance of media producers and users in negotiating policy outcomes is identified in this research and has been highlighted in recent scholarship on new media regulation in China[17]. Therefore, while the analytical approach taken in Chapter III draws on the analytical approaches from political science, this research adjusts the government-centred perspective on policy analysis that is typical to political science literature. The exploratory analysis in Chapter III begins by considering this government stakeholder category, but moves on to examine the essential roles of producers and users in determining regulatory practice.

Law, Business, and Development

Scholarship from law, business management and economic development literature also plays an important contributing role to the research. Business and economics scholarship such as Wang & Judge (2012); Mattlin (2007); Chang et al. (2005); Sun & Tong (2003); Bai et al. (2008); Fan et al. (2005) discuss the history and structures of China's State-Owned Enterprises and the political and economic impacts of their partial privatization. More recent topics such as the history and structure of variable interest entities in China, as well as examination of their legal uncertainty, rely on publications from law journals, such as Lee (2013), Tring (2012), and Schindelheim (2012), as well as a number of publications that extend outside academia.

Online Games Policy: English-language Scholarship

There is very little English-language academic literature that directly discusses the policy of online games in China. There are a few exceptions: Qiu & Zhou (2005), Ernkvist & Ström (2008) and Cao & Downing (2008) have contributed initial description and analysis that points to a complex policy landscape with multiple actors and conflicting government priorities. Qiu and Zhou lay the foundation for this discussion by highlighting the negotiative process of policy implementation in internet cafes, as well as the importance of local decision-making and individual priorities among government officials. Ernkvist and Ström note the relevance of this negotiation of interests to online games policy (102), but focus instead on three aspects of

[16] See also Flemming and Rai, or Saich.

[17] H. Yu, G. Yang, and Keane exemplify this.

China's online games policy that they identify as important: technonationalism[18], information control, and pragmatic nationalism/social fear. Ernkvist and Ström claim to take a "middle ground" approach to understanding China's online games policy implementation; they situate their perspective between an understanding of extensive top-down influence in policy decision-making, as in some previous scholarship about China's internet policy (102), and an understanding where policy implementation consists primarily of negotiating fragmented interests (as in Qiu & Zhou 2005). Ernkvist and Ström describe a policy environment led by three overarching "policy fields" that are reshaped and transformed as trial-and-error implementation takes place (102). As the authors consider these three aspects of China's online games policy and the wider context of institutions and stakeholders, they identify a number of important regulatory texts and actors, institutional stakeholders, and key interests, while acknowledging that these interests may conflict at times and interfere with implementation.

Ernkvist and Ström describe China's technonationalism as an 'aim initially to increase the competitiveness of domestic companies in specific fields in the large domestic Chinese market and thereby provide a growth environment for subsequent competition in the world market' (103). Cao and Downing also highlight this element of China's online games policy development. They describe the industry's growth and focus on the reliance of domestic companies on foreign technology and financial resources to achieve success, while noting that the policy environment tends to protect domestic companies at the cost of the interests and profits of foreign companies (518). Unlike Ernkvist and Ström, Cao and Downing avoid investigation of institutional policy stakeholders; explicitly ignoring all but central government interests, they instead focus on highlighting important tensions that shape policy development. Among these tensions, they identify the state and the market as 'the two major defining forces that shape China's video game industry' (522).

Both sets of authors of these early investigations arrive at common conclusions regarding the online games policy environment in China. First, there is consensus that certain elements of policy texts reflect central government interests. These include social interests, such as: minimizing negative social impact through content control, controlling the participation of minors, and mandating real-name identification. They also include economic interests, such as: promotion of domestic creation of approved content, and development of policy that is economically advantageous to domestic companies. Both sets of authors identify these

[18] According to the authors' definition, these are policies that 'aim initially to increase the competitiveness of domestic companies in specific fields in the large domestic Chinese market and thereby provide a growth environment for subsequent competition in the world market' (103).

interests as indicative of central goals. They also observe a potential conflict between these interests, observing that the promotion of economic development may erode state ability to control information and vice versa.

While Qiu and Zhou discuss the regulation of internet cafes rather than online games specifically, they describe an essential element of regulatory practice in the Chinese context: the critical role that local and individual interests play in shaping policy implementation. This aspect of online games policy is acknowledged in the investigations by Cao and Downing and Ernkvist and Ström, but is not explored in detail. While these later texts do not thoroughly explore the central-local decision-making dynamic highlighted by Qiu and Zhou, they do highlight the importance of tensions between divergent interests both within and outside state mechanisms in determining both policy development and policy implementation. Both sets of authors acknowledge that the tension between "state" and "market" extends into and is influenced by actors and interests outside the state. They point in particular to the profit-oriented interests of the games industry, and how they may align with government initiatives to encourage development of the industry, but also may conflict with the state's proscriptive guidelines that aim to control and manage how online games are used. While the dynamic is not explored in detail, all three texts additionally observe that the tensions that shape online games policy development and practice extend not only into the games industry, but into the realm of the game players themselves.

Online Games Policy: Chinese-language Scholarship

The texts by Qiu & Zhou, Ernkvist & Ström, and Cao and Downing discussed above are the only major English-language texts that directly discuss the dynamics of policy development and implementation regarding online games in China. Chinese-language scholarship in this area is more prolific than its English-language counterpart; from 2005 onward, a body of work on China's online games policy has emerged that spans a number of disciplinary perspectives. Economics (Shen & Kong 2005; Liang & Song 2005; Shu 2012; Zhang 2013), Business (Liu 2011; Lu 2010; He 2007; Cai et al. 2013), and Law (Shou et al. 2005; Ma 2008) are some of the most productive disciplines in this area, however academic contributions to online games policy research have also emerged from: Sociology (Shen 2007; Sun 2012), Psychology (He et al. 2008), Medicine (Zeng, Huang & Zou), Media and Communications (Yan 2011), and Education (Liu & Zhou 2013; Huang, 2013). This multidisciplinary work shares a common research agenda: to inform policy development that

works toward achieving the online games industry's "healthy development" (健康发展)[19]. There are two sides to the concept of "Healthy development" explored in the literature: the healthy development of the industry, and the healthy development of the online games players. The Chinese-language literature on online games policy in China generally focuses on one of these two interpretations.

Among mainland Chinese authors, research objectives tend to centre around contributions and improvements to online games policy development. Author interest in these goals ranges from explicit interest, evidenced through involvement in government-driven policy research projects or through explicit articulation, to implicit indication through research focus and objectives. Examples of explicit indication include Shou et al. and He Sichao. Shou et al. explicitly presents itself as part of two separate government policy research projects (1), while He Sichao explicitly outlines his research as an analysis "from the perspective of government" (从政府的角度) (3). Other authors work to inform and improve national policy more implicitly, representing policy-oriented research objectives and conclusions. Liu Xiaoxiao's 2011 work exemplifies this: the paper sets out to analyze the Strengths, Opportunities, Weaknesses, and Threats (SWOT) of China's online games policy and concludes with a section on 'countermeasures and suggestions' (对策和建议) aimed at policymakers (59). This structure can also be observed in Shen & Kong (2005). The authors declare in their abstract that analyzing the effects of policy by focusing on the behavior of the parties involved is the only way to produce effective policy suggestions (79); the authors' analysis is concluded with explicit advice for policy development (82). Much of the secondary scholarship mirrors this structure.

A number of themes emerge repeatedly throughout Chinese-language scholarship from mainland China. These roughly fall into one of the two aspects of the online games industry's "healthy development": economic or social. Economic themes addressed explore challenges to continued economic growth in this sector, with a particular focus on growing domestic online games companies. Some of the most frequently highlighted challenges include: a lack of sufficient domestic access to research and development capital (compared to international companies), and a related gap in technology and talent (Liang & Song, 55; Liu Yan, 98-9; Liu Xiaoxiao, 57); monopolistic competition characterizing the domestic market (Liu Xiaoxiao, 57; Liang & Song, 55; Shu, 48); and the need for diversification of domestic game content (He Sichao; Shu Chang; Liu Xiaoxiao; Gao & Yuan). There is also a suggestion that

[19] This is a term commonly espoused in official rhetoric surrounding online games policy in China. Li (2003) provides one strong example of this, but it can also frequently be found in the language of policy texts. See Chapter III for specific examples.

intellectual property rights protection is essential to the continued health of the industry; this is often connected with descriptions of private servers, plug-ins, and illicit virtual goods trade as detrimental forces to industry growth (Shen & Kong, 82; Liu Yan, 102; Liu Xiaoxiao, 59; Shu, 49). While many publications maintain a specialized focus on either the economic or the social "health" of the online games industry, most papers acknowledge that both areas must be addressed by policymakers (eg., Shou et al.; He 2007; Li Lu 2010; Liu Xiaoxiao 2011; Liu Yan 2011; Shen & Kong 2005; Gao & Yuan 2013).

Social aspects of "healthy development" addressed in the literature highlight challenges faced by policymakers as they develop policies to protect the users of online games. These tend to focus on one of two primary issues: the protection of young people from the health risks of "internet addiction", and the legal establishment of virtual property rights. Health risks to young people are often the focus of work emerging from sociology, psychology, medicine, and education (eg., Sun 2012; Shen, Li 2007; Zeng et al. 2012; Liu & Zhou 2013), but also frequently form part of wider scholarship. Clinically-oriented scholarship, such as research by Sun (2012), Shen (2007), & Zeng et al. (2012), tends to inform policy development by identifying the mechanisms of, and contributing factors to, "internet addiction"[20] (网络成瘾) cause by online games. Other scholars focus on challenges to policy development and implementation in this area. Shou et al. critique the content review process for online games in China and how initial efforts to form a classification system to rate games was unable to harmonize with international classification standards[21] (139). Shen & Kong (79), Liu & Zhou (31), and He (35) describe the exploitation, of loopholes in policy designed to protect young people from unhealthy game play. The authors describe exploitation of these loopholes by both the game players and game companies under current policy measures, using them to argue for policy improvement in this area.

Another common theme that falls into social "healthy development" of the online games industry is the right of game players to ownership of virtual property. Most of the academic literature in this area supports the definition of virtual property as the private property of game players, and highlights problems that currently prevent users from fully exercising these rights. Luo & Zhu (2006) and Liu (2011) highlight problems that emerge from a lack of

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[20] This is the diagnostic term widely used to refer to the negative health effects understood to be caused by online games (Golub & Lingley).

[21] The classification systems are rating systems for video games that reflect the type of content in games and the intended age of audience members. In the United States and Canada, the Entertainment Software Rating Board, a non-profit self-regulatory body, rates all video games sold at retail outlets in these countries (Entertainment Software Rating Board).

explicit legal framework for virtual property; Yu and Sun (2010) identify ways that the existing legal framework can be used to establish the virtual property rights of players; Ma Yide (2013) asserts that virtual property rights are granted under civil rights law, but highlights problems with inheritance of virtual property within the existing framework. A related issue that is highlighted in Shen and Kong as well as Li (2010), is the fact that online game players are increasingly using online games as a source of revenue. Both authors view this as a social problem; Shen and Kong reason that professional-type players become obsessed with game play (79), while Li asserts that such behavior has fostered a negative social image of the industry (1).

Underlying the themes addressed above are two fundamental assumptions that are rarely thoroughly considered or questioned in the body of work. The first assumption is that the online games industry is important to the health of the national economy, and therefore its growth should be encouraged. This is explicitly asserted in many publications but evidenced with little more than descriptions of market size (eg, Liu Yan; Liu Xiaoxiao). The second foundational assumption is that online games cause "serious social problems" that must be addressed as the industry develops. Most academic work that directly analyzes online games policy works to balance these contrasting policy priorities, without questioning or considering their validity. These assumptions and their resulting policy priorities echo official interpretations of the opportunities and threats introduced to China by internet-based media. A 2004 document issued by the CCP Central Office and the State Council articulates this in terms of new media use by minors:

> The rapid development of the internet and other new media has opened new avenues for the education and entertainment of minors. At the same time, decadent and backward culture and harmful information is also spread through the internet, corrupting the minds of minors
>
> 互联网等新兴媒体的快速发展，给未成年人学习和娱乐开辟了新的渠道。与此同时 ，腐朽落后文化和有害信息也通过网络传播，腐蚀未成年人的心灵 Section 1, Article 2.

Both the economic and social aspects of "healthy development" are outlined as policy goals in the recent policy texts that relate to online games. These will be explored in the exploratory analysis of Chapter III.

While the above scholarship discusses a variety of themes and offers a number of disciplinary perspectives, there is a near-ubiquitous consensus among authors that China's policy framework for online games is underdeveloped. Some observations find fault with the institutional set-up itself; a commonly noted systemic difficulty is the cumbersome involvement of multiple government departments in the establishment of legislation. Shou et al. cite this as

a setback in policy development, noting that the multiple jurisdictional claims complicate the process of industry-specific policy creation (2). This problem is further elaborated in recent publications, as authors draw attention to emerging problems in the regulatory landscape. Liu, He, and Liu & Zhou note the duplication of responsibilities between agencies (Liu Yan, 100-101; He, 30; Liu & Zhou, 31) and their potential negative impact on industry growth. Li, Ye, and Liu & Zhou take this a step further still, explaining how this jurisdictional overlap allows individual government departments to abuse their positions, developing policies in their own interests of control and power, rather than the interests of industrial growth (Li 2010, 1; Ye, 2010; Liu & Zhou, 31). Liu & Zhou have also observed systemic issues that lie outside institutional overlap and conflict. First, they argue that regulators do not account for the needs of young people, and advocate a switch in policy development focus from blanket prohibition to rights protection (32). The authors also argue that some regulators are unfamiliar with the nature of online games technology, drawing attention to recent policies that they feel demonstrate this regulator knowledge gap (31).

Observations on the inefficacies of China's online games policy are often accompanied by recommendations for its improvement and reform. These generally highlight key areas for policy development and review based on the research analysis. They include recommendations for restructuring the policy framework itself, and for encouraging economic and social "healthy development". Key suggestions for improving the policy framework include: integration of policy into a coherent regulatory system (Shen & Kong, 82); complete transformation of the institutional framework for online games policy (Liu & Zhou 32); clarification of departmental responsibilities among regulators (Li Lu, 11); strengthening research in this area (Li Lu, 33), acceleration of policy development and refinement (Shen & Kong, 82), and examination of foreign online games policy regimes in order to inform China's policy development (Shou et al., Liu Yan, 18; Li Lu 2010; Zhang 2013). More specific recommendations for improving economic and social health of the online games industry include: reduction of market access barriers in order to increase competition (Liang & Song, 55;); reduction of homogeneity of domestic games content (Gao & Yuan, 13; Li Lu 2010, 35; Liang & Song, 57; Liu Xiaoxiao 59; He; Shu); increased participation in the international games market (Liang & Song, 55; Zhang Yan, 160); accounting for the interests of young players in policy development (Shen & Kong; Liu & Zhou 32); development of online games with positive content (Gao & Yuan, 13); developing and categorizing games according to age suitability (Shou et al.; Gao & Yuan), and focusing on policy that guides toward healthy play habits instead of blanket prohibition and negative media attention (Liu & Zhou 2013; Gao & Yuan 2013).

While domestic Chinese-language scholarship presents a unique focus on informing policy development and promoting the "healthy" development of China's online games

industry, it also parallels the observations of English-language scholarship on the subject, recognizing that policy effects are determined by a variety of actors and interests. This body of scholarship also observes the pursuit of self-interest by actors both within and outside regulating bodies. Key actors and interests external to government regulators that are idenitifed by Chinese-language scholars in this area include the profit-centred interests of the online games industry, and the social and economic interests of game players. Shen & Kong (79) and Liu & Zhou (31), for example, note that successful policy development must consider and account for these external interests; these authors identify and describe the impact that they can have on policy compliance. Chinese-language scholarship about online games policy additionally acknowledges a variety of actors and interests among government regulators themselves. Li, Ye, and Liu & Zhou, for example, all point out that conflict and competition dynamics among these interests interfere with the online game industry's "healthy development" (Li 2010, 1; Ye, 2010; Liu & Zhou, 31).

Authors of both English-language and Chinese-language investigations observe that a substantial research gap exists in China's online games policy research. Cao and Downing note that 'despite their cultural and social significance, rapid growth and widespread appeal in China, video games – unlike traditional media – have received scant attention from international communication researchers' (515). Ernkvist and Ström equally observe a gap in academic work on 'how national governmental policies and regulations affect the online game industry' (98). They further note that this gap is remarkable in light of the prolific scholarship on related media such as the internet and other entertainment industries (98). Chinese-language researchers support these observations. While there is significantly more scholarship that directly investigates online games policy in China, Chinese-language researchers have also remarked on the lack of scholarship in this field. Authors such as Li Lu (2010) assert this explicitly: 'Currently, there is not much research about the online games regulatory regime' (目前对于网络游戏产业监管体制的研究还不是很多) (Li Lu, 2). This paucity in research on online games and their related policy in China persists to date.

This project works to build knowledge in this nascent field by compiling and analysing information from a variety of sources. These include both academic enquiry from related fields, and a variety of non-academic sources. The paucity of academic literature on China's online games policy does not mean that this topic is not discussed at all outside the texts reviewed above. There are in fact many texts that discuss important elements of China's online games policy and the dynamics that characterize the negotiation of competing stakeholder interests. However, these discussions take place in a variety of tangential contexts, spanning multiple academic disciplines and extending into non-academic or borderline academic media. The non-academic sources that have contributed to the current research are fully reviewed in the methodology section of this chapter.

New Media Technology and Convergence

While there has been some general scholarship about media convergence and new media in China, there has been very little detailed study of the innovative uses of new media in China that have accompanied media convergence. Part of the purpose of this research was to build scholarship in this nascent field. Chapter IV works to build knowledge about these practices by studying the gold farming case in particular. The chapter closely examines the practice of gold farming and its embedded relationship with the technology, business, and politics of media convergence in China. This case study provides detailed descriptions of how gold farming interacts with the technology of online games, the international corporate structures and supply chains that operate in China's new media sector, and the regulators that interact with the industry on the ground level. The chapter works to build knowledge not only about an emerging practice that is under-researched, but to provide case-informed insight on the new regulatory challenges that are raised by emerging uses of highly converged media and the new opportunities for economic activity that they offer.

Some of the more general literature on media convergence and new media in China has been reviewed in the section on Chinese media above. Additional academic literature that has been consulted for the case study primarily falls into two categories: scholarship about games, and scholarship about Real-Money Trade, virtual economies, and gold farming in particular. The next section reviews this literature in detail, beginning with work about the history of video games. This scholarship provides background information about the evolution of video game and online games technology that builds understanding of the technological context that has given rise to the gold farming practice and other forms of user innovation.

History of Video Games

The historical overview in Chapter IV outlines the history of the development of online games based on information from a variety of sources. These include: written accounts and timelines published by laboratories and individuals involved in the early development of online games (eg, Bartle 2010; Brookhaven National Laboratory) secondary overviews of video game history, such as Wolf (2012), and specialized accounts of specific aspects of video game history. *The Internet Society* features an independent overview of the early history of the internet and a useful timeline written by Bruce Sterling; Sam Shahrani's 2006 investigation of PLATO games provides key information about some of the first multi-user games; thegameconsole.com offers specialized expertise on console history. The history of modern online games draws on early ethnographic research by Castronova (2003), and legal research by Lastowka (2). It also draws on the experience of the researcher as a participant observer.

Emerging Uses of Converged Media: Gold Farming and Real-Money Trade

Academic research on the subject of RMT and gold farming is still at a nascent stage; detailed descriptions are scarce, there is a lack of consensus on essential definitions and terminology[22], and very little primary field research has been done. Until recently, existing primary research on gold farming has consisted of: a very few preliminary real-world interviews, such as those Ge Jin posted on *Youtube* in 2006 and 2010, anecdotal reports of participant observation in the virtual world, such as those recorded and published by Dibbell and Steinkuehler, and a limited number of survey results or forum content analysis related to the gold farming, as in Nick Yee's early work on his now-archived *Daedalus Project* blog. In 2010, a Games Developer Conference interview with Jared Psigoda, a gold farm supplier, made an additional contribution to primary data on the gold farming industry (*Professional Chinese Gold Farmer Tells All*). Secondary sources of information about gold farming are far easier to come by. This information spans a variety of media, levels of formality, and levels of academic rigour. It includes: widespread media coverage, as in Dibbell 2007, Barboza, and Vincent; forums and blogs that feature academic discussion, such as the *Terra Nova* blogs (see Castronova 2006), and the *Virtual Economics Research Network*; academic working papers and portions of academic articles, as in Castronova 2001, Galarneau, Nakamura, and Steinkuehler 2006; and more recently, systematic research summaries on the topic, as in Nardi (2010), Heeks and in Lehdonvirta & Ernkvist.

Information on the gold farming case in this research draws from a combination of first-hand author knowledge, as well as reports and informative articles written by both individuals and organizations that have interests in this area. A full review of non-academic data sources can be found in the Methodology section of this chapter. Academic scholarship that contributes to the gold farming case study in this research is reviewed below.

In recent years, scholars with an interest in gold farming and Real-Money Trade have increasingly moved from informal discussion of gold farming on academic blogs to formal engagement in and publication of systematic research. Some of this research has examined the cultural aspects of the gold farming industry: Nakamura explores the subject of in-game racism against Chinese gold farmers, while Nardi & Kow use the case of gold farming to examine how discursive knowledge is constructed in digital media and to question its role in informing academic knowledge. These last authors highlight the lack of actual data about the gold farming industry and practice, in comparison to what is thought to be known.

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[22] Lehdonvirta and Ernkvist have worked with World Bank advisors to establish some appropriate terminology, however consensus has yet to be established (2).

Other authors have worked to compile data and current estimates about the gold farming practice in an effort to highlight important directions for future research in this area. In 2008, Richard Heeks published a comprehensive analysis of existing gold farming research. This summarized known facts and best estimates about the industry and compiled the results of dispersed and informal academic discussions on blogs with information from existing primary sources. It also highlighted a glaring lack of reliable primary data about the industry. Lehdonvirta and Ernkvist took the next step in research in this area in 2011, with a publication for the World Bank on Real-Money Trade and virtual economies.

The *Knowledge Map of the Virtual Economy* presents a detailed analysis of the global virtual economy that seeks to segment and define its key components. One of these segments is that of third-party gaming services, or gold farming. Lehdonvirta & Ernkvist introduce new primary data on the gold farming industry and engage in systematic secondary analysis, which provides previously unreported details about the mechanics of the industry. They use value chain analysis to identify important actors, highlight differences in bargaining powers, and signal development opportunities (2). The authors also inform their analysis with expert interviews; they consult with 'corporate managers involved with various areas of the virtual economy as well as scholars and journalists who have investigated virtual economic phenomena first-hand.' to provide first-hand knowledge of the research (2). The authors note that these informants consist largely of experts from developed countries 'with first-hand knowledge of activities in the developing world' (2) citing difficulties in obtaining interviews with informants from developing countries. In particular, they indicate difficulty receiving commentary on virtual goods trade from regulators and policymakers involved (2). The final methodological approach taken by Lehdonvirta and Ernkvist is an assessment of market size based on a combination of: critical analysis of estimates from secondary literature and informants, and consumer-side assessment using figures from the China Internet Network Information Center (CNNIC), the Korea Creative Content Agency, and the International Data Corporation, among others. The reported data and new analysis generally corroborates the previously held consensus about the industry and its function, including details about the location of the most ‘typical’ retailer for virtual currency (China) and the significant size of the industry. Lehdonvirta & Ernkvist's *Knowledge Map* represents the most recent, rigorous, and comprehensive research that has been conducted on the gold farming industry to date. This research relies heavily on the information compiled in the *Knowledge Map* report to inform the analysis.

This study also draws heavily on one study in particular, conducted by the current author. In Arnason (2008), the author of this research conducted a study on the cultural perceptions of the gold farming practice among elite-level game players of *World of Warcraft*. The author engaged in this research after spending two years as a complete participant in the

game. In the following year, the author became a participant-observer. As an existing member of the community of elite level players, the author gained access to a number of elite-level players of World of Warcraft and conducted key informant interviews with prominent members of the community about their first-hand experiences with gold farmers and the gold farming practice. The interview data from the 2008 research is the only academic literature that has recorded the first-hand experiences with and perceptions of gold farming, from the perspective of game players themselves. The interviews record the experiences and observations of these players just after Blizzard released *The Burning Crusade*, the first expansion pack for *World of Warcraft*. The author uses data from this earlier research to inform the gold farming case study in Chapter IV.

Information about the gold farming industry from Lehdonvirta and Ernkvist is supplemented in the current research by the author's own fieldwork in three ways. One resource drawn on for this chapter is described above: a set of interviews about the gold farming practice conducted by the researcher in 2007 and 2008 with elite-level players in *World of Warcraft*. These key informant interviews provide basic information from expert players about the mechanics of gold farming. They also shed light on the relationships between gold farmers, developers, and the wider gaming community. The interview data informs the categorization and analysis of key stakeholders and interests involved in the gold farming industry. A second contribution or primary research to the current analysis is the author's extensive experience as a participant observer in *World of Warcraft*. Seven years of continuous play, including two years played at an elite level, allowed the researcher to observe gold farming in *World of Warcraft* as it has evolved since the game's release in 2004, and to interact directly as part of the gold farming value chain. This experience as a complete observer and a participant-observer has helped to guide the identification of key actors in the gold farming industry and to provide a detailed description of gold farming from a first-hand consumer perspective. Key informant interviews with regulators, industry members and scholars provide a third source of supplemental information about the gold farming industry that helps to fill the knowledge gap identified by Lehdonvirta and Ernkvist[23].

Summary

The literature review highlights the need for Chinese media research that works toward building ecological understanding of China's media landscape through empirical investigation and contextual understanding. This research takes a first step toward addressing this knowledge gap, combining microanalysis with macro level perspective on the actors,

[23] See the Methodology section for further information on the author's use of participant observation, autoethnography, and key informant interviews.

interrelationships and power hierarchies that shape policy and practice in this space. By shedding light on the broader ecology of regulatory practice for China's online games, this research contributes case-specific knowledge about wider forces that are affecting China's media sector more generally: increasing internationalization, privatization, and convergence of media in China. These intersect in China's online games industry, and are further concentrated in the gold farming practice. This research sheds light on how these forces are impacting China's dynamic of media regulation, and identifies critical policy issues that are raised by these changes.

Each chapter draws on literature relevant to a variety of disciplines and include both English-language and Chinese-language literature. Chapter II explores the historical and current policy context of the gold farming industry, and draws on an expansive set of literature from: politics, law, media and communications, economics, development, and sociology, among others. Chapter III draws on ideas and research from the fields of business and management in addition to the economics and economic development. Chapter IV draws primarily on this latter economic scholarship, as well as scholarship from law, education, and sociology, in order to investigate and describe the industrial practice of Real-Money Trade and gold farming.

In his 2006 study of *Internet Politics*, Andrew Chadwick declares: 'It is impossible and unwise to approach this subject wearing disciplinary blinders. Debates about the political properties of technology are inherently cross-disciplinary' (36). This research found that the investigation of policy and practice surrounding online games in China also required a cross-disciplinary approach. This is reflected in the expansive set of literature that informs the research, as well as the variety of methodological approaches and analytical tools employed in the investigation.

Methodology

The author did not strictly adhere to a single methodological framework for this research, and instead drew on a variety of established methodological approaches according to their suitability for each type of enquiry. Overall, the project took a case study approach to research, and used this approach with a variety of investigative tools often used in qualitative research. Primarily, the tools in this investigation consisted of participant observation, autoethnography, and key informant interviews. The contextual narratives and exploratory analysis in Chapters II and III drew on this fieldwork, as well as the analysis of a wide range of documentary and archival sources. This section explains the key methodological approaches used in this research, reviews their advantages and limitations, and explains how the author worked to mitigate the limitations of each tool or approach. Academic and non-

academic data sources used for the analysis are also reviewed in this section, and additional analytical approaches used in the research are described.

Case Study

While the entire project did not adhere to a strict methodological framework, overall, the research can be considered a case study of the gold farming practice. In their 2008 *Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers*, Baxter and Jack define the qualitative case study as:

> An approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources. This ensures that the issue is not explored through one lens, but rather a variety of lenses which allows for multiple facets of the phenomenon to be revealed and understood (544).

This research conforms to the case study approach as it is defined by Baxter and Jack. The research explores the case from a variety of perspectives, engaging in deep investigation of the gold farming practice and its related technical, economic, legal, and political contexts. Generally, the contexts examined focus on contemporary conditions, however some historical conditions are also considered.

While this research aligns with the general case study definition described above, it does not adhere strictly to a single methodological approach. The approach shares a number of characteristics with some of the primary case study methodologies, such as those outlined by Yin (1994; 2014), and Stake (1995). Like Yin's "exploratory" case study, this investigation explores a subject about which little is known (21-2, 1994; Baxter & Jack, 548). In contrast to Yin's methodology, however, the exploration does not outline specific criteria by which it will be judged successful. This research also shares some characteristics with Stake's "instrumental" case study design, in that the case 'plays a supportive role, facilitating our understanding of something else' (Baxter & Jack, 549); one of the motivations for the research is based on the hope that examining the gold farming case and its surrounding policy dynamic in China may facilitate more general understanding of the regulatory issues raised by similar innovative uses of converged technologies.

The current research instead takes a more flexible approach to case study methodology. The author did not begin, as stipulated in the methodologies outlined by Yin and Stake, with a conceptual framework and 'prior development of theoretical propositions' to guide the research (2014, 17). This exploration was instead approached with significant prior background knowledge on many of the issues involved, but with minimal hypotheses and a need to refine the narrative focus as the author's knowledge of the subject grew.

This lack of initial framework allowed the author to conduct the exploration according to the emerging demands of the evolving events. Donatella della Porta describes this flexibility as "interpretivist". Della Porta states that 'interpretivists...build up the research question in the course of the research and are prepared to modify the design while the research is in progress. There is thus no clear time distinction between the research design and its implementation, as they are interlinked with continuous feedbacks' (29). She goes on to describe how interpretive approaches apply to case studies specifically: 'Interpretive analyses keep a holistic focus, emphasizing cases...as complex entities and stressing the importance of context. Concepts are orientative and can be improved during the research' (30). Chapters II and III employ this more flexible approach to analysis of micro-level data, as the iterative process makes it suitably flexible for exploratory research.

In order to shed light on the regulatory dynamic that surrounds online games in China, and to illuminate some of the ways that this dynamic is changing, the case study engages deeply with the technical, economic, legal, and political contexts of the gold farming practice. The gold farming practice is deeply embedded in these contexts, and it is therefore important to understand these contexts in order to understand how gold farming and other innovative uses of converged media can raise regulatory challenges for China and the international community. This research also works to enhance understanding about the regulatory dynamic in China that surrounds online games and its new uses. The investigation therefore also examines the gold farming case in order to identify and understand the relationships between the institutional structures and stakeholder interests, and how they interact to shape policy development and regulatory practice.

This project therefore begins with a broad contextual narrative about China's online games policy and an exploratory analysis of the practical implementation of China's online games regulation. Chapter II focuses on the policy environment, compiling and analysing information from a variety of sources to construct a detailed description of and historical background for the policy environment for online games in China. Chapter III is an exploratory analysis of the regulatory dynamic for online games in China. It draws from micro-level data collected from documentary and archival sources, as well as key informant interviews from experts and practitioners. The final chapter is a focused case study on the gold farming practice that highlights some of the major ways that new media technologies and their emerging uses are changing the existing regulatory dynamic.

This case study is an exploration that describes and investigates a new phenomenon and its contexts. It seeks to shed light on the regulatory implications of gold farming and other innovative uses of highly converged technology, and to inform understanding of the ecology of regulation, production, and consumption of highly converged media in China. While this

investigation does work to uncover information that may be generalizable, this research takes a case-oriented approach to interpreting the case study results. Della Porta's description of this approach reflects the interpretive approach taken in this case: 'In a case-oriented approach...an in-depth knowledge of a small number of cases provides the basis for generalizations that are temporarily limited to the cases studied and whose wider relevance should be controlled through further research' (206).

The case study provides an effective way to combine empirical investigation with a wider understanding of a complex whole. It also allows for data collection from a variety of sources and the use of a variety analytical tools, adjustable according to the needs of the case. The case-oriented approach was particularly well-suited to this research, because a case study engages in empirical investigation that draws on multiple types of data. The phenomenon generates a variety of data sets among the various stakeholders, and by using a case study approach, all of the data sets can be interpreted as part of a larger whole.

Case Selection

The gold farming case is useful because it highlights the complexity of converged media use in China. It also concentrates some of the major policy concerns that have been discussed in the existing literature, and that are currently being discussed by national governments and international regulatory bodies. The concerns expressed to date focus on taxation of virtual property sales (Castronova 2003, 12) and international money laundering through virtual currency. However, while these are important issues that will likely require policy responses in the coming years, the gold farming practice raises other issues that must be discussed and addressed before policy development can take place. In part, this research seeks to identify what these are by exploring this case. However, the choice of this case was also based on the author's preliminary awareness of policy concerns raised by the practice. This awareness is rooted in observations made by the author during participant observation as a player in World of Warcraft, as well as the results of research conducted in 2008.

In 2003, Castronova pointed out some of the potential legal issues surrounding virtual economies. He noted that 'virtual worlds seem to exist as separate political entities...and this raises new constitutional issues...to what Earth nation do assets in virtual worlds belong? The answer is none, at the moment' (11-12). He observed that in the absence of legal intervention and policies developed by national governments, game companies were able to act as de facto financial regulators. Referring specifically to the legal context of the United States, Castronova noted that every game company reserves the right to change anything in the game at any time without consulting the game players, and noted the potential for negative economic impact in the real world: 'avatars can have their real market value destroyed overnight, without warning' (13). This has been reiterated as a key issue by Pollitzer in 2007, and by Humphreys

in 2008. The results of the author's 2008 research pointed to a specific case where these issues were observable.

In a 2008 research project, the author investigated player perceptions about critical issues related to gold farming and player perceptions of the practice. The respondents, elite level MMO players in *World of Warcraft*, described how Blizzard, an American game company, had made changes to the game conditions that sought to deliberately reduce the profitability of gold farming activity when the company released an expansion to the game that flooded its virtual economy with currency. The sudden influx of game currency negatively affected its value in the real world, because the play time required to accumulate large amounts of currency had been reduced. The gold farming industry was widely understood to be primarily based in China[24], where, according to Ung-gi Yoon, the legality of Real-Money Trade (RMT) was unclear (50). The company controlling the value of game currency was based in the United States, where RMT consisted of contract violation according to US law. The location of the hardware where gold farming took place was unclear but had the potential to be in any of the countries where Blizzard offered services[25]. This activity raised a number of questions in the author's mind about the gold farming practice and its national and international legal context.

What are the regulatory implications of this case, both for the international community and in particular for China? What can this case tell us about China's policy priorities for online games regulation in general and for the new ways it is being used? What do we know already about China's policy priorities for new media and how might this help to understand this case? What other innovative practices are taking place in online games that might be relevant to policy development in this area? What is the policy development approach that China's regulators are taking with regards to the gold farming industry? Who are the primary Chinese regulators relevant to this industry and what are their primary interests with regards to policy development? What other stakeholders might be involved and how might they affect policy development in this area? What kind of interrelationships between stakeholders shape the current policy environment, and how are they defined by institutional structures? What are the critical issues for policy development in this area for China, and the international community? These issues centred around questions of private versus government regulatory power, determination of regulatory jurisdictions, gaps in existing regulatory infrastructure, and the potential need for international cooperation to accommodate new technologies and their

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[24] See Arnason 2008; Heeks 2008

[25] Players could log onto game platforms with hardware that was situated in a variety of world locations. These were divided roughly according to the area of the world they were placed, and included: the European Union, Oceania, and North America.

evolving uses. The gold farming practice seemed to focus, in a single industry, an emerging set of policy issues raised by the innovative activity on converged media platforms in general. It was therefore selected as a useful case to focus the exploration in this research.

Data Sources

The case study uses a number of data types as sources of information and employs a variety of analytical tools. Chapters II and III integrate information from many types of data sources into narratives of contextual exploration. These include: the author's personal experience as a complete participant in the *World of Warcraft* gaming community, participant observation, documentation, and archival records.

Documentation, as described by Yin, in *Case Study Research: Design and Methods*, can include a variety of documentary sources related to the case. Yin describes several types of documentary data that are used in this research: "'Formal studies or evaluations of the same "site" under study' , 'Agendas, announcements and minutes of meetings, and other written reports of events', 'Letters, memoranda, and other communiqués' and 'Articles appearing in the mass media' (81). This case study draws on a large body of existing scholarship that focuses both specifically on the practice of gold farming and on numerous related subjects that are explored as part of the relevant context to the case. Some of these are published in journals, but many expert investigations consulted during the research have been published in the context of government and non-governmental organizations, as well as commercial settings. Government-issued documents analysed in this research primarily consist of a variety of regulations that are relevant to the case and are issued by a wide variety of government agencies [26] . Relevant documents issued by non-governmental organizations that were consulted for this research include studies conducted by independent research groups like the Open Net Initiative and Human Rights in China.

The newness of the gold farming practice and of China's online games policy as subjects of scholarship means that much of the available scholarly writing has not yet found its way into formal academic settings. As a result, the existing scholarship referred to throughout the project was found in a variety of formats and contexts. The following section outlines the specific sources used, and explains how they contribute to the research. The academic research that is treated as scholarship for this project includes research from some informal academic settings, such as: working papers, articles and discussions from academic

[26] The policy texts consulted in this research can typically be found on the website of their issuing ministries or government-associated organizations. A detailed list of the policies consulted in the research, along with their issuing organizations, can be found in Appendix I.

blogs. At times, academic research overlapped with research conducted in a commercial setting. For example, many legal experts that write about online games policy in China provide expert perspective and detailed descriptions of the legal environment in memos published on the websites of legal firms. Corporate research conducted by professional market research firms represents another area of overlap between academic research and the documentation of relevant companies. This research was extremely useful for data about China's online games industry, and generally contained data unavailable from strictly academic literature.

Non-Academic Data Sources

Blogs & Online Magazines: Individual, Academic, Corporate

Outside of the scholarship described in the literature review, many of the most relevant texts are non-academic in nature or exist on the borders of academia. The most current and in-depth information about online games policy in China, for example, can be found on expert blogs or is announced in China's official news media. Expert blogs offer a combination of both primary and secondary resources. Some offer first-hand commentary and reporting on court rulings and major policy changes as they happen. *Bridge IP Law Commentary* and the personal blog of Shanghai economist Ruan Yifeng exemplify this type of contribution; PRC lawyer You (2012;2013) has published commentary on the potential impact of certain regulatory changes, while Ruan (2012) has compiled a wealth of relevant Chinese-language resources and provided commentary on a significant court ruling involving gold farming. Other individual expert blogs consulted for this research include *Digicha* as well as the newsletter *Sinocism* by Beijing-based internet entrepreneur Bill Bishop. Bishop's publications are popular among the international community for their thorough take on emerging issues in China (Harris; Mckenzie; Schwankert) and contain a wealth of observation and commentary about online games regulation. Information consulted for this research also references technical blogs, such as that run by William Long (龙威廉), which relates to internet access in China.

Public memos and informal blog publications from legal experts have also made important contributions to the research in Chapter II. These generally consist of English-language memos and blog articles released by law firms connected to China's online games industry designed to showcase firm expertise in a given area to current and prospective clientele. These documents contribute significantly to the research by providing valuable summaries that describe complex parts of the online games policy landscape, and that highlight important current issues that characterize the online games policy environment. Examples include those provided by *King & Wood Mallesons* (Wang, Hwang, & Qiu, 2010), *The Law Offices of Greg Pilarowski* (2010) and *O'Melveny and Myers* (Roberts, 2011). In addition to the professionally-targeted memos, the commentary, observations and predictions found in blog articles published by law firms active in this space have also served as rich resources of information about online games policy. This includes information in the form of

original commentary and expert translation, such as that in Morrison and Foerster's China Update (2009).

Industry Magazines and News Outlets

Online newspapers and magazines represent another valuable resource for information regarding China's online games industry and policy. While some of these, such as the *China Media Project,* are associated with a specific academic institution, most lie either outside or on the borders of academia. Industry magazines that span a variety of topics are consulted for this research. These publications contribute valuable data from corporate research reports[27], as well as perspectives on various aspects of China's online games industry that highlight key points of tension between international industry and policymakers. Publications that cater to the online games player community, such as *Mmosite* and *Kotaku* contain valuable primary descriptions of player activity (*Mmosite*) and major industry developments (Alexander). Technical and business-oriented magazine publications contribute first-hand reports and analyses of industry developments, market information, legal developments, emerging practices, and important tensions that have emerged in the international community in relation to China's online games policy. Technical magazines consulted include: *Games Industry International* (Handrahan), *TechNewsWorld*, *Techcruch*, *Techradar*, *Gamasutra,* and *Wired*. Business magazines consulted include: *California CPA Magazine* (Dauberman 2008), *DataMonitor*, *Forbes.com* (Flannery 2012), *SeekingAlpha.com* (Su 2012), and *The Wall Street Journal*. Commentary and reports on China's online game policy and the issues that surround it also occur in area-focused media, such as *ChinaTechNews* and *Tea Leaf Nation*. While *ChinaTechNews* is written by and for business professionals, *Tea Leaf Nation* lies on the borders of academia along with Legal and expert blogs; the latter magazine is a corporate publication founded and staffed by academics. Each of the above-mentioned publications report and offer different perspectives on emerging issues in China's online games policy landscape. They contribute primary source information on the tensions, impacts, and developments that occur in this field.

Mainstream media publications both inside and outside China also contribute both primary and secondary information to this research. Media institutions outside China at times gain privileged access to individual stakeholders that allows them to exclusively report important primary information. Large publications also often consult professional political analysts or secure interviews with key informants, offering primary analysis of key events and emerging issues. This means that for an investigation of the policy field in China, articles from

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[27] Corporate research relevant to this project is prohibitively expensive for direct consultation. It is therefore indirectly cited through media reports.

news media can both contain valuable exclusive and new information, and convey external perceptions of China's online games policy landscape. *The Guardian* and *The New York Times* exemplify useful resources under this category that have been consulted for this project. Articles related to gold farming and its practice in China (Davis 2009; Halliday 2011), stories that highlight major issues surrounding online games policy in China (Vincent 2011), and reports on relevant political and legal developments (Barboza 2009; 2012; Wong 2012) have been particularly useful.

While mainstream media outside China informs the investigation of this field with external reports and analyses, the news media in China (both English-language and Chinese-language) serves as a vital source of internal information regarding China's online games policy. China's national media outlets are often used by stakeholders in government to convey information to the public; announcements regarding major institutional or policy changes, policy goals, and important government decisions are often transmitted through these official media channels[28]. Given that China's government operation and policy development process is largely opaque, these announcements are often the only publicly available sources of this information and as such constitute valuable primary sources. Online games policy in China is at an early stage of development, and is therefore constantly evolving. As such, news media announcements regarding institutional, staffing, and policy changes, as well as policy goals and decisions made at all levels of government are frequent. This research makes use of a large number of official news media articles in order to assemble information regarding the current state of policy development for online games and emerging practice in China. National news outlets, such as *Xinhua* and *Xinhuanet*, are consulted extensively to determine the most recent state of institutional development. It is also consulted in order to identify key individuals and policy-issuing institutions involved in this field. As the primary means of communication between the central government and the public, *Xinhuanet* is additionally used as a source of information regarding the interests of central government stakeholders surrounding online games[29]. *China Daily* and *People's Daily* are also used as trusted sources of publicly-issued government information.

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[28] Xinhuanet, for example, describes itself as an authoritative source for precisely this type of information: 'Xinhuanet is... an important information organ of the central government...the first to report China's major breaking news events, laws and regulations, appointments and removals of high-ranking officials' (Xinhuanet).

[29] This is conveyed implicitly through elaborations and explanations conveyed together with official announcements.

Media outlets less directly controlled by the state are also consulted for this research. Magazines such as *Caijing* 财经 *(Finance and Economics)* and *Caixin Online* 财新网 (New Finance) and industry-oriented websites such as *Techweb* contribute news and commentary on economic and social dynamics of China's online games industry. Video-sharing and other interactive platform websites, such as *Tudou.com*, *Youku.com*, and *YY.com* are used to access primary sources such as the "War on internet addiction" and to observe other evidence of innovative practice in China's online games.

Government Statistics

One of the most important non-academic data sources used in this research is the annual statistical reports on China's internet industries and related user engagement. These are issued by the China Internet Network Information Centre 中国互联网络信息中心 [zhongguo hulian wangluo xinxi zhongxin] (CNNIC). The CNNIC is China's Domain Name System registrar. It is a center for internet-related policy research that is closely associated with the China Academy of Sciences as well as the primary government agencies and State-Owned Enterprises responsible for China's internet infrastructure. The CNNIC releases an annual Statistical Report on Internet Development that provides information about the internet and the online games market in China. Data from this report is commonly referenced by secondary sources and news media in discussion about China's online games market and functionality, and is used by Lehdonvirta and Ernkvist in the assessment of the market size for third-party gaming services.

The above outline of consulted sources reflects an investigation that pieces together information from a number of tangential academic fields and a wide variety of non-academic sources. In part, this reflects the nascent state of secondary literature about online games and their policy in China: the technology is still recent, its use is still evolving, and academics are just beginning to awaken to the research potential of the new medium. It also, however, reflects the opacity of China's legal landscape.

Policy Texts

In recent years, there has been a proliferation of online games policy texts that have emerged from regulatory bodies of varied rank and power in China's bureaucratic structure. Each of these texts conveys its own, sometimes conflicting, set of guidelines for regulatory practice. However, the extent to which any individual policy text will define actual practice is extremely uncertain. This is because, in China, rather than representing a final policy consensus among regulators, the texts themselves serve as a vehicle for policy negotiation. They reflect a balancing of multiple political, institutional, and economic interests. As Lieberthal and Oksenberg observe in their seminal *Policy Making in China*, policies 'are not necessarily either coherent and integrated responses to perceived problems or part of a logical strategy

of a leader or faction to advance power and principle' (4). They observe instead that policy outcomes tend to reflect bargains struck between governing agencies at a variety of hierarchical levels; these outcomes represent, the authors assert, an attempt to reconcile the conflicting 'organizational missions, ethos, structure, and resource allocations of the ministries involved' (4). There have been efforts to increase the transparency of policy development in recent years (Zhao), and as a result, it is possible to find the full text of many important policy documents on the websites of their issuing departments. However, there is no publicly available central database of legal documents, and relevant and potentially relevant documentation must be gathered from disparate sources.

An overall picture of policy and policy development processes is difficult to construct, given the lack of transparency in official information about China's policy landscape. What is known about policy and policy development in a given area must therefore be constructed from one or some combination of the following range of sources: publicly issued policy texts published by government agencies; reports or interviews with politicians in official news media; documents publicly issued by private companies; information available on official government websites; direct interviews with politicians; secondary reports by academics with access to privileged information; and secondary analysis based on what is known about the structures, policies, and processes of China's government structure. This research has reviewed major policy texts relevant to online games policy and its emerging practice, in order to identify and understand the primary (and sometimes conflicting) missions and ethos that shape policy negotiation in this space. The policy texts examined are either sourced from the websites of their issuing government agencies, or, where necessary, official news media websites where they are sometimes published in full.

Publicly available documents published by private companies also contribute considerable inside information to this research. Many of China's online games companies are publicly listed on foreign stock exchanges, and are required by law to document shareholder risks. For publicly listed Chinese companies, potential changes in the domestic legal landscape poses significant risk to foreign shareholders. As a result, the documentation that details this risk[30] provides clear lists of relevant Chinese regulation. These have been consulted for this research.

Other examples of non-academic research that forms part of existing scholarship include: recent work on China's bureaucratic structures, published by the United States

[30] The documentation referred to here is the 20-F form that is submitted annually by companies listed on the New York Stock Exchange.

Congressional Research service; analyses of internet filtering in China conducted by the *Open Net Initiative*; and memos published on the websites of specialized law firms that summarize certain aspects of the legal environment that surrounds China's online games policy. Some documents published by professional market research firms are also included in this category; statistics about the global gaming market in the introduction, for example, were provided by German market research firm *Ystats*.

Documents whose information is synthesized in the chapter investigations also include: official announcements and news articles from both English-language and Chinese-language media outlets, official communiqués, and written reports of events. Events reported often consisted of new policy announcements or staff appointment changes, relevant court decisions, and the innovative behaviour of users. News articles and descriptions of events drew from a number of sources, but generally were identified to be discursive texts around an original event. For example, news releases by media outlets closely controlled by the Chinese government, such as *Xinhua News* and the *People's Daily*, report key facts about structural changes in government institutions and include relevant commentary about the meaning of these changes by key government spokespeople. This event would also have other documents written from different perspectives, and these were also often consulted. For example, a variety of perspectives on China's online games policy landscape were often published in response to new developments that occurred over the course of this research. New policies or structural changes garnered responses from many stakeholders: law firms, international media outlets, blogs by experts or individuals with particular interest in this area, game-specialized news websites or discussion forums, and online games users both inside and outside China, using game-based media and discussion forums to report or express opinions on certain events.

Other Methodological Tools

The author drew on a variety of established methodological approaches in the course of this research. The research began with an examination of key issues and questions that arose during the author’s participation in online game play. As a participating member of an elite-level gaming community from the 2004 release of *World of Warcraft* to the release of the game’s first expansion pack in 2007, the author noticed key events that raised research interest and set out to study the cultural perceptions of gold farming among elite-level game players of *World of Warcraft*. This resulted in a year of participant observation including interviews with elite-level game players about their first-hand experiences with the gold farming industry and their knowledge about how the practice works in the game setting. Data from this year of participant observation raised a new set of questions that formed the basis for this

project[31]. This new set of questions led the researcher to identify key cases for closer study that seemed to focus some of the major issues being examined. Gold farming practice functioned as a key event for initial research. As the author's continued participant observation helped to refine and focus nature of the issues, gold farming became the primary case study for this project.

To study this case, the author worked to establish what is known about the industry and the way it is practiced from the existing academic literature, and to synthesize further information from relevant resources and primary investigation. The primary investigative methods used for this were participant observation and autoethnography.

Participant Observation

Participant observation is a commonly used methodology in case studies and is a core methodological approach to ethnographic fieldwork. Scholars of ethnographic methods have described the participant observation as 'establishing a place in some natural setting on a relatively long-term basis in order to investigate, experience, and represent the social life and social processes that occur in that setting' (Emerson et al., 352). One of the method's key features, as described by sociologist Danny L. Jorgensen, is 'a logic and process of inquiry that is open-ended, flexible, opportunistic, and requires constant redefinition of what is problematic, based on facts gathered in concrete settings of human existence' (Jorgensen 15). As a participant-observer, a researcher participates in a specific community in order to 'gain access to otherwise inaccessible dimensions of human life and experience' (Jorgensen 15). Through direct observation and experience, which is sometimes complemented by other forms of enquiry, for example interviews and document review, the researcher collects and interprets data. This data is recognized to be especially useful for exploration and description of new phenomena (Jorgensen 16), making it a particularly useful methodological tool for exploring the nascent field of China's online games regulation and the emerging uses of new media technology.

Most researchers of online games cite participant observation as a necessary step for any academic endeavouring to conduct research on this platform. This type of immersion has become a common approach to virtual worlds research (see Heeks 2010; Nardi 2008; Steinkuehler 2006). The primary reason for this is the steep learning curve for new players that must be overcome before they are able to use the technology and navigate the culture of a game with ease. Castronova has described this experience: 'I suddenly feel like a stranger in a very foreign culture. I become afraid of breaking some taboo, of making a fool of myself'

[31] This set of issues is elaborated in the Case Selection section above.

(2001, 2). Participant observation offers a way around this barrier that provides the researcher with access to communities of online game players that can be difficult to obtain as an outsider. Williams describes the reasoning behind this: 'scholars skipping this crucial participant observation step will ask the wrong questions in surveys, miss obvious explanations, and make incorrect assumptions about outcomes' (2010, 3).

To date, no one has set a standard for the amount of participant-observation required to avoid these limitations. The time typically afforded this step of research is often insufficient to fully experience and understand the more advanced social and technical nuances of a Massively Multiplayer Online Game (see, for example, Humphreys 168). Steinkuehler describes the importance of such an understanding to producing effective research:

> Games are designed experiences and, as such, their study requires understanding not just the formal rule systems designed into them but also the full range of human practices through which players actively inhabit their worlds and render them meaningful (2006 199).

This level of understanding takes more time and social investment in the virtual world to achieve than many researchers can devote. Even after months of participation, certain types of game play and player communities may remain inaccessible to researchers, who are often unable to commit many hours per day to this type of fieldwork. This represents an entry barrier for academics interested in researching communities and practices that operate in online games: in order to begin basic research in this medium, the researcher requires a high level of initial familiarity with the technology and the culture of online games.

The author of this research was able to gain insider knowledge about the gold farming practice through direct observation in virtual worlds as a game player participant, and through key informant interviews with elite-level players of online games. Access to these players as a researcher was only possible through the trust and social capital gained through full participation in the community. This is because the communities of experienced players in *World of Warcraft* at the time typically had no respect for casual players and often held particular contempt for the academic establishment. This was likely related to the early trends in games research that focused on the antisocial impact of game play: this was seen by some players as part of a negative social stigma associated with being a gamer (Williams, 2010, 4). Approaching these networks as an outside researcher was therefore not a viable option: there would be a significant element of what Shah calls 'social intrusion' (2004 565) that could negatively affect research outcomes. The participant observation conducted in 2007 was conducted on game servers in the United States, where the researcher was able to capitalize on the social capital and familiarity gained as a complete participant. Future research on gold farming would benefit from the perspectives of Chinese users.

In his discussion of participant observation in *The Handbook of Ethnography*, H. Russell Bernard remarks on the importance of insider status. He states: 'unless you are a full participant in the culture you're studying, being a participant observer makes you a freak' (270). For this research, the author's two years of experience as a complete participant offered distinct advantages when switching to the role of participant observer. First, as an existing member of a community of high-level players of the game, the researcher was able to successfully navigate the language and culture of the target community. This secured the researcher's reputation as an insider and was instrumental in gaining the trust of respondents when conducting the key informant interviews.

In this research, the author's time spent as a participant observer provided access to an in-game community with substantial first-hand experience with gold farmers and the ways the practice worked in the game. The period of participant observation began with an intense year-long time commitment in 2007 and 2008, and consisted of active game play as well as key informant interviews. As the research progressed, the participant observation consisted of maintaining an active presence in the field. This was done through periodic game play and ongoing communication with members of the community. The time commitment required for these later stages of participant observation was considerably less than it was in the first year: after establishing a reputation as an insider and a researcher, members of the community were available for periodic consultation.

There are several important advantages to using participant observation as a methodological approach that made it particularly suitable for this research. It is useful to explore new phenomena and contexts about which little is known (Jorgensen 3). It also provides a rigorous methodology for the collection and interpretation of micro-level data that tends to result in high validity. Bernard describes this advantage in the *Handbook of Ethnography*:

> Participant observation gives you an intuitive understanding of what's going on in a culture and allows you to speak with confidence about the meaning of data. Participant observation lets you make strong statements about cultural facts you've collected. It extends both the internal and the external validity of what you learn from interviewing and watching people. In short, participant observation helps you understand the meaning of your observations (266).

For this project, the method of participant observation allowed the author to draw on first-hand experience to guide the process of analysis. Having cultivated a familiarity with and understanding of online games and the gold farming practice through this method allowed the author to interpret and analyse data with confidence supported by intuitive guidelines informed by the first-hand experience and expertise of participants.

Another advantage of participant observation is its usefulness for investigating phenomena under two conditions that are identified by Jorgensen: first, when a phenomenon is 'somehow obscured from the view of outsiders'; secondly, when 'there are important differences between the views of insiders as opposed to outsiders' (Jorgensen, 4). As a "grey-market" industry that mostly takes place outside of public view, the gold farming industry is typically obscured from the view of the general public. The only place where the workers themselves are visible to the public is in the games themselves, where workers can often be seen engaging in anomalous play styles or advertising their services. Given this in-game location of gold farming's publicly visible activity and direct access to workers in the industry, game players tend to have a lot more direct interaction and experience observing gold farming workers than those that do not play games. This experience is an important difference between insiders and outsiders of the gaming community that increases with more time spent in a given game. The author observed this disparity in knowledge and experience among game players and used this knowledge to identify respondents that could provide insider perspectives and report their experiences with this new practice. By seeking out multiple respondents and triangulating their reports with data from other scholars and direct observation, the author was able to collect multiple indicators about the mechanics of gold farming. As Jorgenson notes, the collection of multiple indicators is an essential part of the data gathering process in participant observations (20-21).

A final advantage of participant observation is noted by Jorgensen, who remarks, 'Though especially useful for exploratory and descriptive research purposes, participant observation results in generalizations useful for forming new theories as well as testing existing ones' (16). Although this research did not aim to form new theories, it does aim to build macro-level understanding based on micro-level data gathered throughout the research. Participant observation provided key micro-level data that was used in the exploratory analysis of the interrelationships between key stakeholders in China's online games sector. The method had also made the author intuitively aware of key tensions between the major stakeholder groups that she had observed in the case of gold farming. The exploratory analysis examined these tensions in detail.

There are two key risks inherent in the methodology of participant observation that are often noted by scholars. The first is the potential for reactivity, or, as Bernard describes it: 'people changing their behaviour when they know that they are being studied' (265). In order to mitigate this risk, it is important for the participant observer to fully enter the community being studied, as much as possible. Bernard describes how this works, stating 'As you become less and less of a curiosity, people take less and less interest in your comings and goings. They go about their business and let you do such bizarre things as conduct interviews' (265-6). The researcher's time as a full participant in the community being researched minimized

the risk of reactivity. The second key risk of this methodology was problematized by Denzin & Lincoln at the end of the twentieth century, as part of a wider critique of classic ethnographic research. Allen-Collinson describes this critique as follows:

> It was raised to analytic attention that the representation of [lived experiences of studied cultures and social groups] was formed to a great extent by the text crafted by the researcher. The researcher's own voice rather than those of her or his participants often came to the fore, while couched in a neutral, objective, third-person style (286-7).

In order to mitigate against this, the current research takes two approaches. First, collection of interview data used the key informant interview process, which allows the interview subjects to guide the discussion[32]. Full transcripts of the interviews were presented alongside the researcher's analysis in Arnason (2008), allowing readers to access the first-hand accounts of participants directly. Secondly, in the case study chapter, the research draws on autoethnographic research methods. This takes the form of a field note excerpt that is based on focused recollection of the researcher's lived experience as a consumer of virtual currency.

Autoethnography

Autoethnography is a method of qualitative research and a form of ethnographic research that has emerged in response to critiques about pretences of objectivity in classic ethnographic research. Denzin has described this development, noting: 'Autoethnography inserted itself in the picture when it was understood that all ethnographers reflexively (or unreflexively) write themselves into their ethnographies. The ethnographer's writing self cannot not be present, there is no objective space outside the text' (126). Autoethnography recognizes that the researcher is part of the research and embraces the ethnographer's interconnectedness with the field of study (Allen-Collinson 283). As Anderson and Glass-Coffin observe, a cornerstone to autoethnographic inquiry as it is understood today is the description outlined by Reed-Danahay in 1997: 'self-narrative that places the self within a social context. It is both a method and a text' (qtd. In Anderson & Glass-Coffin)'. The visibility of the "self" in autoethnographic writing has become a key distinguishing feature of the method (71).

Another key feature of autoethnography is that it connects the research process with the process of representing it in text. As a result, this method tends to yield thick narrative

[32] This is discussed in further detail in the section on key informant interviews below.

descriptions of social contexts or phenomena that allow the subject and object of research to interact. Ellis describes the process as follows:

> As an autoethnographer, I am both the author and focus of the story, the one who tells and the one who experiences, the observer and the observed…I am the person at the intersection of the personal and the cultural, thinking and observing as an ethnographer and writing and describing as a storyteller (Ellis, 13).

In this research, the autoethnographic method is used in a limited way. The case study in Chapter IV uses the method to produce informative data about the gold farming practice based on focused recollection of the author's lived experience in the gold farming industry. The method's use in this case consisted of the author's focused recollection of the experience, and construction of a descriptive narrative from the first-person perspective. This is presented in the form of excerpt-style field notes. The goal of this autoethnographic enquiry was to document the experience of buying virtual currency, to explore the phenomenon of gold farming from the perspective of its relationship with the user, and to convey insider information about how the process works that was not available in the existing scholarship.

The use of this method has several advantages and potential limitations. One advantage of using autoethnography to collect and present this data is that, as part of a broader participant-observation methodology, it is likely to yield high validity because it is based on first-hand experience. Another advantage is that it yields thick descriptive narratives that can offer critical perspective on research experience as a participant observer. Allen-Collinson observes that this critical perspective can help the researcher to directly link 'the micro level with the macro cultural and structural levels in exciting ways' (282). This potential to facilitate broader understanding of the interrelationships between the self and the macro-level actors and processes at work aligned with the goals of this case study. The ethnographic perspective and analysis are brought to bear on the author's personal experience offered an opportunity and a method for recording and analysing the author's participant observation experience. Criticisms of autoethnography highlight the potential for autoethnographic research to focus too much on the "self" and engage in what Allen-Collinson describes as '"navel-gazing" forms of autobiography' (282). The limited use of autoethnography in this research, and its focus on exploring the experience of a specific novel phenomenon (the case of gold farming) mitigates against this risk.

Contextual Narrative

Chapters II and III of this research consist of contextual narratives. These initial chapters establish a foundational understanding of China's online games policy, practice, and

regulatory environment. This contextual understanding provides a basis for meaningful discussion of the case study in Chapter IV. In order to construct these exploratory contextual narratives, the author drew on a variety of tools to guide data collection, interpretation, and analysis. Exploration of case examples that seemed to focus the issues being explored guided the initial investigation. The author's examination of case examples led to key documentary and archival sources and highlighted relevant areas of scholarship. Analysis of these sources used varied approaches, including historical and descriptive analysis, comparative content analysis and critical discourse analysis, among others. These are described below.

Although this research draws on the data collected during the author's initial time spent as a participant and participant observer in Blizzard's *World of Warcraft*, the current research began with data collection that centred around the examination of case examples that seemed to focus the key issues being explored. Case examples in Chapter II investigate events that represent regulatory challenges in order to shed light on how they form, and what tensions are involved. The cases examined include new phenomena such as the innovative uses of online games including protests using game media, and a high-profile jurisdictional conflict that highlights a key way that media convergence raises regulatory challenges.

The research in Chapter II contains a significant historical component. Existing literature that discusses new media policy in China since the advent of radio is consulted in order to provide a detailed description and historical perspective on the current policy dynamic that surrounds online games. This contemporary history of China's online games policy is complemented by a comparative content analysis. This forms part of this historical exploration, identifying and comparing the language and priorities of policy documents for traditional media and for online games. The case study in Chapter IV also contains a historical component. The Chapter begins by synthesizing the history of the technology where the gold farming practice takes place.

The analysis in Chapter II constructs a contextual narrative of the policy environment that surrounds China's online games regulation. The chapter consists primarily of descriptive analysis that spans a number of disciplines and draws on an expansive set of documentary and archival sources. Chapter III also engages in thorough contextual descriptions. These are focused on key aspects of the regulatory dynamic. These contextual narratives identify and describe some of the key structures, interests, and interactions that affect regulatory outcomes. The chapter uses these contextual narratives to gain a broader perspective on how policy outcomes are negotiated in this space.

The macro-level perspective that the exploratory analysis in Chapter III builds begins by exploring the key tensions between major stakeholder groups. The analysis first examines the major structures and stakeholder interests of each, and then investigates some of the

major ways that they interact to create and negotiate these tensions. The exploratory analysis examines these same elements for each major stakeholder category.

The contextual narratives in Chapter III also describe key ways that the regulatory dynamic has changed in recent years. For this, a form of time-series analysis is used that observes changes in specific data sets: the current data of specific units, such as the structural organization of government agencies and the individuals appointed to key positions within these agencies, are compared with snapshots of the same date from the recent past.

Archival sources complement the use of documentary sources in the course of this research and are primarily consulted for key statistical data and included in the contextual narratives of the first chapters. The specific archival sources used consist primarily of survey data and organizational records. The research relies on survey data about China's internet market conducted by corporate research firms, as well as by agencies in the Chinese government. The annual *Statistical Report on Internet Development in China*（中国互联网络发展状况统计报告）[*Zhōngguó hùlián wǎngluò fāzhǎn zhuàngkuàng tǒngjì bàogào*] released by the China Internet Network Information Center（中国互联网络信息中心）(CNNIC) [Zhōngguó hùlián wǎngluò xìnxī zhōngxīn], for example, provides essential information on China's internet and the market shares of industries such as online games, based on government data and surveys. Corporate market research such as that released by Ystats complements this research with relevant global statistics. Organizational records are also important sources that were consulted in the course of the research and in particular contribute to the research in Chapter IV. The organizational records of staff and institutions on Chinese government websites were consulted in the Chapter IV analysis, however this information was often outdated and contained partial information. It was therefore supplemented by announcements of staff appointments in official news media, and with independent externally compiled lists by scholars. The *China Vitae* database and the *China Directory 2013* published by Radiopress provided useful external information on individuals and the concurrent positions held in different organizations. Corporate filings with the Securities and Exchange Commission of the United States informed much of the analysis of Variable Interest Entity structures in Chapter IV. These contributed to the identification of important policies that affect China's online games industry, and information that facilitated structural analysis of individual companies.

By using both documentary and archival sources of data, the narratives in the first chapters offer a perspective that spans multiple disciplines and benefits from data triangulation. For example, the research identifies officials that currently occupy key positions in relevant government agencies by consulting a combination of: official media announcements, Chinese government websites, recently published scholarship, online

resources curated by specialist scholars, and an annual external analysis published by Radiopress Japan. No single source was able to provide a complete up-to-date list of relevant officials, due to the quickly evolving nature of the regulation of online games. However, by comparing and contrasting data from all of these sources, many uncertainties were resolved, gaps in knowledge were highlighted, and new data from very recent announcements was added. This convergence and triangulation of data is stipulated by Yin to be one of the defining elements of case study research (2014, 17). Stake also highlights triangulation as an important feature of high quality case research. He notes that while triangulation can help to confirm the validity of data by consulting multiple sources for the repeatability of observations, a significant part of its value to research is its ability to 'clarify meaning' by 'identifying different ways the phenomenon is being seen' (241). The variety of archival and documentary sources consulted in this research provides varied perspectives on the phenomena described. For example, academic scholarship, official Chinese news media and news media outside of China, expert blog commentary, corporate documents, and commercial research each provide a unique perspective on the issues under observation and study.

The approaches to gathering and interpreting the data from these documents vary depending on the goal of the particular analysis. Overall, the methodological approach draws from concepts rooted in critical discourse analysis, although it does not specifically use discourse analysis as a prescriptive methodology. In particular, the analysis in this research does not focus on linguistic expressions of power, but rather uses texts to identify the interests of certain actors. The analysis works to identify power relationships between key actors, and document analysis forms part of this effort. This understanding of the documentation and archival sources within the context of the structural power hierarchies aligns with basic concepts of critical discourse analysis, as described by Wodak and Meyer in *Methods of Critical Discourse Analysis*. Specific ways that the current research is informed by critical discourse analysis concepts consist of the interpretation of discursive texts within their underlying power hierarchies, the focus on historical context, and the wide variety of methods drawn on in the research. The interpretation of discursive texts in terms of the power relationships they represent draws from Norman Fairclough's Dialectical-Relational Approach (DRA) to critical discourse analysis (CDA), which focuses on expressions of power within and among discursive texts. The analysis of discourse surrounding user protest and the analysis of policy discourse in cases of conflict between regulators demonstrate the implementation of this conceptual approach to analysis. The emphasis throughout the research on historical context, on the other hand, aligns with Ruth Wodak's Discourse Historical Approach (DHA) to CDA (Wodak and Meyer 26, 93). The approach to data gathering also draws from approaches to critical discourse analysis as described by Wodak and Meyer. The authors state: 'it is a matter of finding indicators for particular concepts, expanding concepts into categories and, on the basis of these results, collecting further data' (27). The authors also note that DHA

advocates 'methodical triangulation by using multimethodical designs on the basis of a variety of empirical data as well as background information' (31). The variety of methods used to gather and analyze data in this research work toward such triangulation.

Key Informant Interviews

All the chapters in this thesis are informed by two sets of key informant interviews. The first set was conducted in 2008 during the author's time as a participant observer, and the second set was conducted for the current research project in 2011. This form of interview is a method of gathering data from the experts or 'elite' in a particular field. For the purposes of this investigation, respondents were chosen based on their ability to contribute expertise in technology, policy, and regulatory practice relevant to new media and online games in China. The research sought a variety of perspectives and therefore chose participants with a wide range of experience and expertise. These consisted of expert researchers and industry members based in three major cities: Hong Kong, Shanghai, and Beijing. Each city was chosen based on its likelihood of yielding informants that would maximize the study's variety of perspectives. Hong Kong was deemed likely to produce expert informants with little to no direct involvement with China's online games policy environment. Shanghai offered the most variety in researcher perspectives, but was most productive in locating informants with experience in the online games industry. Beijing was selected due the availability of informants that were directly involved in policy development and implementation. The details of the roles and titles of the respondents have been redacted for anonymity, however general information about respondent backgrounds is outlined below. Interviews were conducted in Chinese and English.

Although the professional backgrounds and titles of respondents varied greatly, they generally fell into three categories: research, law, and business. Within each category, the role and expertise of each respondent varied greatly. Seven of the respondents had research backgrounds. Their expertise included: user behaviour in China's online games, China's online games policy, virtual worlds and multimedia technologies in China, media regulation in China, international law in China, and cultural industries in China.

Respondent Background

The respondent expert on user behaviour had substantial field experience as a participant observer and had conducted informal, unpublished interviews with gold farming workers. Two respondent researchers had first-hand experience as part of the regulatory regime for online games in China, as well as China's cultural industries. One was an official as well as a researcher, working as a member of the content review committee for imported games for the Ministry of Culture. Another worked for the China Academy of Sciences as part of a policy research think tank. The respondent with expertise on virtual worlds and multimedia

technologies in China had first-hand experience developing new and highly converged technologies. The informant expert on international law in China was also an expert in Chinese trade law and information technology law; this respondent had substantial research experience on the emerging legal issues surrounding new technologies, China, and the international community. Another researcher respondent is a prominent scholar in the field of Chinese media studies.

Four interview respondents had expertise in law based on first-hand experience as legal counsel for online games companies in China. Three of these respondents were in the People's Republic of China-certified lawyers. All of them had first-hand experience as in-house legal counsel in some of China's biggest online games companies[33], and were either still operating as in-house counsel or were consulting to game companies at the time of interview.

Two respondents were industry experts. One was a software developer for one of the biggest online game companies in China. Respondent backgrounds from this category included first-hand experience with the everyday practice of gold farming regulation in China, and executive-level experience managing an international games company.

The variety in respondent expertise, experience, and location allowed the research to collect data based on a variety of different first-hand experiences, and provided the research with different perspectives on the relevant critical issues. Respondents provided a wealth of information about the current state of online games policy and practice that both complements and adds insight to the preliminary research. Responses primarily focused on the challenges of practical regulation for online games, given the newness of the technology as well as the number of competing interests in this space. The information and perspectives offered by respondents varied widely along with the respondents' areas of expertise. Informants with industry backgrounds provided first-hand knowledge about how game companies negotiate tensions with regulators and users on a day-to-day basis. This group also facilitated the author's access to corporate research about regulator interests and decision-making in this space. Informants with research backgrounds came from a diverse set of disciplines and contributed information based on their research perspectives and experience. In general, respondents from this category provided expert knowledge about the technology, policy, and emerging practice of online games in China. Contributions from this group include information about recent technological developments, relevant policy texts and details of user behaviour that complemented the preliminary research. The responses from researchers also added

[33] All of these companies were among the top ten largest online games companies in China at the time of interview (October, November, and December 2011).

insight about some of the negotiation dynamics between key stakeholders in China's online games regulation. Informants with policy expertise contributed first-hand knowledge about the politics of the policy development process, and provided insight about the priorities and perspectives of some of the key decision-makers in this area.

Interview Structure

The interviews were semi-structured: a list of interview questions provided a framework for discussion of key issues, which varied according to respondent background[34]. The structure outlined questions in three key areas:

1. ***The current state of online games policy and practice***

   This section sought to elicit knowledge that could deepen understanding of the policy and practice of online games regulation in China. Questions in this section elicited information about the current online games regulatory landscape and the policy development process. It additionally sought informant perceptions about important areas for policy development.

2. ***Issues relevant to emerging practice***

   The interviews then focused on emerging practice, specifically real-money trade, gold farming, and the virtual economy. This section sought to identify respondent perceptions about critical issues relevant to these topics, including the potential advantages and disadvantages of virtual economic activity.

3. ***Directions for policy development***

   The final section asked questions about current and future directions for policy development related to online games and emerging practice. These questions sought respondent perceptions about key domestic and international issues in the areas, the current and potential policy responses to these issues, and China's general interests in relevant policy development.

The questions were designed to elicit as much open-ended response as possible in order to take advantage of the expertise of the respondents. Therefore, many of the responses led into topics that were not directly responding to the specific question, but that were highly relevant to the research objective. This is reflected in the analytical approach, which focuses on the key areas of information highlighted as important in the preliminary research, rather than direct response to interview questions.

[34] The full list of questions can be found in Appendix III.

The first topic in the interviews sought to gain insight and guidance based on the expertise and first-hand experience of the respondents. Responses to questions about this topic provided valuable information about the policy environment and the regulatory dynamic that is included in in Chapters II and III. The final two topics in the interview structure sought respondent perspectives on the gold farming case and the critical issues that surround it. The case study in Chapter IV contrasts the author's perspective on the gold farming case with respondent perspectives on these topics.

Advantages and Limitations

Key informant interviews differ from standardized interviews in that the methodology deliberately tries to allow the expert in the field to guide the interview toward issues of importance. As Lewis Anthony Dexter has observed, in standardized interviewing "the investigator defines the question and the problem; he is only looking for answers within the bounds set by his presuppositions" (5). The elite interviewer instead must let the interviewee define the question and the problem, taking advantage of the inherent value that exists in their guidance. This allows the researcher to learn from and draw upon the extensive knowledge typically possessed by elite interviewees, encouraging the respondent to define what is relevant or significant to the subject. The method that allows such respondent-based guidance of the interview involves a flexible interview structure and open-ended questions. The researcher must have a basic interview protocol and a clear idea of the issues they wish to cover, but the agenda must remain flexible in order to allow for probing follow-up questions and the exploration of unexpected issues that may arise (Ware and Sánchez-Jankowski).

Key benefits of conducting elite interviews are that they are flexible and adaptable to different situations. Additionally, they are not shaped by the researcher's beliefs and allow the interviewee, and not the researcher, to define what is important (Richards). This methodology is expected to enhance the background research, case study, and discursive text analysis by providing an opportunity for triangulation of results.

Elite interviews, though beneficial in many ways, are also subject to limitations. One of these involves concerns over the validity and reliability of open-ended questioning. Dexter demonstrates such concern when he suggests that "inferences drawn from the interviews…be subjected to some sort of independent criticism, or, preferably, vigorous test" (13). In this study, such concern is not as relevant as it might be, because the research primarily seeks the perceptions of the elite informants for analysis rather than any universal truth or fact. However, it is also important for the interviewer to acknowledge the potential for respondent bias or untruth and to attempt to balance this with supplemental research. In this case, supplementary research included two years of preliminary investigation based on documentary analysis and archival sources, prior to the interviews, and an additional two years

of follow-up research. The triangulation of methods and data sources within the case study ensures that significant supplemental research is undertaken. It also ensures triangulation of perspectives on the case and its critical issues. The use of key informant interviews as a source of data ensures that the research includes a variety of expert perspectives as well as those of the author. While this contributes to the rigour of the project, it does not eliminate the potential limitations of this research. The overall benefits and limitations of this research are discussed in more detail below.

Advantages

Case study methodology offers advantages that suit the exploratory purposes of this research. As Yin notes,

> The distinctive need for case studies arises out of the desire to understand complex social phenomena. In brief, the case study allows an investigation to focus on a "case" and retain a holistic and real-world perspective - such as in studying individual life cycles, small group behavior, organizational and managerial processes, neighborhood change, school performance, international relations, and the maturation of industries (2014, 4).

The gold farming practice is a complex phenomenon that exists at an intersection of a number of rapidly changing contexts. These include: New media policy in china and its wider political landscape; China's increasingly international and privatized new media sector; increasing user innovation; and corporate, technological, and user-level media convergence. Exploring this practice using a case study approach illuminates these contexts and allows the research to explore how they are changing.

The case study methodology facilitates understanding of complex situations that are subject to a number of different variables, and is therefore a suitable choice for the current exploratory research. Outside of its ability to facilitate understanding of complex phenomena, case study research approaches also offer other advantages that benefit the current research. First, the approach both allows for and encourages the use of a wide variety of data sources and methodologies. This benefits this research due to the complexity of the case and the fact that it exists at the intersection of a number of fields of disciplinary inquiry. It is also beneficial because what is known about the case exists in widely dispersed documentation, archival sources, and scholarship. The case study allows for the various sources of data to be brought together into a single descriptive narrative. This is particularly useful because it allows the author to incorporate other methodologies and sources of data.

The research benefits from a number of other advantages facilitated by the case study's ability to incorporate many kinds of data. The research synthesizes information from the initial documentary and archival research with participant observation and key informant interviews. The benefits include: informed research direction, more data that can enrich

descriptive narratives, and the benefit of multiple perspectives on the case. The researcher's previous key informant interviews with elite level players from *World of Warcraft* pointed to critical issues that merited further investigation, and these served as useful initial guides for data collection and informed the construction of the descriptive framework for the first chapter. The author's experience living in China also informed initial data collection efforts, as the author approached the project with an established first-hand familiarity with the practicalities of internet use in China. The researcher's participant observation experience as a gold farming customer and as an online games player meant that auto-ethnographic accounts and first-hand knowledge could fill some of the gaps when describing the technicalities of gold farming and the online games environment. Finally, the key informant interviews allowed the research to benefit from multiple perspectives on the case. This had the benefit of augmenting the descriptive aspects with the data based on the first-hand experience of experts. The interviews also allowed the research to include the perceptions of key informants about what they thought the critical issues for policy development were, for China and the international community, in light of the gold farming case. Obtaining the perceptions of key informants and practitioners about the critical issues raised by the case allows the research to mitigate to some extent against the researcher's interpretive bias. This allows the researcher to triangulate participant perspectives on the case with the researchers' own analysis. Wodak and Meyer suggest the use of this approach in critical discourse analysis increases the rigour of inquiry:

> Triangulation among different types of data, participants' definition of relevance, and problem-based analysis to establish the significance of the sites of engagement and mediated actions under investigation are suited to bring the analyses back to participants: to uncover divergences and contradictions between one's own analysis of the mediated actions one is studying and those of participants (31).

Wodak and Meyer warn, however, that this cannot eliminate the inevitable bias of the research. They state that research 'must itself be examined as potentially embedding the beliefs and ideologies of the analysts and therefore guiding the analysis towards the analysts' preconceptions' (32). This strong potential for researcher bias is one of the most widely noted limitations of case study research.

Limitations

This research has been conducted by a single researcher, and the analysis and results are therefore subject to researcher bias. In order to counteract this limitation, some scholars suggest employing multiple researchers to code data during the analysis process (Baxter and Jack, 556; Yin 2003, 92). The use of multiple researchers was not possible in this case due to the nature of the project as well as the degree of specialization of background knowledge necessary to conduct the research. The research does work to triangulate the

investigator's perspective with those of key informants; interview results were used as a guide to the final two years of documentary and archival research. This influenced the final selection of issues and emphasis for investigation and for presentation in the descriptive narratives. The incorporation of different perspectives helps to maximize academic rigour in this case, however it does not fully eliminate the embedded bias of the researcher. The inevitability of this bias means that, as Yin notes, a case study researcher 'must work hard to report all evidence fairly' (2014, 20). Merriam suggests that 'both the readers of case studies and the authors themselves need to be aware of biases that can affect the final product' (12). Flyvbjerg, Merriam, and Yin argue that this limitation is one that applies generally to many methodologies. Yin notes:

> What is often forgotten is that bias also can enter into the conduct of experiments and the use of other research methods, such as designing questionnaires for surveys, or in conducting historical research. The problems are not different, but in case study research, they may occur more frequently and demand greater attention (2014, 20).

Given the exploratory nature of this research project, researcher bias does not present an especially grave problem. There are no propositions that must be validated, no theories to be tested, and the research does not seek to build grand theories. The results are primarily descriptive and do not seek to ascertain an objective truth, but to investigate a single case and its contexts.

Other commonly discussed limitations of case studies are framed within its potential for scientific contribution. Yin, Stake, Merriam, and Flybjerg outline typical criticisms, which include lack of rigour and generalizability (Yin 2014, 19-21). Case studies are often seen to lack academic rigour because the research process is often highly intuitive and not systematic (Flyvbjerg, Yin). Yin, and Baxter and Jack, suggest several ways to ensure academic rigour in case study research. These include: systematic collection and management of data, clarity in planning the research design, and the triangulation of data sources, methods, and perspectives (Yin 1994 19, 92; Baxter and Jack, 556). This research employed a database to help organize the collection and management of data. The collection of data began with a detailed framework for investigation based on the key issues of concern that motivated the research. This included a detailed plan to find key informants with a variety perspectives, based on their occupation and location. Triangulation was also a key element of the research (Yin 19,92).

The generalizability of case studies is commonly discussed as a potential limitation of case research. This critique is generally related to case studies that seek to test or build theory, and is therefore not highly relevant to this case-oriented exploration. Flyvbjerg asserts that the critique of case study generalizability is in fact based on undervaluation of context-specific knowledge that is unwarranted (Flyvbjerg, 224). While this research does not seek to extract

generalized theories from the case, the project does view the case as an exemplary demonstration of new uses of converged technology. The project proceeds with the belief, therefore, that the deep contextual exploration of gold farming can point to more generally applicable critical issues for policy development and can provide descriptive information about contexts where other cases occur. The value of studying this case is therefore seen as both intrinsic and instrumental, according to Stake's definitions of the terms (237). The case is intrinsically valuable because it is a new phenomenon that has not been researched. The case is instrumentally valuable in that the contexts explored and the critical policy issues highlighted are likely to have applicability beyond the case itself. The gold farming case results in this research can be used to guide further research about other cases of innovative uses of converged technology.

Chapter II: Policy

History, Challenges, and Recent Developments in China's Online Games Policy Environment

As China works to develop policy to govern new and converged media and the new ways they are used, the country's regulating authorities face major challenges. Many of the challenges currently faced are not new to the CCP, and historical government response may inform understanding of current and potential future government approaches to policy development in the face of similar challenges. In order to investigate the challenges for policy development in China raised by emerging practice in online games, it is therefore important to examine China's current new media policy development and the historical and political contexts that have shaped it. This chapter examines the context of new media policy development in China in three parts. The first part examines historical approaches to new media policy development, following the trajectory of the internet's precursor technology and its related politics in China. The second section builds on this understanding, exploring major regulatory challenges relevant to policy development for online games and their emerging practice. Understanding these challenges and the tensions that surround them is essential to understanding new media policy and practice in China.

History of Policy Development

In order to examine the current policy environment in China that surrounds online games and their emerging uses, it is important first to understand the historical context in which it operates. While online games and their emerging practice raise significant challenges for policy development, these challenges are not always new; as new media technology has rapidly been adopted into widespread use in China over the last century, China's policymakers have dealt with a number of associated regulatory challenges, and have adapted and developed the country's regulatory framework to suit each new technology. This section examines China's historical approach to new media policy development in order to shed light on the relationship between China's government and new media technology that has evolved over the last century. It also points out historical approaches to policy development in this area that may influence policy development in the face of similar challenges raised by the new technology of online games.

The section briefly outlines the development trajectory of the internet's precursor technology and its related politics in China, beginning with a discussion of radio and television broadcasting development in the years leading up to and during the establishment of the People's Republic of China. Following this, an examination of the telecommunications industry

details key technological and political developments in the lead-up to the introduction and establishment of the internet in China. A final section discusses the development and diffusion of the internet in China, providing an account of key policy developments relevant to the online gaming industry.

New Media Policy in Pre-Reform China

Pre-Mao: Radio Broadcasting and Political Power

Radio broadcasting emerged in China during the late Republican period. From its first introduction by foreign interests in 1923 to its eventual role as the voice of the CCP government in the early years of the People's Republic of China (PRC), the technology has been proactively developed and exploited by various contenders for political control, such as foreign governments (ie. Britain, Italy, the United States of America, France and Japan), warlords, the Chinese National Party (CNP) and the Chinese Communist Party (CCP). These are examined in the following section.

Radio broadcasting in China emerged amidst a tumultuous political background; commonly known as 'the warlord period' (1916-1928), this era was defined by intense military and political power struggles[35] that followed the collapse of dynastic rule (Sheridan in Fairbank, 284). At the time of collapse, a significant and affluent foreign presence had been established in China, having flourished under the favorable economic conditions conceded them in the late Qing era (Bickers, 4). The first radio station, 'Radio Corporation of China', was owned and established by an American in 1923 (Huang and Yu, 2). This particular station was shortlived[36], but was followed by the establishment of many other foreign radio stations along China's East coast (2). Chinese-run radio broadcasting was first developed and implemented by warlords in the North (1926), with some privately run stations opening in Shanghai in 1927. Huang and Yu state that the influence of these initial forays into radio broadcasting was limited; with under twenty stations in operation and poor transmission technology, audience sizes were restricted and information dissemination through this medium ineffective (2).

In the years between 1927 and 1949, China's political conflict intensified further; the chaotic power struggles of the warlord period gave way to civil war between the Chinese Nationalist Party (CNP) and the Chinese Communist Party (CCP) (Huang and Yu, 2).

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[35] The exact nature and stakeholders in these power struggles varied according to location. For a detailed account of this history and a comparison between rural and urban experience, see Sheridan in Fairbank, 1983.

[36] This station was shut down by the Northern Warlords government (1912-1927) (Huang and Yu, 2).

According to Huang and Yu, this conflict played a key role in the adoption and development of radio broadcasting technology in China, beginning in 1928 with the CNP's establishment and immediate politicization of the Central Broadcasting Station (2). Having announced the station's intended use 'to air any important decisions, propaganda programs and proclamations' (2), the Nationalist party established radio broadcasting as an essential political tool. In the following years, the CNP established radio stations in almost all major cities in China, cementing the technology's role as a mouthpiece of the Chinese Nationalist government (2). Although the CCP similarly valued media control and believed in its political role (Gan, 40), the CCP lagged significantly behind the Nationalists in technological prowess; thus it was not until 1940 that the CCP managed to establish its first radio station[37] (2).

After the 1940 establishment of the CCP's 'Yunnan New China Radio Station', the development and dissemination of radio broadcasting technology was officially designated a CCP priority (Huang and Yu, 2). Huang and Yu attribute this prioritization of media technology development to Mao Zedong's strong belief in media's essential political role; 'to him,' they observe, 'whatever the form of journalism, it needed to serve the politics of the Communist Party' (2). The media policy and usage under the direction of Mao after the establishment of the PRC in 1949 supports this claim; obtaining radio transmitters and loudspeakers became an official mandate for public institutions in 1950 (3), and continued to flourish as an essential political tool. Although the centrality of media within Mao's political ideology was certainly a driving factor for the expedited development and dissemination of broadcasting technology, it was not the only reason for it; CCP ideology placed significant emphasis on the essential role of scientific and technological development in establishing China as a successful nation-state. In his 2008 *Technological Empowerment*, Zheng Yongnian traces this ideology back to the May Fourth Movement. He observes:

> Despite the controversies within the May Fourth Movement, all parts of the movement seemed to have established a semi-religious belief that science and technology must be an integral part of China's nation-state building. This is particularly reflected in the CCP's efforts in linking "scientism" to "socialism" to establish the so-called "scientific socialism" (kexue shehui zhuyi) as the backbone of its ideology (2).

The significant attention to technological development and control of radio broadcasting under Mao was equally reflected in the CCP's approach to television broadcasting.

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[37] Prior to this, the CCP relied heavily on print media for the dissemination of information (Gan, 39; Huang and Yu, 2).

New Media under Mao: centralization, state sponsorship, and television

The development of television technology in China was a government-driven process. By the time the PRC was established in 1949, television had been widely available in the United States, Britain, France and the Soviet Union for over a decade (Huang and Yu 3); Information and Communications Technology (ICT) in mainland China was lagging behind. The PRC needed to assert itself as a strong and capable nation both in a global context as well as locally, relative to Chiang Kai-Shek's newly established Taiwan (3)[38]. The Marxist concept of 'scientific socialism' (Z. Yang 205) had become the 'pillar of the communist system' under Mao (Y. Zheng 23) and this was reflected in various initiatives toward industrialization. The government's efforts to develop the television industry in the PRC is a prime example of this. Television development in the PRC CCP began in 1953 with the sending of representatives abroad to the Soviet Union and Czechoslovakia to study television technology (4). Development of this industry became a political mandate in 1955 when Zhou Enlai endorsed its part in the 'Five-Year Culture and Education Plan' (1953-1957) (4). Experiments in broadcasting began 1956, after the return of two of the students that had studied television abroad. In 1957, a delegation was sent to the Soviet Union and East Germany 'to seek technical aid in running television stations' (4). Political pressure to expedite the launch of the PRC's first broadcasting station was increasing; Taiwan was scheduled to launch a broadcasting station in 1958 and stations in the PRC weren't expected to launch until 1959 (4). Additional pressure came from Mao's Great Leap Forward campaign, a political imperative and mass mobilization toward expedited industrialization of the PRC (4). The significant political implications of television broadcasting success made it a key part of this process (Huang and Yu, 4; Y. Zheng, 23). In May of 1958, the 'Beijing TV Station' began to broadcast[39] (Huang and Yu, 4).

Continued pressure to develop the television broadcasting industry meant that thirty-six television stations were in operation by the end of 1960[40] (Huang and Yu, 4). In 1961, however, in response to severe famine and national economic disaster, an austerity policy

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[38] Huang and Yu assert that Mao was determined to be superior to Chiang Kai-sheks's Taiwan (3). Science and technology was therefore an extremely important area for the CCP to excel; as Zheng Yongnian points out, the Nationalists had already demonstrated significant success in the development of science and technology, having founded the central research institute *Academic Sinica* in 1928, the science-focused *Peiping Academy* in 1929, and initiated the New Life Movement in the 1930s that 'attempted to establish and spread a scientific way of life in China' (Y. Zheng, 22).

[39] Despite this expedited development, the introduction of television in China lagged behind Taiwan by more than a year (Huang and Yu, 4).

[40] Sixteen of these stations were only broadcasting experimentally (Huang and Yu, 4).

was introduced that saw thirty-one of the thirty-six TV stations shut down (4). Although some briefly resumed operation with economic improvement in the late sixties, by the 1966 Cultural Revolution sparked a complete halt in development of the industry; by 1967 only two stations remained in operation. Broadcasting resumed in 1969 and continued to grow. By 1973, the number of TV stations in operation had reached thirty-two, but, as Huang and Yu observe, the number of receiver sets was still problematic; in 1975, only 170 000 TV sets were produced in China (5).

Television programming under Mao was consistent with his philosophy that media should serve politics; the main tasks of television broadcasting under Mao were declared in 1959 to be 'political propaganda, education and cultural enrichment' (Huang and Yu, 3). Content restrictions increased during the Cultural Revolution, with broadcasting stations 'under the tight control of the Maoists' (5) eliminating all culture and entertainment-oriented programming except for eight 'revolutionary model operas'[41] (5). Even such "entertainment" programs served political ends; arguing that they were intrinsically part of China's development strategy, Ellen Judd points out that their 'value [was] primarily expressed in terms of efficacy in promoting increased production and social change, and less so in terms of cultural enrichment' (1). Such strict control and purposing of mass media was a state[42]-funded endeavour that limited the success of television as a mass medium; in 1978, China only had approximately 3 million television sets for its population of 800 million (Huang and Yu, 11). It wasn't until the reforms brought in by Deng Xiaoping that the process of commercialization sparked further economic growth.

Post-Mao Media Policy: economic decentralization and media commercialization

After Mao's death in 1976, the leaders of post-Mao China confronted a state that 'seemed to have been undermined seriously by waves of political movements during Mao's time…politically, it was no longer able to provide a stable order…in economic terms, it failed to deliver goods to the people' (Y. Zheng, 24). Deng Xiaoping assumed leadership in 1978 and began to address these inherited challenges through aggressive economic reforms (Brady, 2; de Burgh, 62; Y. Zheng, 23). What Chien refers to as an 'asymmetric decentralisation' (71) ensued; that is to say economic decentralization was embraced, while political decentralization was not; the political legitimacy of the centralized CCP was

[41] The eight 'revolutionary model operas', written by Madam Mao, were a widely distributed form of amateur theatre during the Cultural Revolution (Huang and Yu, 5).

[42] The terms 'state' and 'government' in this work are used in keeping with Cao and Downing, 'to refer to China's government and party organs' (522).

preserved[43] while economic reforms provided greater fiscal (and therefore decision-making) autonomy to local governments. Consistent with Maoist views, science and technology was seen as essential to nation building and social progress under Deng (Zheng, 25). The primary difference in Deng's approach was that, in his interpretation, scientific and technological development were facilitators for the economic development he saw as essential to social progress and modernization of the PRC (Zheng, 25). Deng's approach to media policy reflects this view; commercialization, media openness, and technological progress was encouraged (Brady, 2; de Burgh, 63), while 'the government was careful to introduce controls to limit any potential negative impact from these new influences' (Brady, 2).

During this period a series of research institutes emerged, spear-headed by key reformist party members (including Deng) in order to carry out empirical research for policy development (Tanner, "Changing Windows", 560). These "think tanks" of second-generation party leaders were not the first research institutes of the CCP; Murray Tanner connects their emergence to the "first-generation" research institutes of the early era of the CCP under Mao (560). The "second-generation" research institutes were 'ad-hoc think tanks personally patronized by individual leaders' (Tanner 560). Tanner suggests that commercialization has allowed for the more recent emergence of a "third generation" of research institutes; these, he asserts, are less constrained than their predecessors, but may consequentially exert less influence in policy development (563). That said, these think tanks are regularly consulted and used as sources of information for key policy-makers in the CCP (Tanner 571).

Media policy under Deng Xiaoping loosened the strict control that prescribed Cultural Revolution journalistic content. Cuts in government media subsidies required media outlets to make market-friendly content adjustments in order to become self-sufficient. Amid this relative freedom, media in the 1980s produced 'critical coverage and journalism of a quantity and breadth that had never before been seen in Communist China' (de Burgh 63). Newspaper titles grew, the television industry expanded (Huang and Yu, 4) and the government began to invest heavily in the construction of telecommunications infrastructure (X. Fan, 10). This is not to say, of course, that there were no media restrictions. Although official media policy in the 1980s 'treated the media as a whole homogenous unit', (Lin, 11) offering general guidelines rather than detailed instructions, state reactions to political reform movements involving the media were addressed directly; they included three anti-reform ideological campaigns and a series of media shut-downs that came to a head during the student protests of 1989 (Lin, 11).

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[43] Political reform and 'democratization' was 'a major agenda item' for the CCP under Deng, however, as Zheng Yongnian reports, it was interpreted by the leadership in terms of economic development (25). Here, Zheng notes that discussion of political reform was clearly 'to be initiated from the top and managed by the leadership' (25).

Lin describes this form of media control as a 'single-dimensional state-media regime' (15) wherein the state directly controlled the media. This began to change in the 90s as the successful commercialization of media organizations introduced third-party institutional stakeholders in the state-media relationship, including the market (ie. advertisers and consumers) and the court.

PRC leaders after Deng have continued the technonationalist [44] development approaches of Mao and Deng, embracing 'scientific and technological development as one of the pillars of the country's sustainable economic growth' (Y. Zheng, 24). The significant government investment in and promotion of telecommunications infrastructure in the 1990s reflects this. Under Deng, the state invested an annual average of 250-300 million US dollars in telecommunications, resulting in a net industry growth of 13-14%; by the mid-90s this had significantly increased (X. Fan, 11), with Tan et al. reporting annual growth rates of 30-50% per year (1). A program for the Informatization of the National Economy (INE) was introduced in the 90s, and Deng's successor, Jiang Zemin, explicitly marked information technology as 'crucial to China's sustained development in the future' (Jiang in Y. Zheng, 26). The government drove development of the ICT industry in China[45], but in the late 90s, 'released entrepreneurial ventures in the telecommunications industry from direct government control, leaving it to the market mechanism' (138). The development of telecommunications infrastructure and related enterprises was exceedingly successful; the number of mobile telephone subscribers increased from 1 million in 1994 to 206 million in 2002 (Zheng, 29); the PRC first connected to the internet in 1994 (Lagerkvist 2005), and by 2010 had the largest number of internet users in the world (CNNIC, *The 26th Statistical Report*). Widespread availability of internet access in China produced massive economic benefits, becoming 'an important source of economic growth' and creating 'significant opportunities for entrepreneurship' (Y. Zheng, 31). These developments, of course, brought with them significant challenges to media regulation in the PRC. The next section explores how China's policymakers have responded to the challenges raised by the introduction of the internet and related media technologies.

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[44] Technonationalism, as Zheng Yongnian defines it, is: 'the notion that technology is fundamental to both national security and economic prosperity, that a nation's development policy must have explicit strategic underpinnings, and that technology must be indigenized at all costs and diffused system wide' (Zheng, 23).

[45] Major initiatives towards this end include the 1983 *National Strategic Plan of General Development of Science and Technology*, the 1986 *"863" program or State High-Tech Development Plan*, and the *Ninth Five Year Plan* (1996-2000) (Wu, 4; Y. Zhou, 137).

New Media Policy in the Reform Era and Beyond

Internet Regulation and Telecoms

China's general approach to internet regulation consists of: 'Developing it actively, strengthening its management, seeking advantages and avoiding harmfulness, making it serve our purpose' (CCP qtd. In Y. Zhou, 138). In this, the CCP ideological approach to internet policy development is consistent with past approaches to new media policy development over the course of the PRC; government-driven growth for (political or economic) benefits is combined with tight control and mitigation of any effects that conflict with government interests. This media control and mitigation takes places, as Zhou Yongming observes, on three levels: infrastructure, service, and content (142). Infrastructure is controlled through ownership; government agencies retain ownership of all the major networks, and, according to regulations established in 2000, any joint ventures in telecommunications infrastructure must be at least 51% owned by a Chinese partner (142-3). At this infrastructural level, it is also possible (and common) for certain websites to be made domestically inaccessible[46]. On the service level, regulation addresses licensing requirements for Internet service providers (ISPs), detailing 'what services are permitted, and what is not, as regards BBS, news publishing by websites, and Internet café operations' (Y. Zheng, 143). Content-level regulations mandate the vigilance of website and forum operators and promote self-censorship[47] of internet consumers; operators are instructed to remove and report 'inadmissable content' and to record information such as time, date, user account number and domain name that might identify the offending agent (143). Although this three-tiered strategy for regulation of the internet has allowed the CCP to maintain a certain degree of control over what has proven to be a complex and dynamic medium, the trend toward fragmentation demonstrated among and amid China's regulatory agencies presents significant challenges to the state's long-term ability to effectively control and regulate the internet.

The trend toward fragmentation amid and among China's internet-related governing agencies has taken several forms. First, the reform-era decentralization and commercialization of the telecommunications industry has resulted in a pluralization and privatization of government agencies, creating more stakeholders in this sector. Additionally, media convergence facilitated by the internet has meant that an increasing number of governing agencies claim regulatory rights over certain aspects of the internet. As the internet

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[46] For more information on the technical levels of control, see Deibert, 2001.

[47] Internet users or 'netizens' (CNNIC 2010) have been required to register with the China Internet Network Information Center (CNNIC) and accept their guidelines since 1997, making them personally accountable for their use of the internet (Zheng, 59).

has continued to grow in both economic and political significance, such interest in regulatory participation has been expressed by a number of China's governing agencies (Zheng, 54). A third form of fragmentation occurs vertically between local and central levels of regulatory agencies (Yang, 457). The reform-era decentralization policies increased the economic and decision-making autonomy of local levels of government, increasing disconnection between central and local levels of single organizations. An examination of the decentralization of the Ministry of Posts and Telecommunications (MPT), examined in the case example below, effectively illustrates these three types of fragmentation, which continue to characterize new media policy development in relation to converged media and online games.

Case Example: the decentralization of the MPT

Before the reform era, all telecommunications were owned and operated by the MPT under the State Council (Zheng, 50). Zheng remarks that even within this centralized administration, a vertical fragmentation between local and central policy had already taken shape (51). In the mid-1980s, under Deng's leadership and Zhao Ziyang's premiership, the State Council began the commercialization of the telecommunications sector; Post and Telecom Enterprises (PTEs) were allowed to keep some of their profits, which in turn increased their autonomy (51). With increased independence of these local elements the top level of the MPT could focus more on general industry planning and performance. Amid this differentiation of responsibility levels, Zheng observes that 'a vertically organized hierarchy emerged as the administrative structure of China's telecommunications' (51). The vertical structure was as depicted in **Figure 1**, which follows:

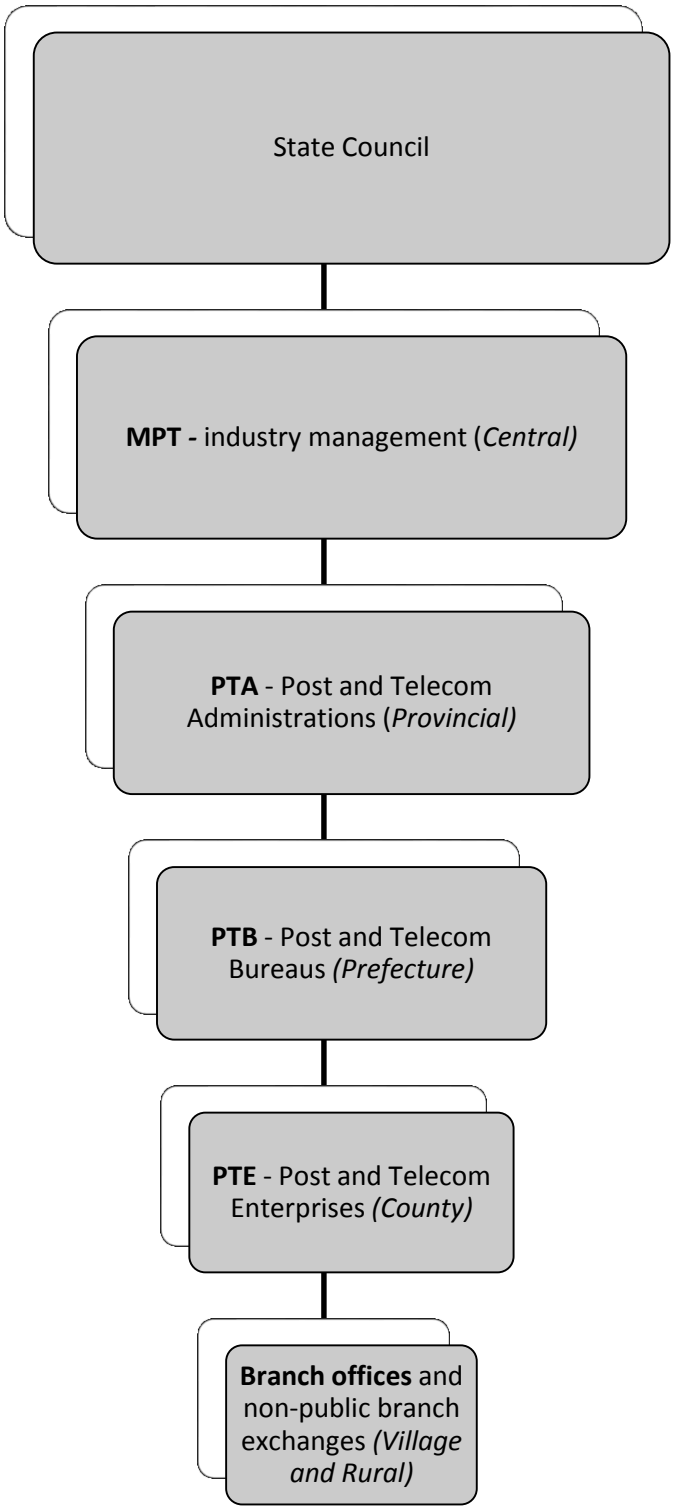

Fig. 1.0 *Source: Author's compilation from data in Zheng 2008*

Under a second wave of structural reforms in 1988, the MPT began to lose some of its jurisdictional power. Several departments under its jurisdiction were granted separate status[48] and new agencies, such as the Directorate General of Telecommunications (DGT)[49] and the Directorate General of Posts (DGP) were introduced under the MPT 'to incorporate business enterprise functions' (51). The commercial value of data transmission had been recognized by other sectors of government, and the MPT was under pressure to release its monopoly on the telecommunications industry (X. Fan, 12). The MPT lost its monopoly in 1993, when the China United Telecommunications Corporation (Jitong and later Unicom), backed by other ministries[50] and in particular the Ministry of Electronics Industry (MEI), was granted a telecom license. The DGT became China Telecom but was still under the jurisdiction of the MPT. Its primary telecommunications competitor was under several other ministries, which reduced the MPT's jurisdictional power and fragmented regulation by introducing other telecommunications stakeholders within the government (ie. the ministries controlling Unicom) (52). Zheng describes the difficulties this posed for internet regulation: 'the regulatory function of the MPT was weakened further. It was not able to intervene effectively in the domains managed by other ministries, which were at the same administration rank as the MPT in China's bureaucratic hierarchy' (52).

The regulatory difficulty that emerged along with the decentralization of the telecommunications sector was first addressed with interim committees in 1994 and 1996, and finally by an institutional convergence under the new Ministry of Information Industry (MII) in 1998 (Zheng, 52). The convergence included: the MPT, the MEI, and the Network Department of the former Ministry of Radio, Film, and Television (MORFT) (53). The MII became 'the autonomous regulator for telecom' and was expected to offer impartial regulation that would allow for fairer competition between China Telecom (formerly of the MPT) and China Unicom (formerly of the MEI) (53). Although this addressed the fragmentation issues in regulation of the telecommunications infrastructure, the internet represents not only the transmission of data on telecommunications networks, but also a highly converged medium with a variety of content that traditionally has fallen under the jurisdiction of other ministries, and therefore continues to raise policy development issues related to jurisdictional overlap.

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[48] These were the departments of manufacturing, construction, and purchasing (Zheng, 51).

[49] The DGT was corporatized and became China Telecom in 1995 (Zheng, 51).

[50] These ministries were: the Ministry of Electronic Industry, the Ministry of Railways, the Ministry of Electric Power, as well as thirteen state-owned companies (Zheng, 52).

The converged nature of internet technology has presented challenges to China's efforts to control and regulate the medium; previously established sectors for media regulation catered toward older media such as print, radio and television, with 'different government agencies separately regulate[d] publishing, telecommunication, broadcasting, and information product manufacturing' (Tan, 262). In order to address the difficulty of the media convergence embodied by the internet, media regulation has required institutional convergence of regulatory agencies in the Chinese government (Tan, 262; Zheng, 52); the convergence of the MPT, MEI and network department of the MORFT into the MII in 1998 and MII's further convergence with the State Council Information Office (SCIO), the Commission of Science, Technology and Industry for National Defense, and the State Tobacco Monopoly Bureau into the Ministry of Industry and Information Technology (MIIT) in 2008 are key examples of this. Despite this restructuring and institutional convergence, however, the continued trend of media convergence facilitated by the internet, has far outpaced the ability of the government in China to accommodate it with effective regulation. Today's process for internet-related policy-making and implementation in China involves a number of government agencies and stakeholders at different levels of government.

Another significant challenge to China's long-term management and control of the internet is user innovation. This includes innovative work-arounds to infrastructure-level state control of the internet[51] (see, for example, Boyd 2004; Brown 2010), as well as innovative uses of internet technology that have developed and continue to develop at a much faster rate than regulation. The technical convergence of media promotes such innovation; new combinations of communications technology are constantly overlapping, stretching or breaking the jurisdictional boundaries of China's regulatory bodies. The online gaming industry is a prime example of this; online games combine the use of multiple technologies (ie. internet, voice communication, three-dimensional animated environments, broadcasting) with constantly evolving innovative uses (ie. social networking, gambling, virtual economic activity). From a perspective of regulation and control, this presents a daunting task that has achieved limited success to date.

Online Games Policy

General Approach

China's approach to online gaming policy development has continued the trends established in the reform era; economic development of this new media industry has been

[51] Examples of these include the establishment and use of VPN services, proxy services, and secure tunneling. For a detailed explanation of this technology, see (Henderson 1998; SSH; VPN; Donstov 2002)

promoted, while regulation and control has remained a clear priority (Wilson & Segal, 886; Y. Zhou 141). Growth of the online games industry in China has been explosive; following a similar growth trajectory to that of the country's broadband industry (Chung & Yuan, 2009), the introductory wave of success generated an online games market of $149 million US dollars by the end of 2002 (Cao & Downing, 519). This number tripled in 2004 (519) and by 2010, China boasted the largest online games market in the world, responsible for one-third of the global revenue in this sector (Yan, 2010). Cao and Downing attribute this high growth rate to three factors: the progress of telecommunications infrastructure (the authors include internet cafés in this category), the recurring revenue of subscription-based business models[52], and the appeal of online social interaction to a socially isolated younger generation (518). Ren cites the absence of console game popularity[53] in the Chinese market as a leading factor (2). Although all of these factors no doubt contributed to the market's growth rate, policy initiatives aimed at promoting industry growth have also played an important role.

From an economic perspective, China's policy approach to the online gaming industry has promoted industry growth while protecting domestic economic interests. In 2003, promotion of the industry was officially prioritized in the country, its addition to the 1986 '863' national science and technology development program providing significant tax incentives for growth (Xinhua, "China Promotes"; Cao & Downing 525). While policy efforts have promoted growth, they have also protected domestic interests in China's online games industry (Chung & Yuan 2009). Perhaps the most successful of these has been the mandate that prevents foreign investors from operating their own online games in China (Wang et al.; Ström and Ernkvist, 647). This mandate is indicated by at least four separate documents: the *Catalog for the Guidance of Foreign Investment Industries (外商投资产业指导目录) (amended 2007)* and the *Catalog of Industries in Which Foreign Investment Is Prohibited (禁止外商投资产业目录)* (2007) issued by the Ministry of Commerce place online game operation under a prohibited sector for foreign investment, while a further two[54] 'explicitly prohibit foreign entities and

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[52] Cao and Downing state 'online games are based on subscription, with recurring revenue' (518). Although recurring revenue is likely a factor and subscriptions may have been vital in the initial stages of industry development, it is important to note that the predominant business model for online games in China since 2006 is free-to-play with an item-based pricing model (Ren, 2010).

[53] According to Ren, the absence of console game players in China is related to the fact that major console companies such as Sony, Nintendo and Microsoft, have avoided entering the Chinese market due to piracy issues (2).

[54] The first is a 2005 document released by the MoC, SARFT, GAPP, the PRC National Development and Reform Commission, and MOFCOM, entitled *Opinions on the Introduction of Foreign Capital into Cultural Industry (关于文化领域引进外资的若干意见). The second is*

individuals from establishing and operating any Internet Cultural Operation Entities to engage in online games operational activities directly or through de facto control' (Wang et al., 2010). Based on the categorization of online games as 'Internet Cultural Products' in the Ministry of Culture's 2003 *Interim Provisions on the Administration of Internet Culture (互联网文化管理暂行规定),* Wang et al. note that 'the establishment of Internet Cultural Operation Entities is necessary for both online game development and online game operation although these are distinctly different businesses'. This means not only that foreign games must be operated by a Chinese partner, but that foreign investors are equally limited in their participation in the domestic games development industry (Wang et al.). These economic restrictions insulate China's online games industry from foreign influence, in theory ensuring domestic control at an infrastructural level. This is consistent with China's initial approach to internet control; by ensuring domestic ownership at the level of infrastructure, China works to accomplish the online games equivalent of what Diebert calls 'territorializing' its computer networks (147)[55]. In keeping with its three-tiered approach to internet control and regulation, China has also taken a three-tiered approach to online game regulation. The economic restrictions described above are aimed at root-level control of the industry through ownership. In addition to this first tier of regulation, China has focused on access-point restrictions and content control in its policy development approach to online games.

There are two types of access points for online games in China: internet cafes and home computers. Access point restrictions either regulate the operation of internet cafes, or the operation of online game operators[56]. Regulatory initiatives targeting these access points have focused on protecting minors (Qiu & Zhou, 273) and promoting public health. Major initiatives include: the *Notice on Protecting Physical and Mental Well-being of Minors and Implementing Online Game Anti-addiction System (关于保护未成年人身心健康实施网络游戏*

Decree No.13 (a 2009 document released by the GAPP, the State Copyright Administration, and the National Anti-Piracy and Pornography Working Group Office).

[55] This is not to say that foreign games are unwelcome; in 2009, imported games accounted for almost forty percent of the 2009 online games market in China (Wang et al.). Until GAPP's 'Decree No. 13' of 2009 explicitly forbidding these arrangements, 'a series of operating, technical service, and share pledge or call option agreements to address domestic ownership requirements and other restrictions on foreign investment' were tolerated (Mackenzie et al.). It remains unclear to what extent GAPP's prohibition will affect the established business practice.

[56] Even for home computer access, online games in China are operated on servers owned by companies that are not necessarily the game developers. These operators (some of the biggest including, for example, Shanda, NetEase and The9), can control user access to their servers and thereby the games they operate.

防沉迷系统的通知)[57] (2007), the *Green Dam Youth Escort*[58] (2009), and more recently, the *Parents' Guardian Project for Minors Playing Online Games*[59] (2011). Content control of online games in China has also been demonstrated to be a policy priority; legislated explicitly in Chapters three and four of the Ministry of Culture's *Interim Provisions on the Administration of Internet Culture (互联网文化管理暂行规定)*, it is also regulated indirectly by licensing regulations regarding content approval for imported games[60], as well as approval for any content alteration in games that have already received approval[61]. While on one hand regulation has been developed to control against disruptive or offensive content, there has also been significant government support toward the development of domestic "healthy" content. A June 2011 report by Caixin.com indicates the payment of heavy government subsidies to domestic online game operators (iChinastock.com) including Perfect World, a company well-known for its focus on innovation and self-developed games (Kshetri 168). A recent Telegraph article directly links these tax breaks to development of domestic content; a source from Shanda Games, it reports, has indicated that Shanda's development of Learning from Lei Feng, a game gifted by the company to the Chinese Communist Youth League for its 85th anniversary (Jiang 2013, 19), was directly linked to tax breaks for the company (Moore).

Shanda's Learning from Lei Feng forms part of a category of games in China called "patriotic" or "red" games. Eric Jou of Kotaku.com describes them as follows:

> Characteristically a red game usually takes place from the World War II era to the Korean War. There are very few that are based on the modern era. The player usually takes control of a cadre in the Chinese army; said character would never be seen

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[57] This initiative mandated that all online game operators implement a "fatigue" system for minors. The system requires players to log in with their government-issued identity number in order to identify whether or not they are under 18. For minors, the software quickly diminishes a player's time credits or in-game currency after three hours of play, forcing them to log off after five (China Daily, 2007).

[58] This was a failed initiative that was abandoned after massive user protest. The Green Dam Youth Escort was a piece of software mandated to be installed on every new computer manufactured in China. It would monitor use of the internet and online games (Mackinnon, 2009).

[59] A 2011 project aimed at improving the real identification system (China Daily, 2011).

[60] Such as, for example, the Ministry of Culture's 2009 *Announcement on Regulating Applications for Content Censorship for Imported Online Games* (文化部关于规范进口网络游戏产品内容审查申报工作的公告).

[61] The Ministry of Culture's 2010 *Interim Measures* mandate that content alterations be approved.

bleeding or dying. In fact, in red games the character can never lose, especially to American and Japanese forces. The Japanese are often times painted as villains in red games, especially ones that deal with World War II (2012).

A number of these games have been developed in recent years. Some of the most widely known include a military game associated with the People's Liberation Army entitled Glorious Mission (Xu Qinduo), and Defending Diaoyu Island by ZQ Games[62] (Moore, 2013). The government-subsidized development of "red" games as "healthy" online games content both encourages the economic development of the online games industry in China and works to minimize the negative impact that online games are perceived to have on China's youth. One interview respondent for this research offered additional perspective on the association between “healthy” game content and a “red” theme: the respondent perceived the development of "red games" to represent a CCP effort to differentiate itself from Western culture and the capitalist and corporatist values that pervade the games industry. The informant explained: 'The CCP currently is not able to reproduce a new kind of culture which is much different from Western culture, from revolution culture...So they cannot, they can only develop such Red games'. The pursuit of economic growth and the prioritization of social responsibility in the policy making initiatives that relate to online games indicate that China's approach to online games policy development is consistent with the priorities demonstrated in new media policy development as it has been adopted in China over the last century.

Historical Precedent and Online Games Regulation

Policy Texts

While there are key priorities demonstrated by the policy initiatives and documents that comprise China's online games regulation, the development of policy in this area lacks coherence and therefore cannot really be understood as a single, co-ordinated approach. Appendix I presents a compilation of major existing policy texts that are relevant to online games and their emerging practice. A review of this list reveals that policy documents have been released by Central Party organs, by organizations at the State Council level, and by departments and organizations subordinate to the State Council. A few of these policy documents are not issued by government at all; they represent self-regulatory declarations issued by industry members.

[62] *ZQ Games*, a subsidiary of *PowerNet* known as *Shenzhen ZQ Game*, is associated with the Chinese Communist Youth League, who owns a stake in the company (Bloomberg News).

Government-issued policy texts[63] relevant to online games vary in type and generally fall into three categories: High-level documents issued by the National People's Congress or the Central Committee, and lower level administrative regulations issued by the State Council and its subordinate organizations. Central government policies tend to take the form of "decisions" or statutes that indicate a general direction for regulatory development. A recent example of this is the December 2012 *NPC Standing Committee's Decision on Strengthening Network Information Protection (全国人大常委会关于加强网络信息保护的决定).* The State Council and its subordinate ministries and organizations issue supporting regulation that, in theory, "implements" and "interprets" the regulatory directions signalled by the central government authority. In Rosenberg's 2001 description of China's legislative process, he observes that these administrative 'are generally either detailed rules for implementing laws or experimental rules where there are no governing laws' (242). Administrative regulations issued by the State Council that pertain to online games contain clear but general instructions for regulating the space. Examples of these include the State Council's *Measures for Managing Internet Information Services (*互联网信息服务管理办法), issued in the year 2000, and its recently revised version issued in 2012 by the State Council Internet Information Office. While these policy texts affect and include online games, they are designed as more general instructions for the regulation of a number of different industries. In contrast to these high-level texts, policies developed below the State Council level have been specifically designed for regulation of online games. In the absence of higher-level policy on the subject, departments have been free to develop policy that reflects their own interests in the space[64]. As a result, there is a high degree of inconsistency among policy texts issued at and below the ministerial level of government. There has been a proliferation of these texts in recent years, which fall into several categories. Texts explicitly labelled as regulations include: "provisions" (规定), "regulations" (条例), and "measures" (办法). They are often issued as "interim" or "draft" versions (Zhao), and may be posted on an official website for public comment. "Interim" (暂行) or "draft" (稿) status does not necessarily prevent a document from functioning as a fully promulgated regulation; the 2010 *Interim Measures on the Administration of Online Games (网络游戏管理暂行办法),* for example, was reported by China-specialist legal professionals as a document that provides clarification of jurisdictional responsibilities, regulates operating activities of online games operators, and stipulates liabilities related to illegal activities (Han

[63] Self-regulatory texts and their role in China's online games policy will be discussed in the next chapter.

[64] This approach to policy development of online games has been noted in the Chinese-language literature on the subject (eg., Li 2010, 1; Ye, 2010; Liu & Zhou, 31).

Kun Law Offices, 12-13; Introduction to the Interim Measures for the Administration of Online Games). It is unclear whether the *Interim Measures or* other relevant policies with similarly transient titles will ever reach full promulgation. It is possible that they may not; the 2012 draft *Provisions for the Management of Internet Publishing Services (网络出版服务管理规定)* were released as a *Revised Draft*, however no further policy was promulgated prior to the convergence of its issuing organization, the General Administration for Press and Publication, (GAPP) with the State Administration for Radio, Film, and Television (SARFT). Outside the explicitly described Regulations, Provisions, and Measures, other policies developed at or under the State Council level are not definitively described as regulations. However, they do seem to serve a similar function; "opinions" (意见) and "notices"(通知) have been responsible for a number of policy texts designed to regulate activity relevant to online games. Examples include: the 2005 *Ministry Opinions on the Development and Management of Online Games(部关于网络游戏发展和管理的若干意见) issued by the Ministry of Culture and the Ministry of Information Industry, and the* June 2009 *The Notice on Strengthening Administration of Virtual Currency in Online Games (关于加强网络游戏虚拟货币管理工作通知) issued by the Ministry of Culture and the Ministry of Commerce.* There is no clear link between this typology of State Council policy documents and potential enforcement practice.

Outside of the document categories described above, there are also documents issued internally that are not available for viewing by the general public. One respondent reported that they had seen such a document released by the State Council in response to the jurisdictional conflict that arose in 2009. This document, Document No. 24, was reported to contain detailed instructions for all relevant ministerial stakeholders about how the development and implementation of online games regulation would take place.

The above section has shown that new media technology in China has been deeply connected with politics over the last hundred years. Despite distinct political contexts, some key characteristics of the policy development approach to these technologies of radio, television, telecoms and internet-based media have remained consistent throughout this period. Governing stakeholders have actively supported the development of new media technology by investing heavily in these industries; the development of radio, television, telecoms, internet, and online games has been prioritized and supported with significant financial subsidy. Closely linked to the support for technological development has been the long-standing belief of the CCP that media is an essential political tool. This was explicitly established in relation to pre-digital media such as radio and television. The belief has been reflected more implicitly in the policy and development initiatives related to new media since the advent of the internet. The section has shown that these encourage economic growth, and, like the "red games" developed by the Communist Youth League and the People's Liberation

Army, work to disseminate political messages. Policymakers have also worked to mitigate against perceived negative impacts of new media technologies. This has been reflected in the heavy regulation on the levels of infrastructure, service, and content that has been developed along with new media in China. While key characteristics of China's new media policy have been historically consistent on the broader structural levels described above, similarities can also be observed between the regulatory priorities expressed in the content of the policy texts. The next section demonstrates this by comparing the regulatory goals articulated in key policy documents designed to regulate traditional media and online games. The following is a comparative content analysis between the Chinese Journalists Code of Professional Ethics *(中国新闻工作者职业道德准则) (Hereafter the Journalists Code)* and several recently issued texts that form part of the current policy environment for online games.

Comparative Content Analysis: Priorities Expressed in Policy Texts for Traditional Media and Online Games

Established regulatory practice for traditional media is increasingly important as a reference for converged media policy development; recent policy texts have adapted these practices to the regulation of online games. The *Journalists' Code* is a CCP-issued document that is designed to guide the regulation of traditional media outlets, and is issued by the All-China Journalists' Association, an organization with close links to the Central Propaganda Department (Brady 2005, 63). This document conveys government-held perceptions of the role of media in China that shape regulation in the traditional media sector. While the version reviewed in this section is from 2009, the document itself represents a revision of an older document that forms part of traditional media regulation in the CCP[65]. The following analysis demonstrates how policy priorities conveyed in this document are similar to those expressed in the more recently issued documents that outline policy for online games. Due to the variety of government agencies that are involved in online games policy development, the documents chosen for comparison with the Journalists' Code have been issued by different government organizations. The comparison of these documents also reveals differing emphasis on policy priorities by policy-issuing institutions under the State Council. This demonstrates how policy texts that regulate online games in China can conflict with each other, and points to the fact that policy documents do not reflect an agreed consensus of policy makers, but rather serve

[65] There have been a number of official guidelines for journalists in modern China, however in 1991 the All-China Journalists Association (ACJA) became the issuing party ("Guidelines Regarding the 1997 and the 2009 version of the Chinese Journalists Professional Code of Ethics"). The ACJA is a quasi-governmental organization; it is classified as non-government, however receives fiduciary support from the state and is listed as part of the national administration (“Structure of the State”). Chinaculture.org describes the ACJA as a social organization led by the Communist Party of China (CPC).

as a vehicle for governing stakeholders to pursue policy interests. The following section summarizes the centrally-issued *Journalists Code* in order to help develop understanding of central interests in media regulation and facilitate comparison to online games policy texts.

Summary: Chinese Journalists Code of Professional Ethics (中国新闻工作者职业道德准则)

The *Journalists' Code* begins conventionally, by establishing that Chinese journalism is 'an important part of the cause of socialism with Chinese characteristics' [中国特色社会主义事业的重要组成部分]. Journalists are both described as heir to, and charged with carrying forward, the 'Party's fine tradition of journalism' [党的新闻工作优良传统]. The document then begins to describe the specific responsibilities of Chinese journalists in the form of seven articles.

The first article declares that journalists must 'serve the people wholeheartedly' [全心全意为人民服务]. This is followed by a list of expected loyalties that consist of the Party, the motherland, and the people, in that order. Journalists are charged with serving as a link between the party/state and the masses: 'to play the role of a bridging link between the party, the government, and the masses' [发挥党和政府联系人民群众的桥梁纽带作用]. The specific sub-items of this article charge journalists with reporting on government activities, eliciting the interest of the masses in news reports, and fostering correct public opinion through appropriate praise and criticism.

Article 2 further emphasizes guidance of public opinion and highlights the role of positive propaganda in accomplishing this. The sub-items focus on prioritizing economic and scientific development while paying attention to social responsibility by managing public opinion and promoting 'harmonious society' [和谐社会]. While maintaining the focus on positivity and dealing "properly" with an emergency, the journalists are urged in the final sub-item to strive for public transparency as well as timely and objective reporting.

The third article of the *Journalists Code* stresses upholding truth, accuracy and objectivity in news reports. Sub-items prohibit exaggeration and re-printing of untruthful news, and promotes thorough investigation and verification of facts. Journalists are encouraged to assume responsibility for any errors in news reports and engage in prompt apologies in order to 'eliminate harmful effects' [消除不良影响].

Article 4 advises journalists on maintaining a 'good style of work ' [优良作风]. This addresses issues of journalist expertise, diligence, and morality. The sub-items specify strengthening a sense of responsibility, not receiving illegitimate payment, respecting colleagues, and avoiding plagiarism.

The fifth article espouses reform and innovation to be accomplished through a balancing the guidance of public opinion and following of the law with innovative ideas and adjusting to the times. Sub-item one stresses the need to research new forms of communication, to set discussion agendas, and to 'guide actions according to circumstances' [善于因势利导]. It also urges journalists to 'constantly improve the ability to lead public opinion and disseminate propaganda' [不断提高舆论引导能力和传播能力]. Sub-item two demands: conscientious research on the skill of dissemination [认真研究传播艺术], the 'use of modern means of dissemination' [利用现代传播手段], and use of the audience to develop understanding. Furthermore, this sub-item prioritizes increasing the influence and likeability of news coverage. The third sub-item specifically addresses the use of new technology, stating that journalists must: 'be adept at using new vehicles [for communication]' [善于利用新载体], 'new techniques for gathering information, releasing news, increasing timeliness, and expanding coverage' [新技术收集信息、发布新闻，提高时效性，扩大覆盖面].

Article 6 highlights compliance with the law and adherence to the journalistic guidelines of the Party, as well as protecting national interests and keeping state secrets. Sub-items address the publicity guidelines regarding ethnic minorities, privacy and slander guidelines for the subjects of news reports, and the responsibility of journalists toward the mental and physical health of vulnerable sectors of society. They additionally stipulate that journalists must respect the administration of justice, being sure not to express prejudicial guilty conviction through report or commentary. The final sub-item addresses news reports that involve foreign affairs or foreign nationals; journalists are instructed to comply with China's foreign policy and accession to international treaties.

The final article of the *Journalists Code* elaborates on the international engagement mandates for Chinese journalists. The general direction to journalists is as follows: 'promote collaboration and exchange with international colleagues' [促进国际新闻同行的交流与合作], 'cultivate the vision of the world and international perspective' [培养世界眼光和国际视野], and 'build a bridge of communication between China and the world' [搭建中国与世界交流沟通的桥梁]. Sub-items discuss the specifics of international engagement. Journalists are told to maintain a positive international image, disseminate Chinese culture throughout the world, report on the economic and social development and national culture of other countries, and actively participate in the organization of international exchange and co-operation with foreign media. The item finishes with instructions toward positive international engagement: 'enhance understanding, deepen friendship, work toward the harmonious world of mutual prosperity to promote the building of lasting peace' [增进了解、加深友谊，为推动建设持久和平、共同繁荣的和谐世界多做工作].

Analysis of Policy Priorities: the Journalists' Code and Online Games Policy Texts

The *Journalists' Code* reflects some key government priorities and interests that can be found in the policy texts for new media and online games. First, the government builds a concept of journalism that frames it as part of the government, rather than separate from it. This perception is first conveyed by the statement that journalism is part of the socialist cause, and is further evidenced by article 1, which frames journalism as a position of public service. The article states that the first duty of journalists is to 'Serve the people wholeheartedly' [全心全意为人民服务], however the first required loyalty is to the Party. While a simply stated goal of serving the people could be interpreted as evidence of an institution that works outside of the government on behalf of the people, the stipulated primacy of Party loyalty over loyalty to the people conveys instead that journalists are serving the people on behalf of the Party[66]. This conceptual placement of journalism within the government framework provides a theoretical foundation for the expectation of information management and control that characterizes the rest of the text: expectations encompass not only the dissemination of information (Articles 1, 2, 5, 7) but also the management of public opinion (Articles 1, 2, 4, 5), the caretaking of physical and mental well-being of the people (Articles 1, 2, 4, 6), and the safeguarding of national unity, prosperity and security (Articles 6, 7). A similar approach to media conceptualization and delegation of responsibility to media workers has been used as the policy framework in some of the online games policy texts.

The responsibilities ascribed to journalists in the *Journalists Code* convey information about government priorities and methodologies for information control and management that can also be found in some of the policy texts for online games. According to this document, journalist responsibilities include influencing public opinion and maintaining public focus on "healthy" subject matter. Journalists are told to elicit interest in their medium (Article 1), to set the agenda for discussion (Article 5) and to criticize that which goes against public interest (Article 1). In order to maintain this control and ability to elicit public interest, the text further mandates familiarity with new forms of communication (Article 5) and the use of crowd knowledge to develop understanding (Article 5). This may reflect awareness of the rapid development of media technology and the associated increase in opportunity for

[66] This interpretation is supported by secondary sources; Brady (2005) and Hu (2005) both report evidence of this perception in their primary research. Brady contrasts this understanding with the "Fourth Estate" role expected by liberal democratic standards of media ethics. She notes: 'Rather than a Fourth Estate...with implications of the media having powers independent of the government to critique government policy and issues, propaganda theorists prefer the term the "Fourth Governmental Branch" (*di sige bumen*). This means that the media is connected to the Party/State system of policing and controlling society, not apart from it' (66).

communication beyond the reach of current management efforts. While these ascribed responsibilities indicate strong prioritization of government influence and control over public opinion, the final article of the *Journalists Code* suggests significant concern with international engagement; the article instructs journalists to actively disseminate knowledge about Chinese culture and to develop international exchange and co-operation.

The policy priorities and conceptualizations of media ethics expressed in the *Journalists' Code* are similar to those outlined in the regulatory texts relevant to online games in China. For example, the 2010 *Interim Measures* instructs online game operators to protect minors, public health, and social benefits, and charges operators with safeguarding state secrets along with trade secrets and user information (Section 1 Article 4; Section 4 Article 28). Despite the pervasive presence, in online games policy texts, of this concern with the protection of the public, minors, and the state, documents issued by different agencies tend to vary in emphasis. Some focus on framing new media within the socialist media conceptualizations of the *Journalists' Code*, whereas others express interest in the "healthy development" of internet industries without explicit reference to the socialist cause. The Public Pledge of Self-Regulation and Professional Ethics for China Internet Industry (Public Pledge) , and the GAPP's December 2012 Management Requirements for Internet Publishers (Management Requirements) exemplify the first category; they apply the *Journalists' Code* framework to online games. Other relevant texts, such as the MOC's *Interim Measures on the Administration of Online Games* (*Interim Measures*) and the State Council Internet Information Office's 2012 revised *Measures for Managing Internet Information Services* (Measures), apply the Journalists' Code framework more loosely. The following examples explain how these differences are manifested.

Application of the *Journalists' Code* framework within the ISC *Public Pledge* and the GAPP's revised *Management Requirements* is evident in their use of language that explicitly links internet industries (ie. online games) to the socialist cause. It can also be observed in the direct attempt by GAPP to apply journalist licensing requirements to online games operators and developers. The *Public Pledge* places itself (and the internet industries it represents) within broader national and socialist goals in Chapter 2, Article 6:

> 'In promoting the development of professional ethics of the Internet sector, the state laws, regulations and policies governing the development and administration of the Internet shall be observed consistent with and to carry forward the rich cultural tradition of the Chinese nation and the moral code of socialist spiritual civilization'.

GAPP's new *Management Requirements* include similar rhetoric, requiring in article 3 that internet publishing services 'adhere to the direction of serving the people and serving

socialism' (坚持为人民服务、为社会主义服务的方向). This text additionally defines online games as "internet publishing services" (Section 1, Article 1.1) and identifies them as subject to the certification requirements currently applied to journalists (Chapter 2, Article 9). The MOC *Interim Measures* does not emphasize the socialist cause or subject online games companies to journalist certification requirements, but works to establish a framework for pursuing many of the same policy interests expressed in the *Journalists' Code*. This framework, like the *Journalists' Code*, outlines government hierarchy and allocates media responsibility; it establishes a clear order of online game management by various levels and sectors of government (Section 1, Article 3), and allocates social responsibilities to online game operators. While this framework for media regulation shares many characteristics of that employed in the *Journalists' Code*, this conceptualization of media responsibility and government hierarchy is significantly more relaxed; game operators are not explicitly assigned a role in the socialist cause, nor are they described as heir to any Party traditions. This leaves room for a significant difference in perspective between the government and the online games companies and may affect government approach to future conceptualization and/or compliance of online games operators.

The *Journalists Code* offers some insight regarding central government stakeholder interests in and approaches to new media policy development. Its conceptualization of journalism as an organ of government rather than a separate industry and/or institution provides a reference point for the Party's current and potential future conceptualizations of new and emerging forms of media. Although this conceptualization continues to shape the legislative framework in some of the policy for new media (including online games), other policy documents, such as *The Interim Measures for the Administration of Online Games* reflect a looser application of it. This model may not be effective long term as media convergence and transnationality confuse the boundaries of national jurisdiction. While some policy texts do not explicitly describe online game operators as part of the socialist cause, they do ascribe them with responsibilities that coincide with some of the primary responsibilities assigned to journalists in the *Journalists Code*. These include: protection of the public's physical and mental health, guidance of public opinion toward maximized social stability, and protection of national secrets. The dominant presence of these concerns in these official policy texts reflects a consistent government interest in these areas.

Policy texts surrounding the online games industry continue to represent the fragmented and competing interests of a multitude of government stakeholders; 2012 saw the

introduction of at least two major policy texts[67] whose existence may question the validity of the jurisdictional authority asserted by the Ministry of Culture in the 2010 *Interim Measures*. The June 2012 *Measures for Managing Internet Information Service* reflects the involvement of a higher-ranking office (the newly-created State Council Internet Information Office (SCIIO)) in the regulation of online games, but leaves continued room for jurisdictional confusion and competition between the MOC and GAPP. The document specifies roles for the MPS and MIIT (article 3), however it assumes knowledge of the responsibilities of other ministries responsible for content and licensing; these are grouped together as "relevant responsible departments" [有关主管部门] (article 9, section 2) and "departments responsible for internet information content" [互联网信息内容主管部门] (article 3). In December 2012, GAPP issued a policy text which directly contested the authority of the MOC, and even that of the SCIIO. The *Provisions for the Management of Internet Publishing Services (Revised Draft)* (*网络出版服务管理规定(修订征求意见稿)*) define online games as "internet publishing services" [网络出版服务] (chapter 1, section 1, article 1) and thereby claim that their operating companies are subject to journalistic training requirements (article 44). In a comparison between these and the 2012 SCIIO regulation, PRC lawyer You Yunting describes the GAPP text as 'essentially beyond any lawful authorization, and...in fact contrary to rules previously issued by the State Council' (2012). The inconsistency of interests reflected in these recent policy texts indicates a continued lack of regulatory clarity and internal consistency in the regulatory process. It additionally indicates that the texts, as expressions of the interests of their issuing parties, are instrumental in the negotiation of new media regulation.

Privatization

The section above has shown that China's new media policy environment is connected to historical precedent, on a broad scale, in the overarching policy development priorities demonstrated over time, and at a micro level, in the content of policy texts. The history of new media policy development described in this first section has also demonstrated that the economic and political climate have been important factors in the changes to China's media regulation over time. The historical contextualization of China's new media policy concludes with a case description that demonstrates some of the recent impacts of economic and political change.

In recent years, the commercialization of China's media sector has meant that private stakeholders are increasingly active and influential. Partial privatization of Chinese media

[67] These are the June 2012 *Measures for Managing Internet Information Services* issued by the State Council Internet Information Office and the December 2012 *Provisions for the Management of Internet Publishing Services* issued by the GAPP.

organizations has allowed them to raise capital through investment while maintaining controlling ownership of the company, if necessary[68]. This has created opportunities for some individuals to pursue their interests in media policy through ownership and investment. As the research explores in Chapter IV, individuals and private interests wield a significant amount of power in China's online games industry. The case of Hu Shuli provides an example from traditional media that demonstrates how private ownership adds complexity to the regulatory dynamic in China's media sector in a context of partial privatization. This provides a valuable contextual foundation for understanding the changing power dynamics that have accompanied the complete privatization of China's online games industry.

Case example: Hu Shuli

In 2009, diverging interests were reported to have emerged between the two original founders of Caijing magazine, Hu Shuli and Wang Boming. Hu Shuli was Chief Editor of the magazine, renowned for her ability to work on the edge of regulatory boundaries; Wang Boming leads the publicly owned Hong Kong listed company that owns the magazine[69]. In 2009, Caijing had become extremely profitable for SEEC Media Group, accounting for forty-seven percent of revenue in 2009 (Hu Yinan, China Daily). According to information given to the *Wall Street Journal*, Hu felt the magazine lacked both financial and moral support from its SEEC owners, who demonstrated increasing interference with her editorial independence and failed to 'back [the magazine] in battles with authorities over its coverage of ethnic riots in Xinjiang' (Johnson and Canaves). Reports indicate that there was a general push by the SEEC for the magazine to avoid coverage of controversial political and social topics and instead concentrate more strictly on finance and economics (Johnson and Canaves). According to *China Daily*, Hu was working to resolve the conflict by pressuring SEEC to give up controlling ownership to outside investors (Hu Yinan, 2009). The final outcome of the dispute was the resignation of Hu Shuli along with a large number of senior staff, all of whom were promptly replaced by the SEEC (China Daily, Hu, 2009). Hu and her colleagues succeeded in a subsequent establishment of a new magazine that would support their interests.

In this case, Hu Shuli's individual interest tended toward deliberate steps toward media reform (Qian, 2009) through operation at the edge of regulatory boundaries (Johnson and Canaves). This interest was shared by a number of other individuals, including not only the colleagues that resigned with her, but other members of the journalistic community in China

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[68] See Chapter IV for further detail on partial privatization.

[69] The Stock Exchange Executive Council (SEEC) Media Group

(Qian, 2009). By contrast, the institutional interests of the SEEC media group tended to avoid content that risked negative regulatory attention. The final outcome of the negotiations between Hu's interest in pursuing media reform, and the institution's interest in avoiding controversial risk, was a separation of interests between institutions. In order for Hu and her colleagues to continue to operate in their own interests, it was necessary to exert influence over institutional interests through ownership. While the case of Hu's resignation from Caijing demonstrates some potential for influential individuals to garner support and create new institutions, it also demonstrates the relative dominance of institutional rather than individual stakeholder interests in China's media landscape. It additionally demonstrates the diversity of stakeholders and interests that may be involved in China's independently owned media organizations and points to the increasing complexity of institutional stakeholders and their ownership. This serves as a valuable reference point for understanding the complex variety of stakeholders and interests that characterize China's completely privatized online games industry, and demonstrates the power that individual actors can wield through ownership in the context of a privatized media sector. The power dynamic between individuals and institutions is playing an increasingly important role in China's online games policy development. This dynamic will be explored in the next chapter, in the section on Variable Interest Entities. An example of this dynamic is also discussed in Chapter V, in the case of Alibaba and Ma Yun.

The research has highlighted key regulatory challenges that have been raised by new media technologies and political reform in China over the last century. It has also explored the policy development responses to these challenges over time. Key challenges raised by the decentralization and commercialization of new media in the reform era included pluralization and fragmentation of government interests. These resulted in jurisdictional confusion and competition between government stakeholders that was resolved with changes to the institutional regulatory framework. Institutional convergence has been a useful strategy for dealing with the challenges of media convergence in the past, however media convergence has outpaced institutional reform and raised additional challenges in recent years. Jurisdictional confusion and conflict continue to challenge policy development surrounding online games and their emerging practice. Policy implementation challenges continue to be raised by the fragmentation of interests among government stakeholders, however new and increasingly converged media have been accompanied by new implementation challenges. The increased ability of consumers to participate in media production and their greater familiarity with the new technologies relative to policymakers means that users and user innovation have become increasingly important factors that impact successful policy implementation and development. Technological development has outpaced the evolution of policy in this area, and as a result there is significant legal confusion that surrounds not only online games, but emerging practices such as gold farming and Real-Money Trade. The next

section reviews some major regulatory challenges currently faced by China's policy makers as they look to develop future policy to regulate online games and their emerging practice.

Regulatory Challenges

Policy Implementation

While regulation of China's online games industry demonstrates priorities that are consistent with other internet-related regulation, it has also encountered similar difficulties with policy implementation. Disconnection between central regulation and local policy implementation has been noted as a common theme in China's internet cafes, with regards to both café licensing and user compliance (Qiu & Zhou, 2005; Y. Zhou, 142-5). It is also important to note that implementation difficulties related to game operators is also an issue; compliance is far from certain, particularly when said compliance conflicts with their economic interests. Game operator-introduced workarounds to the 'fatigue' system provide a prime example of this[70] (Lou; Martinsen), and a quick search confirms these workarounds are still widely available.

Another regulatory difficulty surrounding the online gaming industry in China relates to the emergent nature of the regulation itself.

Legal Confusion

With the increasing speed of technological development, there lacks a comprehensive legal framework for online game regulation. This leaves significant room for legal confusion surrounding online game activity. Development of appropriate regulation for new technology requires a certain level of law-maker familiarity with it; areas that require regulation must not only be identified, but emergent uses and activity must be understood by the regulators. The two key informants directly involved in regulating online games identified this as a barrier to effective policy development: they reported that high-level decision-makers in China generally lacked familiarity with game technology (R8; R9). To date, online games regulation has developed to the point where areas for regulatory concern have been expressed and interim policies established, however most of these policies apply to game operation and licensing and neglect to regulate activity that takes place within the games themselves. Examples include online protests, gold farming, and other forms of real-money trade. In his *Virtual Justice: the new laws of online worlds*, Lastowka notes this lack of regulatory attention as a global phenomenon; 'No governments, at this time, are taking a comprehensive approach to

[70] Moss reports the introduction of a '1.5x experience ticket' available for in-game purchase that would counteract the effects of the fatigue system for minors introduced in 2007.

the regulation of virtual worlds[71]' (70). He explains that 'Despite their contemporary popularity, the technology is still too young and unfamiliar to most lawmakers. As a result…courts and other legal authorities…are tasked with applying existing laws to virtual worlds' (70-1). One area where this is particularly evident and has been contested in courts (Lastowka 2010), surrounds the issue of virtual property in online games. The real-world value of virtual property has been a subject for much legal debate in China and is surrounded by conflicting views (see Beijing Review 46). Areas for legal concern include: the potential effect of virtual currency usage on the value of the rmb (Smalera), and the potential for criminal exploitation of the currency within the new medium such as money laundering and online gambling (Chen 2007; Fowler and Qing; Martinsen).

Respondents that had worked as legal counsel for game companies described significant legal concerns about the confusion over virtual property ownership. One respondent noted:

> If a user actually has an ownership interest in any item that exists within your game, then you would technically need to keep that game going. But that just doesn't work from a commercial perspective, you have to be able to shut down a game if it's not profitable. You can't keep running these servers to keep somebody's property interests alive. So I'm sure that every operator out there has gotta take the same position (R5).

Taking this position, the informant explained, involved implementing End User License Agreements (EULAs) that stipulate that all virtual property belongs to the game company (R4, R5). Respondent 4 remarked that this does not hold up well to PRC law, but that lawyers include it in EULAs anyway in order to protect the game companies.

Another contributing factor to legal confusion is the unofficial circulation of policy texts that with unclear legal status. One interview respondent that worked as an industry developer indicated the existence of a policy text that explicitly protects the virtual property rights of game players in China (R11). The policy document is entitled the People's Republic of China Virtual Property Protection Law (Draft) (中华人民共和国虚拟财产保护法(草案)). It can be viewed online, however it is not associated with the website of a specific institution. Its official legal status remains unclear. Respondent 8, an informant that worked in policy development in this area, did not explicitly name the document but reported that China's law was in the process of being amended to provide users with a legal basis to prosecute the theft of virtual assets. Should this document gain official status, it would likely facilitate the growth of China's

[71] The term "virtual world" is regularly used by academics to refer to the 'socially complex' (Lastowka, 2005: 2) online game environments of MMOGs (see, for example, Castronova 2001; Lastowka 2010; Taylor, 2004).

online games virtual property trade. One factor that exacerbates the regulatory confusion about online games is the jurisdictional competition among regulatory agencies in the Chinese government.

Jurisdictional competition

In addition to difficulties with policy implementation and legal confusion, the governmental fragmentation and jurisdictional competition that emerged with the growth of the internet industry in China has emerged in full force for online gaming.

The explosive growth of the online games industry[72] in China has generated significant interest among both foreign and domestic investors. Amid this overwhelming growth, significant competition has emerged among governing agencies in China to claim regulatory jurisdiction over the industry. A particularly public conflict between the Ministry of Culture (MOC) and the General Administration of Press and Publication (GAPP) has caused significant confusion among industry players.

Case example: 2009 World of Warcraft Suspension

Vivendi Games[73] entered the Chinese market in 2004, when it licensed the Chinese company *China The9 Interactive* to operate *World of Warcraft,* the flagship game of its subsidiary *Blizzard* (Pilarowski 2009). The partnership with *The9* continued until 2009, when Blizzard's license was to expire; *Blizzard* announced a switch in partnership from *The9* to the company *NetEase*. Lack of regulatory clarity meant that *Blizzard* was not advised it would need to apply for approval, and it wasn't until the Ministry of Culture released its *Announcement on Regulating Applications for Content Censorship for Imported Online Games* (文化部关于规范进口网络游戏产品内容审查申报工作的公告), eight days after *Blizzard's* announcement, that the situation became problematic. The *Announcement* indicated that the MOC needed to approve any significant changes in the nature of business operation (which included Blizzard's). One month later, GAPP issued an announcement that its approval was also required for such a change (Pilarowski). Additional complications arose when *The9* sued Blizzard for the change in partnership. In 2008, Kou Xiaowei (寇晓伟), then director of the technology and digital publishing bureau at the GAPP, had indicated that in case of a dispute

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[72] The online gaming industry in China has been enormously successful in the last ten years. Until recently, it comprised the largest part of China's internet market (CNNIC 2010). Recent reports indicate that gaming is continuing to impress international investors, as many Chinese users take up online gaming through mobile devices (Business Insider).

[73] In 2008, Vivendi Games merged with Activision, forming the company Activision Blizzard (Nasdaq: ATVI)(Kotaku 2008)

between a foreign and a Chinese game company, 'GAPP will suspend the approval process for all games from the foreign company until the disputes are settled to the satisfaction of the Chinese company' (in Pilarowski). *The9* launched 4 lawsuits against *Blizzard* in 2009, significantly delaying the approval process and contributing to the game's suspension of service on June 6, 2009. The GAPP further exacerbated this process by announcing an investigation into the Blizzard-Netease joint venture, which GAPP indicated may violate regulation (Pilarowski). Pilarowski points out that the market access restrictions that this joint venture would violate in fact seem to violate China's World Trade Organization (WTO) obligations[74]. Citing an August 2009 decision regarding market access disputes in the audio-visual industry, Pilarowski speculates that these obligations may cause the market access restrictions in the online gaming industry to loosen. The Ministry of Culture responded to these measures by 'criticising GAPP's "surly interference"' in the regulation process (*Web2Asia*). On June 3, 2010, the *Interim Measures on the Administration of Online Games (网络游戏管理暂行办法)* offered gsome clarification on the jurisdictional issues between the MOC and GAPP. The Ministry of Culture was designated the applicable authority in online gaming activity, while the GAPP was still involved in the regulation and content review process.

By its own account, the *Interim Measures on the Administration of Online Games* is only an interim set of measures, indicating that further development is not only necessary but in progress. The regulations regarding online games outlined in the *Interim Measures* cover a range of aspects of the industry, including restrictions on virtual currency and involving (presumably for this reason) both the Ministry of Culture and the Ministry of Finance. The *Interim Measures* establish restrictions for game developers, game operators, and individual users. Key concerns conveyed in this document include: public health concerns, content concerns, and concerns over the use of virtual currency. Many of the regulations within this document are aspirational and unenforceable under current conditions of infrastructure, technology, and business. Among the most ambitious of regulations are the real name registration policy[75] (on which the restriction of play of minors depends) and the restriction on use and exchange of virtual currency to in-game only. Currently, the effectiveness of the real name registration system for online games depends on the compliance and ubiquity of officially licensed internet cafés, a situation which has not reflected reality, although there has been marked improved in recent years (HRIC, Zhou 141). Effective implementation of the real-name

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[74] In particular, Pilarowski notes market access and national treatment commitments.

[75] The real name registration policy for online games, announced in 2007 as part of an anti-addiction system for minors and further developed with the *Interim Measures*, dictates that online game operators and internet cafés must require player registration with government-issued identification prior to allowing access to gaming services (Wang et al.).

registration system also depends on the technical capacity and compliance of the online game operators, as well as the compliance and honesty of individual users. Wang et al. indicate that there is little incentive for the operators to implement the required technical measures, and that individual users "may just use another person's identification certificate, fabricate information, or even login to overseas online game servers via proxy IPs". The overwhelming size and speed of the online game industry's growth in China has far outpaced the ability of state interests to develop relevant policies, let alone firm systems of control with which to enforce them.

Innovative Practice and Use

The concerns conveyed by the Chinese government in the *Interim Provisions* regulation document but scratch the surface of the regulatory issues raised by online gaming technology and activity. Public health concerns, concerns over game content, and concerns over the use of virtual currency all reflect readily visible issues that have drawn public concern. The potential negative health effects of game play have been much publicized in the Chinese media; stories of death, including suicide and even murder are associated with alleged 'internet addiction' (wangluo chengyin (网络成瘾)) (Golub and Lingley 60-61). Content concerns have also been a source of public attention in China (China Daily 2010b). Virtual currency has equally gained attention in China, both for its potential to threaten the local currency and for its facilitation of online gambling activity (Ewing). Issues that have gained less public attention are just as pertinent to online game-related policy development in China. Lesser-known ways that online games are used in practice challenge existing media policies and open new space for economic development that may be beneficial to China's economy. Specific cases of practices that challenge existing regulation include in-game protesting (such as the April 2010 anti-bot protest in Aion[76]) and the practice of 'gold farming'. "Gold farmers", key actors in Real-Money Trade (RMT) typically operate on foreign servers. They are thereby able to circumvent the domestic restrictions on virtual currency trade and use, conducting their accumulation of virtual assets abroad for later sale to international clients. For example, outside of China, it is often legal for virtual currency issuers to also operate as a trading platform for virtual assets. Blizzard's real-money auction house in Diablo III, active from 2012 to 2014, was a high profile example of this. Gold farming workers operating on foreign servers are also able to circumvent all technical restrictions enforced by China's domestic game

[76] The April 2010 protest against the use of bots in the MMOG *Aion* involved 30 000 players and led to server shutdowns (MMOsite.com; Onlinemassivelymultiplayer.com). A video capture of the event can be found in the MMOsite.com report.

operators, such as those that relate to accessibility and those that restrict use of specific key words in online conversations.

Many of the policy issues raised by these evolving uses of online game technology exist within a context of conflicting interests and institutions both domestically and internationally. Literature in the business, information technology, and virtual worlds studies fields reflects widespread opinion that the media convergence offered by online games is but a step toward what will eventually become a more ubiquitous and interoperable virtual world. Dr. Yesha Sivan, professor of software engineering and researcher of virtual worlds, likens our current versus potential use of virtual worlds to our pre-browser use of the internet. He states:

> I maintain that real virtual worlds will, eventually, offer a paradigm shift. What we see now with Second Life, World of Warcraft, Club Penguin and more than 100 other worlds, is just the beginning. In comparison to the Internet age, we are at the "Gopher" stage (Gopher was a prebrowser method to view hyperlinked data) (8).

As media continues to converge, allowing wider access, further communication decentralization, and faster economic and social transactions, the ways in which we use this media will continue to challenge established policies and continue to outrun and outflank the current processes of policy development. China's approach to regulation of converged media is not only important to domestic development, as various conflicting interests and institutions vie for control, but is important to international development, as transactions continue to transcend national boundaries and private interests challenge international agreements and regulations.

Case Example: Online Protest

One example of the way in which innovative use of online games is directly challenging existing policy is illustrated by a 2010 'machinima'[77] video entitled War of Internet Addiction (网瘾战争). In 2009, *World of Warcraft* players in China used this technique to create a film which directly challenges and objects to the state regulation of online games. The seven-part film, available on both *Tudou* and *Youtube*, positions *World of Warcraft* players (or 'Azeroth Citizens') as victims engaged in an epic battle against a personified 'Green Dam'[78] monster

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[77] 'Machinima' is, according to machinima.org, 'filmmaking within a real-time, 3D virtual environment, often using 3D video-game technologies'. An unofficial definition of machinima might call it using video game animation and video capturing to create a film.

[78] This is an unveiled reference to a piece of software called the Green Dam that was scheduled to be mandatory installation on every new computer in China beginning on July 1, 2009. The software would monitor and control internet activity at the level of individual

using weapons of 'harmony' to destroy them. The video is more than just a protest against the suspension of *World of Warcraft*; internet censorship in general is attacked and an incitation toward action expressly conveyed. In part 7 at 7 minutes 17 seconds, the storyline falters as a voice speaks expressly to the audience:

> All the World of Warcraft players watching this video right now, I am Kan Nimei. Please raise your hand, I need your help. I know, when they closed Youtube, you said nothing, because you are not a Youtuber. When they closed Twitter, you said nothing, because you are not a Twitterer. When they killed Fanfou, you said nothing, because you are not a member. Now, they are coming for World of Warcraft…There is nothing we can do to save the game we love. But you could at least raise your hand. Lend me your voice, your strength, through this nationwide LAN. For our soul's home, speak out with me, "We are World of Warcraft Players!" Are all of you numb and apathetic already? (*War of Internet Addiction*).

The Green Dam monster is seen to prepare a death blow entitled "Harmony electric shock". The players then respond in text to Kan: 'We are afraid to speak, because even if we speak up, they would ignore us or quote us out of context…We are used to it…silence. But silence doesn't mean obedience' (*War of Internet Addiction*). The video ends with the souls of the players in Azeroth coming together to form a bomb-like weapon that destroys the Green Dam monster. This video is clearly explicitly challenging the government restrictions, not only on online games, but on the wider internet. As a machinima film, it combines online game technology with other communications technology on the internet to distribute an explicit political message. It has not yet been removed from *Tudou* despite its popularity; it won first prize at the 2010 *Tudou* film festival. It is clear that use of these media is pushing boundaries and that policies will have to be developed that account for and adjust to this type of innovative activity. While this example demonstrates in-game protest against existing real-world regulators, real-life protests against the virtual "law" of game companies has also been reported. Respondent 1 reported research on violent user protests at game company offices.

The next chapter further investigates the relationships between key stakeholder interests in policy development for online games in order to shed light on the ways that emerging practice is challenging further development of policy in this space. The chapter works to understand the major stakeholders identified in this chapter in the context of the institutions and structures that frame them, and considers the primary ways in which

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computers. In June 2009, however, the MIIT made the software's installation optional (Cui, Watts). State funding was from the software's developers the following year (R. Li).

interaction that affects policy development takes place. Understanding how current policy is negotiated around online games establishes a basis for understanding the way emerging practice may change this dynamic.

Chapter III: Practice

Structures, Interests, Interactions

> The consequence of regulation is not determined by technical configuration or a single set of regulatory objectives. Rather, it results from the interplay between a wide variety of actors, their goals, and the materialization of these goals in administrative, commercial, and technological configurations, a feature that characterizes China's internet regulation as a whole (Qiu & Zhou, 2005, 262).

Exploration of the technical and regulatory environments surrounding MMOGs and RMT in China has revealed a complex, quickly evolving new media landscape comprised of an ever-increasing number of national and international stakeholders. Major policy texts relevant to China's online gaming and real-money trade have been examined and contrasted with the challenges of policy development and implementation. The examination revealed a gap between policy documents and regulatory practice; policy texts were used to express the interests of their issuing parties, however the documents themselves failed to account for the competing jurisdictional interests and implementation difficulties that shape actual practice.

The examination of regulatory challenges raised by emerging practice in online games has indicated a fragmentation of interests within government, among policymaking institutions (as in the *World of Warcraft* suspension case example), and between state, provincial, city and county levels of government (Qiu and Zhou 7). It has additionally highlighted challenges raised by the increasing influence of other stakeholders with competing interests, in particular media operators and users[79]. The negotiation of interests between and within these stakeholder groups seems to account for a significant part of the evident gap between policy and practice. Regulatory practice, then, is a result not of proscriptive policy texts but of the balancing of divergent stakeholder interests.

Examples from the previous chapter have signalled some of the key stakeholders and interests in the regulation of China's online games[80]. The chapter also analysed the

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[79] See the Regulatory Challenges section of Chapter II and the Case Study in Chapter IV for examples.

[80] The case of jurisdictional dispute pointed to the strong involvement of the Ministry of Culture and the General Administration of Press and Publication; the machinima policy protest indicated the significant potential power of users in policy development; the policy

stakeholders and interests relevant to gold farming in detail. The exact nature of the relationships between these emerging stakeholders, however, is difficult to determine. It is not described in the policy texts, it has not been well-documented by third parties, and case-level analysis provides limited insight about the underlying dynamic of policy negotiation. A fuller understanding of this dynamic requires a deeper examination of stakeholder interests and the structures and institutions that frame them. The chapter works to develop understanding of the major stakeholder interests and how they are balanced to determine regulatory practice for online games in China. This begins with a review of the primary tensions that have been observed between stakeholders and the interactions that express them. This is followed by an exploratory analysis that considers the structural context, major stakeholder interests, and modes of interaction that take place within and between each stakeholder category.

Tensions

As emerging practice involving online game environments pushes the boundaries of existing regulation, strong tensions between and among China's government regulators, media operators & producers, and public users can be observed. For example, online protests that directly challenge new regulation indicate tension between public and government stakeholders. The machinima video "War of Internet Addiction" (网瘾战争) by the *Oil Tiger Machinima Team* discussed in the regulatory challenge section exemplifies this; the user-made video explicitly challenges government restrictions on online games, as well as the wider internet. Another example of stakeholder tensions can be found in the ownership structures of online games companies. Chinese online games operators that are listed on foreign stock exchanges regularly and deliberately circumvent government restrictions that limit foreign ownership in pursuit of foreign capital[81]. This creates tension between government regulators and media producers as they negotiate a balance between the economic benefit of foreign capital and the reduction of domestic control of the companies. There is also strong tension that exists between the public users and media producers. This emerges, for example, when users feel treated unfairly by a game company; cases of virtual theft that appear in court are often the result of tensions between users and media companies that have gone unresolved[82].

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circumvention measures taken by online games companies indicated that the profit-oriented interests of private companies are a factor in determining policy implementation.

[81] See Bai and Zeng for a detailed description of this process.

[82] An example of this was a 2003 user lawsuit against the makers of a game called "Red Moon". Li sued the game developers for the return of his virtual property that had been stolen by a hacker (Lyman).

Tensions exist not only between government, media, and public stakeholder groups but also occur between sub-level stakeholders within each group. Within the government stakeholder group, tensions emerge between government agencies as they each pursue their interests in regulating online games. The 2009 suspension of *World of Warcraft*, for example, resulted from jurisdictional tensions between the Ministry of Culture and the General Administration of Press and Publication. Within the Media stakeholder group, tension can occur between foreign game developers and Chinese game operators if a foreign developer with lucrative content decides to switch local partners. This happened when Blizzard chose to license *World of Warcraft* to NetEase rather than The9; in the face of potential related profit loss, The9 launched lawsuits against Blizzard, claiming property loss compensation and commercial defamation 2009 (*ChinaTechNews.com*). Tensions also regularly arise between sub-level stakeholders in the public, for example when the play styles of recreational and professional players conflict[83]. The tensions between and within stakeholder groups that are signalled by the examples in Figures 3.1 and 3.2 emerge through the actions and interactions of stakeholders as they each pursue their interests in online games regulation. A visualization of these tensions draws attention to the interrelationships between these groups. The tensions are depicted in **Figures 3.1** and **Figure 3.2** below.

[83] The author's 2008 research on tensions between recreational players and gold farming workers in *World of Warcraft* highlighted these tensions. See Arnason 2008 for a full account.

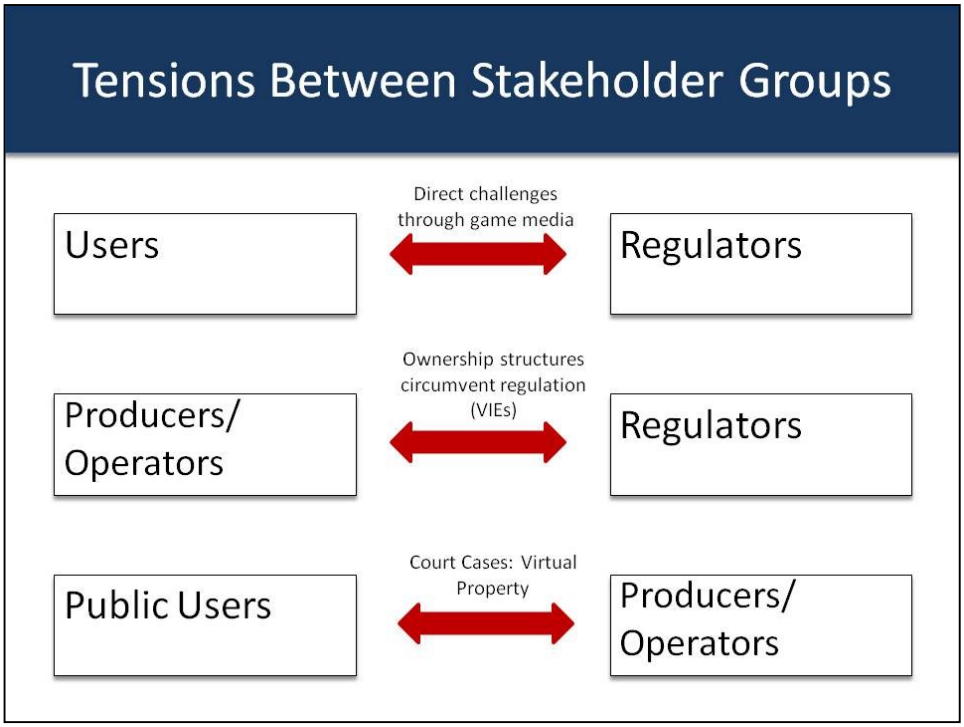

Figure 3.1 *Source: Author*

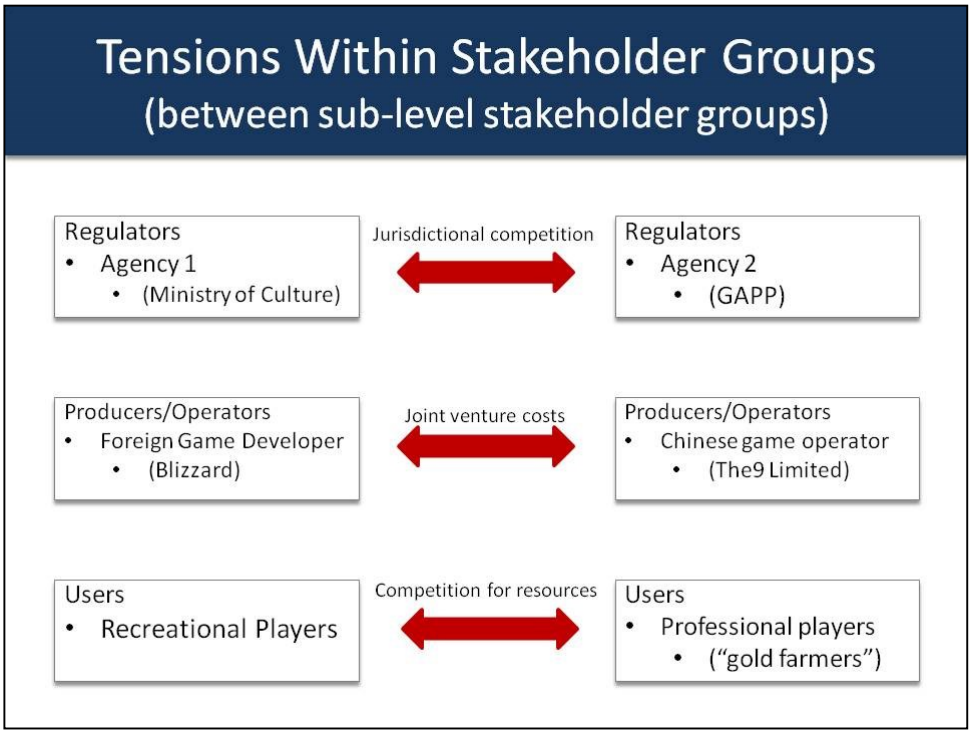

Figure 3.2 *Source: Author*

A broader perspective on the observed interactions highlights the interrelationships that exist between stakeholders. A visualization of these interrelationships are depicted below, in **Figure 3.3**.

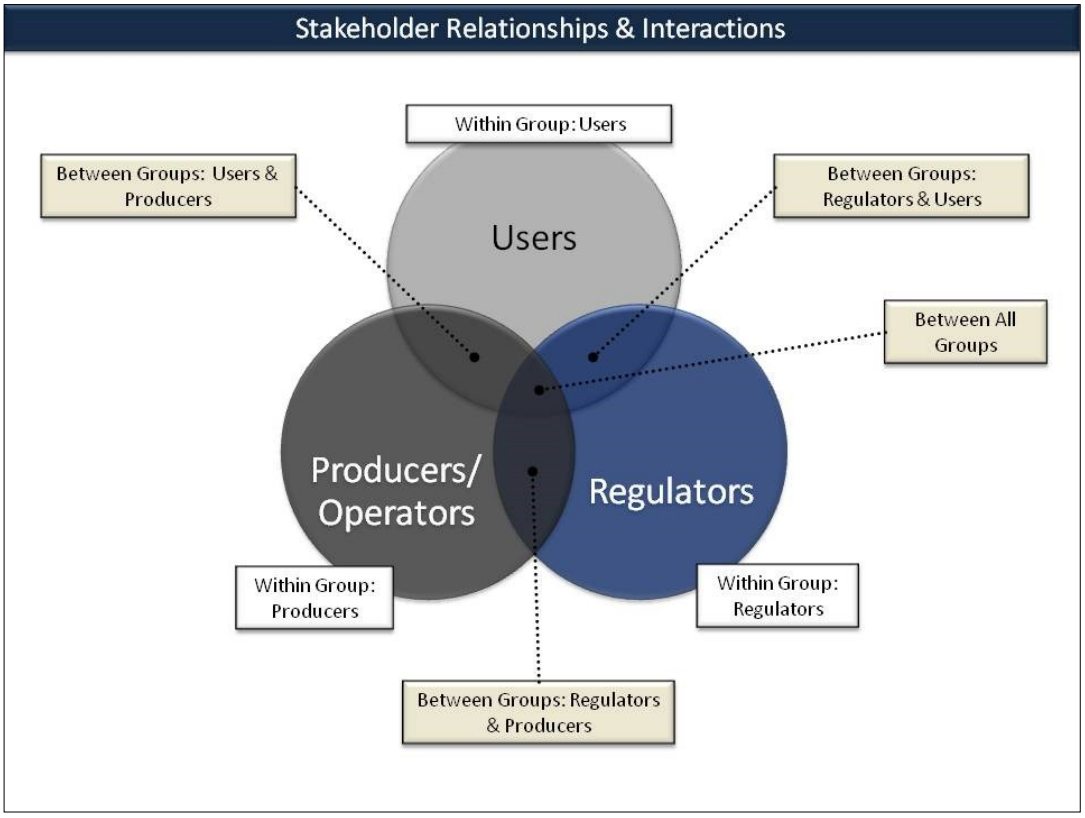

Figure 3.3 *Source: Author*

Figure 3.3 represents the different types of interactions that have been observed in case examples to take place between regulators, producers, and users of converged media[84]. Interactions take place both among stakeholder groups within each category, as well as between stakeholder groups in different macro-level categories[85]. They can take place, therefore, on many levels, and between many smaller-scale stakeholder interests.

The diagram in **Figure 3.3** above provides a visualization of the stakeholder relationships observed in the previous chapter. This provides a useful framework for

[85] See *Appendix II* for a full table of case examples and interaction types

understanding the relationships between these major stakeholder groups that define practice of converged media regulation in China. Within this framework, micro level information and case examples can be understood within the broader relationships that define the context of converged media regulation in China. The exploratory analysis works to build on this broader relational understanding by exploring the key internal structures, stakeholder interests, and interactions that are involved in the regulation of online games.

External Factors

The actors and interactions described above are impacted by many external factors. Secondary literature, for example, has highlighted technological development and the market economy as important external factors that affect media regulation in China[86]. In recent years, as China has increased its involvement in the international political community, the international political climate has become increasingly important to the development and implementation of media regulation; demonstrative examples of this include: the relaxation of media controls that occurred in the lead up to the 2008 Beijing Olympics under the pressure of the international community[87] (Spencer), as well as the effect of the 2009 World Trade Organization ruling against China's restrictions on the import of audio-visual products[88]. The diagram in **Figure 3.4** demonstrates that these external factors can affect the major stakeholders and their interactions between major stakeholders. The diagram is presented below.

[86] See the *New Media Scholarship* section of the literature review in Chapter I.

[87] This was followed by a subsequent tightening of media restrictions in the year following the Olympics; between September 2008 and July 2009, access to sites such as Facebook, Twitter and Youtube was blocked in response to riots in Xinjiang (Wauters 2009; author's first-hand experience). These sites are still inaccessible from China (Open Net Initiative 2012).

[88] For a full account of the dispute and its effect on China's media regulation, see the summary of Dispute DS363 in *World Trade Organization* 2013.

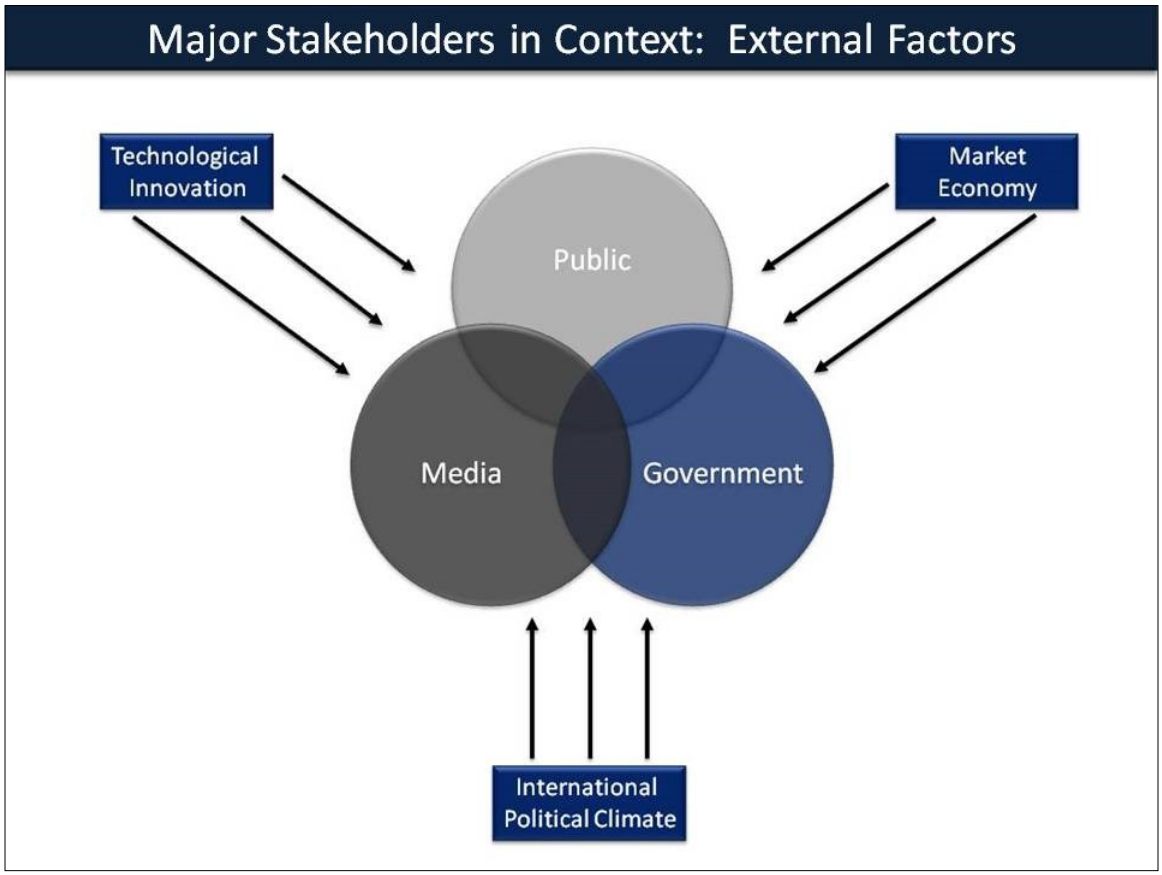

Figure 3.4 *Source: Author*

The relational understanding of key actors and external influences that shape the practice of China's online games regulation (depicted in Figure 3.4) is used to guide the exploratory analysis in this chapter. The analysis will begin with a brief overview of the literature and analytical approach, and is then divided into three major parts. Each of these parts focuses on one of the major stakeholder groups described above: regulators, producers, and users of online games. Each group is explored in turn.

The exploration proceeds according to the format described below. First, the relevant structural context of each stakeholder group is explained. This is undertaken in order to understand the institutional relationships and hierarchies that affect policy outcomes. Secondly, the primary interests of the major stakeholders within each group are examined in order to highlight some key points where divergent interests must be negotiated. Thirdly, the research explores some of the ways that key stakeholders interact to negotiate divergent interests. Case examples are used to illuminate some of the most important ways that interests are being negotiated among stakeholders in this space.

Exploratory Analysis: Structures, Interests, & Interactions of Stakeholder Groups

Government Regulators

The bureaucratic context for online games is still evolving within the existing structures of China's media regulation. Therefore, a focused examination of the evolving structures, stakeholders, and interactions that shape new media regulatory practice in China must first establish understanding of the existing structural context and regulatory mechanisms in place. This section begins with an overview of the major political institutions responsible for media regulation in general, and moves toward a more specific focus on the key institutions, interests and interactions that shape regulatory practice related to online games.

Institutional Structures

General Media Regulation

Policy development and decision-making for media regulation in China begins at the highest levels of government: the Chinese Communist Party (CCP). The CCP is the highest ranking governing institution in the People's Republic of China (PRC). It is supported by four institutional "pillars" that officially comprise China's government: the State Council, the People's Liberation Army (PLA), the National People's Congress (NPC), and the Chinese People's Political Consultative Conference (CPPCC) (Lawrence & Martin, 2013, 3). High level decision-making and legislative power is concentrated in the CCP, while implementation-level decision-making and executive power is controlled by the State Council. The PLA is responsible for Military operations, and while in theory the NPC and the CPPCC occupy significant roles in decision-making and policy development, their actual roles are considered by analysts to be largely ceremonial in nature[89]. Lawrence and Martin's depiction of the relationship between the CCP and its pillar organizations is as follows:

[89] This contrast between theoretical and practical power for the NPC and the CPPCC is highlighted by Lawrence and Martin in their 2013 report for the US Congressional Research Service (2, 7-8).

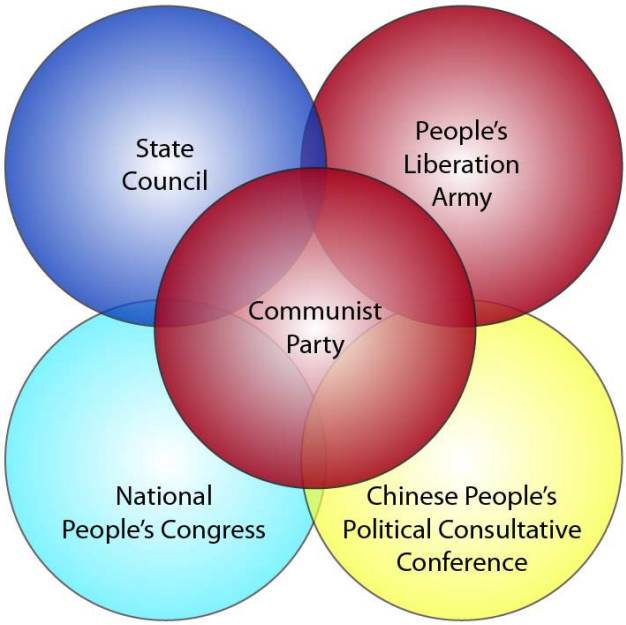

Figure 3.5 *Source: Lawrence & Martin, 2013*

These institutions are nominally separate, however there is substantial institutional and personal overlap between them. Most significantly, the CCP overlaps significantly with all of its supporting organizations; this overlap represents the structural and personal mechanisms through which the CCP maintains influence and exerts decision-making power throughout government bodies. The structural organization of media regulation in China consists of a variety of agencies and sub-organizations that are embedded within these macro level political structures.

Among the CCP and its pillar organizations, the primary decision-making institutions responsible for media regulation are the CCP and the State Council[90]. An additional institutional category also plays a significant role in regulating this sector; government-administered social organizations[91] link policy stakeholders in government with public and private interests. They fall under the administration of the State Council but also regularly

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[90] While the PLA does not directly participate in mainstream media regulation, it maintains its own system of publication and distribution that runs parallel to that administered by the State (Shambaugh 45).

[91] Another common term for this institutional category is, as in Lawrence & Martin 2013, "Government Organized Non-Governmental Organizations" or GONGOs (38). In order to remain inclusive of social organizations with varying degrees of autonomous practice, this research follows Saich ("Negotiating the State") in using the literal translation of the Chinese term, *shehui tuanti* (社会团体) (124).

include Party stakeholders. The nature of the relationship between these stakeholders is complex and dynamic; while formal requirements for all public organizations to register with the government reflects their traditional "top down" administration, Lieberthal highlights that 'the realities are far less uniform' (200). On a macro level, these three institutional categories serve as the structural context for media regulation in China. The relationship between them can be visualized as follows in **Figure 3.6**:

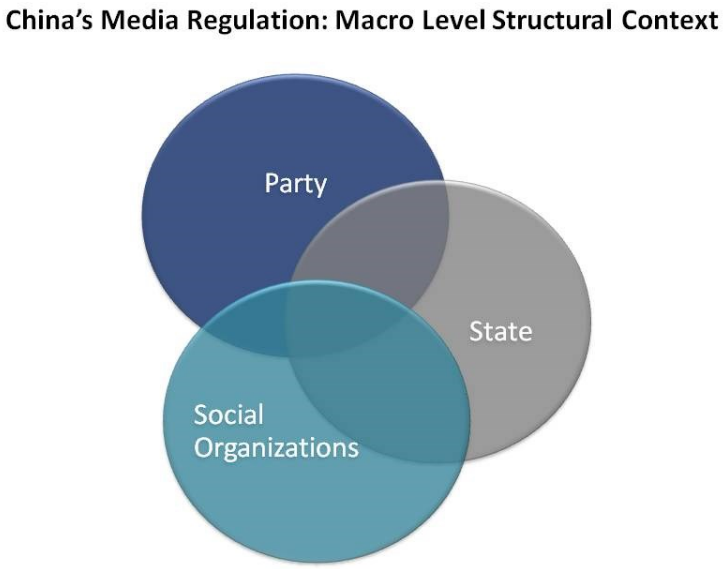

Figure 3.6 *Source: Author*

Figure 3.6 reflects both the overlap and the relative political hierarchy of these institutions. Within the macro level structures of Party, State, and Social Organizations, a complex set of substructures and interactions define the landscape of regulation and decision-making that surrounds media regulation in China. The internal organization of the CCP is highly secretive; what is known about the structure for media regulation within the CCP has been painstakingly compiled by scholars like Shambaugh and Brady from a variety of primary and secondary sources that include interviews (Shambaugh) and limited access internal publications (Brady). The following brief summary of the internal structures of CCP media organization is based on these investigations but accounts for recent leadership changes after the 18th Party Congress.

At the highest levels, the regulatory structure for China's media is closely linked to the centre of political power: the CCP Central Committee and its elite subcommittees. These consist of: the Central Committee Secretariat, the Central Committee Politburo, and the

Politburo Standing Committee. The following is a brief summary of the relationships (official and actual) between these institutions and their members.

In Lawrence and Martin (2013), the 'National Level Communist Party Hierarchy' is illustrated as a pyramidal structure that ranges from the 2,270-member National People's Congress on the bottom (as the largest organization with the least power), to the seven-member Politburo Standing Committee at the top, representing the Party's smallest yet 'most powerful decision-making body' (20). This is illustrated below in **Figure 3.7**:

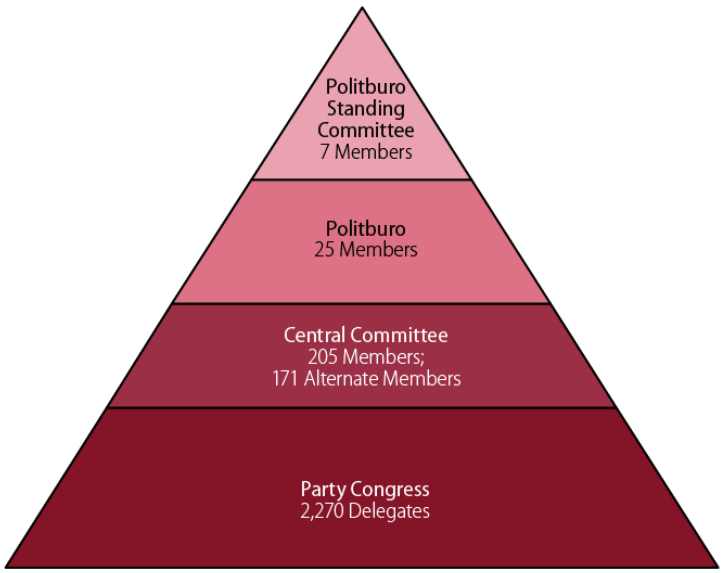

Figure 3.7 *Source:* Lawrence & Martin, 2013, 20

This inverse relationship between institutional size and power runs contrary to that outlined by theory, and according to Lieberthal, characterizes CCP organization at 'each territorial level' (173). Lieberthal describes the National Party Congress as an example: 'In theory, the Party Congress is the highest organ of authority, but in fact its large size and infrequent meetings make it a vehicle for announcing and legitimating some major decisions rather than for initiating and deciding important policies' (174). The CCP Central Committee also serves a predominantly ceremonial purpose, however its limited functionality as a conglomerate contrasts with the significant power held by its individual members; all Central Committee members concurrently occupy key leadership positions in China's governing institutions (174). Within the CCP Central Committee, major decision-making and practical administration occurs in smaller elite sub-groups, the most powerful of which are the twenty-five member Politburo and the seven-member Politburo Standing Committee. The Politburo is comprised of what Lieberthal terms 'the top power elite' (175), however he notes that membership is 'not itself a full-time job' (175); the Politburo meets infrequently and is not involved in day-to-day decision-

making (Lawrence & Martin, 21). By contrast, the frequently convened Politburo Standing Committee is the centre of decision-making power in China; members, ranked one through seven, are each responsible for different areas of policy and government, and hold concurrent leadership positions at other levels of government that reflect these responsibilities, both within and outside the CCP structure[92]. The Politburo and its Standing Committee are supported by the seven-member Central Committee Secretariat, whose primary function is to co-ordinate the implementation of decisions made by the Politburo Standing Committee and to administer organizations directly under the Central Committee. The diagram in **Figure 3.8** illustrates the decision-making hierarchy of the Central Committee and its elite subgroups:

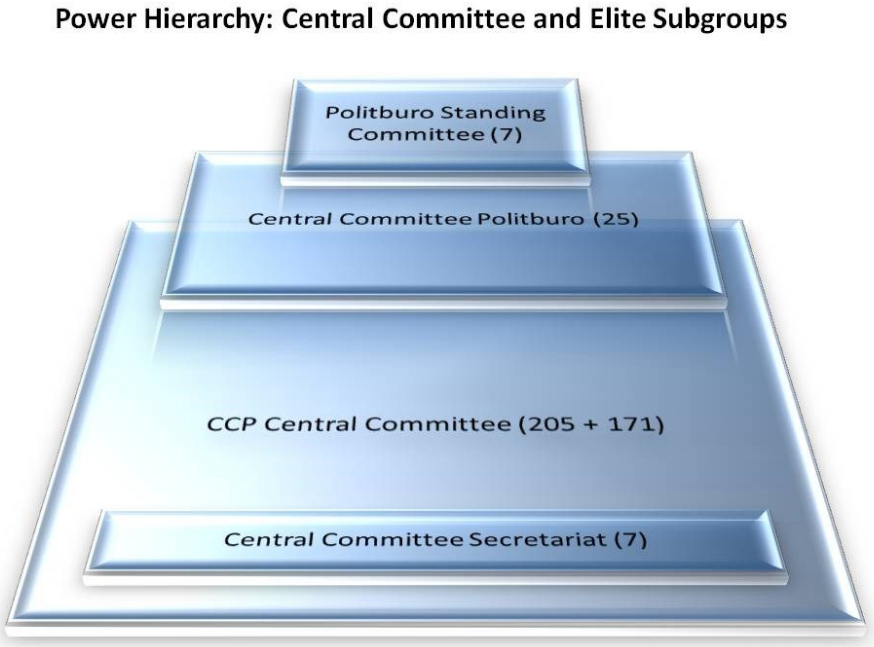

Fig. 3.8 *Source:* Author's depiction of data in Lieberthal and Lawrence & Martin (2013).

The Politburo Standing Committee represents the highest level of decision-making for media regulation in China. Fifth-ranked member Liu Yunshan (刘云山) is responsible for the overall supervision of "Propaganda and Ideology" (Wong 2012), a sphere of governance which

[92] Examples from the 18th Party Congress include: General Secretary Xi Jinping (习近平), who is both General Secretary of the CCP and Chairman of the Central Military Commission, PBSC member Yu Zhengsheng (俞正声) who is also the head of the CPCC, PBSC member Zhang Dejiang (张德江), who is also the Chairman of the National People's Congress, and PBSC member Zhang Gaoli (张高丽), who simultaneously holds the position of Vice Premier of the State Council (Wong 2012).

includes: media, culture, public health, education and social science (Lieberthal, 175; Shambaugh 28). Supervision of this expansive sector is accomplished through China's Propaganda system or *xitong*, a 'sprawling bureaucratic establishment extending into virtually every conceivable medium which transmits and conveys information to the people of China' (Shambaugh, 27). The propaganda system is connected to the Politburo Standing Committee through organizations called Central Leading Groups (Brady, Shambaugh). Central leading groups are bureaucratically situated under the Secretariat of the CCP Central Committee, however in practice they serve as a platform for liaison between policy decision-makers on the Standing Committee and key officials from pertinent bureaucratic bodies (Lieberthal, 217; Shambaugh, 31). The Central Leading Group for Propaganda and Ideological Work [中央宣传思想领导小组] (CLGPIW), the Central Guidance Commission on Building Spiritual Civilization [中央精神文明建设指导委员会] (CGCBSC), and the External Propaganda Leading Group [中央对外宣传小组] (EPLG) are the primary Central Leading Groups involved in co-ordinating media regulation through China's propaganda system, with the CLGPIW at the highest level. There is significant overlap and co-ordination between these groups, which is often accomplished through concurrent positions held by an elite individual. Shambaugh observes that this "triple-hatting" allows officials to 'personify...institutional linkage' (32). Liu Yunshan is a prime example of this practice. He forms a single personal connection that bridges several officially disparate organizations, including the Politburo Standing Committee, the Central Committee Secretariat, and the CGCBSC[93] (Wang Ya, 2013). These high-level organizations, led by Politburo Standing Committee Liu Yunshan, connect with the administrative CCP Propaganda Department (CCPPD)[94] through the Central Committee Secretariat; both Liu Yunshan and CCPPD director Liu Qibao (刘奇葆) serve as two of the seven-member organization.

The diagrams below illustrate how Central Leading Groups form connections between high level Party structures and the Central Propaganda Department. **Figure 3.9** illustrates the institutional overlap formed by Central Leading Groups through the appointment of key individuals to multiple positions. These include positions in the leading groups themselves, as well as other institutions in the Party-State infrastructure.

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[93] According to Shambaugh, the CGCBSC runs parallel to and overlaps with the CLGPIW, although its responsibilities relate to education and youth work rather than administration of the Propaganda system as a whole (33).

[94] The official English translation of this department changed to the Central Publicity Department in 1997. As Shambaugh notes, the original Chinese term has not changed, and as such this research follows Brady & Shambaugh in continuing to use the original translation.

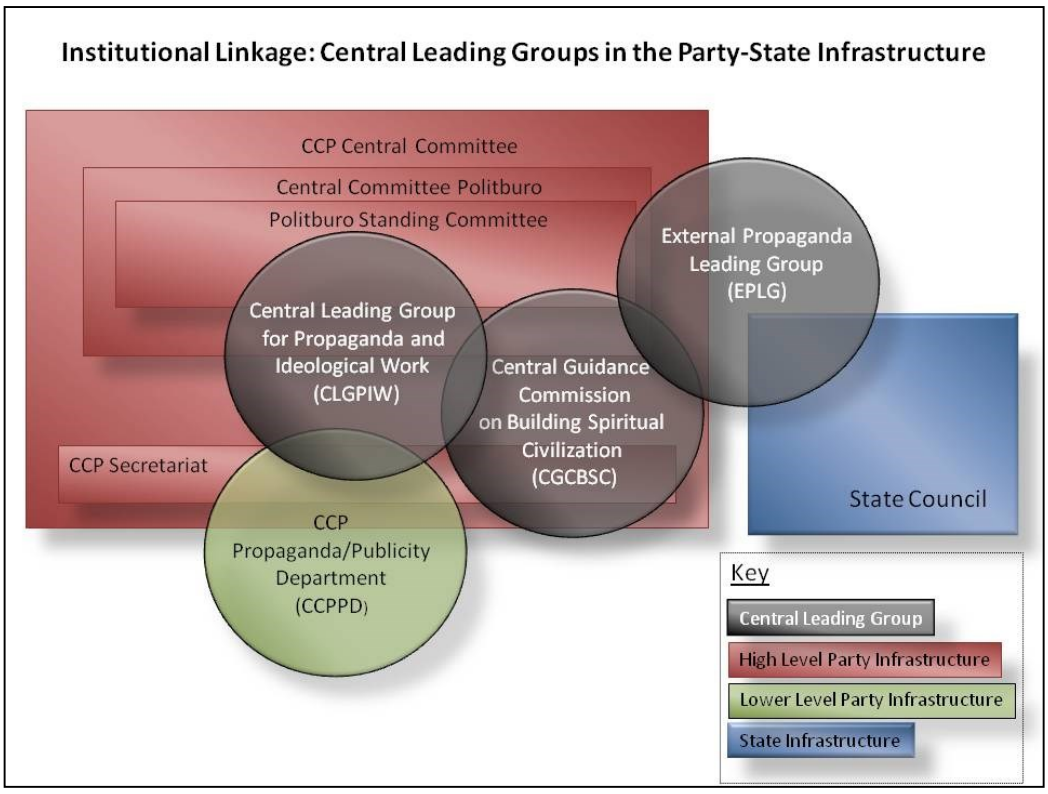

Fig. 3.9 *Source: Author*
Note: Institutional overlap in Fig. 4.9 indicates shared staff

Figure 3.10 demonstrates how the appointment of key individuals to concurrent positions connects the institutions depicted in **Figure 3.9**. **Figure 3.10** uses the multiple positions held by Liu Yunshan and Liu Qibao to demonstrate the connections between high level Party infrastructure and the Central Propaganda Department. Detailed explanations of lower-level concurrently held positions relevant to online games are provided later in the chapter. Figure 3.10 appears below.

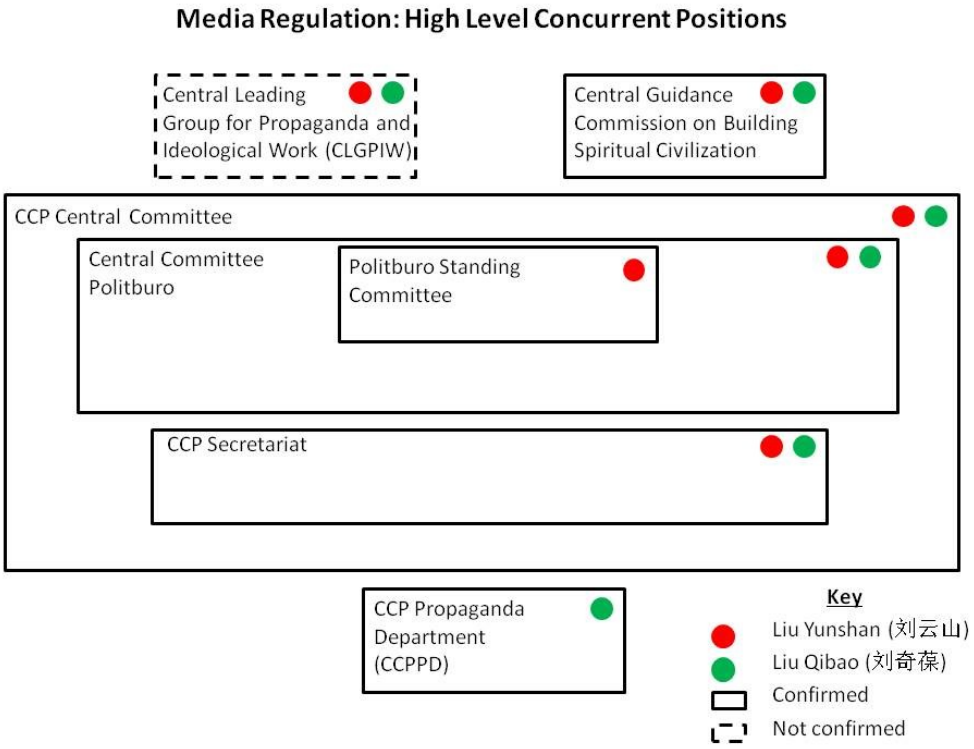

Fig. 3.10 *Source: Author's visualization of data in Shambaugh (2007) and information from Japan's RadioPress China Directory2013*

Figure 3.10 indicates key individual-level connections between the CCPPD and the Politburo Standing Committee, through concurrent position holding in the Politburo Secretariat and key Central organizations. Confirmed positions in **Figure 3.10** are accurate as of the 18th Party Congress. This figure also depicts the unconfirmed leadership positions of the CLGPIW; while it has not been officially confirmed, Liu Yunshan is also likely to hold current leadership of the CLGPIW, while CCPPD leader Liu Qibao is likely to operate as deputy leader of this group. This assumption extrapolates from recent convention, which indicates that this position is held by the Standing Committee member in charge of Propaganda and Ideology, while its deputy leadership is held by the Minister of the Propaganda Department (Shambaugh, 31).

While the Propaganda Leading Group (CLGPIW), the Leading Group for Spiritual Civilization (CGCBSC), and the Central Committee Secretariat serve to link the Politburo Standing Committee decision-makers with the Propaganda Department (CCPPD), implementation of these decisions throughout China's media system is organized and supervised by the vast and pervasive regulatory structure of the CCPPD itself. The CCPPD is the primary CCP agency responsible for media regulation, supervision, and information dissemination in the PRC, and assumes a leading role over the entire propaganda system (Brady, 10; Shambaugh, 33). The External Propaganda Leading Group and the General Political Department of the People's Liberation Army (PLA) are exceptions to this; they are

administered separately (by the External Propaganda Leading Group and the PLA General Political Department, respectively), and are under the guidance, rather than leadership[95], of the CCPPD (Brady, 11). Despite this organizational difference, Shambaugh (30) and Brady (2005: 60; 2009, 27) note close working relationships between the PLA General Political Department, the Foreign Propaganda Department, and the CCPPD. The External Propaganda Office operates both as the External Propaganda Office under the CCP and as the State Council Information Office (SCIO): the two terms refer to a single organizational body with two names (一个机构，两个牌子) (Brady, 13). Officially, the SCIO is the authority for external propaganda, while internal propaganda is the responsibility of the CCPPD. In practice, as Shambaugh reports, this boundary has blurred significantly along with technological development and increased international communication.

Both the CCPPD and the SCIO/EPLG are involved in regulating various aspects of the internet and of news content that is seen both inside and outside of China (Brady, 13; Shambaugh, 30). Individual appointments have been part of the increased overlap between the CPPPD and the SCIO/EPLG in recent years, as exemplified by Central Committee member Wang Chen (王晨). Wang Chen was appointed Director of the SCIO/EPLG in 2008, and was assigned a concurrent position as deputy director of the Propaganda Department in the same year (China Vitae). He continued to hold his positions in both the Propaganda Department and State Council during the organizational reshuffling of 2011; while maintaining his position as Deputy Director of the Propaganda department, Wang Chen was appointed to direct the newly formed Internet Office of the State Council (SIIO). The positions in this new organization, the SCIO, and the CCPPD that were concurrently held by Wang Chen maintained a strong connection between all three as the new SIIO was being established. Wang Chen was replaced as Director of the SCIO and of the SIIO in 2013, however both offices remain connected to the CCPPD through concurrently held positions. These are discussed in further detail in the regulator interactions section of this chapter.

Below the level of the CCPPD, the Propaganda system consists of a complex bureaucratic structure whose influence extends into a number of organizations throughout the government, public and private sectors (Brady, 10-11; Shambaugh 56). Information about the organizational structure of the CPPPD is not publicly available, and is therefore not precisely

[95] See Brady 2009, 18 for further explanation.

known. However, some foreign assessments of its central structure do exist; Japan's annual *China Directory* describes the central structure of the CCPPD[96].

Below the central level, the CCPPD structure includes provincial and local level Propaganda Departments and Spiritual Civilization offices[97], as well as a 'network of propaganda cadres and offices installed in Party committees and branches at all levels of organizations in both the State bureaucracy, as well as Chinese and foreign-run enterprises with CCP cells' (Brady, 10). Sectors where the CCPPD maintain a presence include: the PLA propaganda system, the State-administered sectors relevant to propaganda and ideology[98], and Social organizations[99] (Brady, 17). This pervasive structural presence allows the CCPPD to perform its responsibilities of guidance and leadership[100] of the sectors for which it is responsible. Some key mechanisms through which this is accomplished include the distribution of key publications, and compulsory regular meetings through which central directives are communicated at local levels[101]. The CCPPD is also able to exert influence through its power to appoint and dismiss all senior officials in the education, media, and cultural sectors[102] (Brady, 16); the potential for removal from a prominent position, among other

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[96] See *China Directory 2013* for a recent outline of this structure.

[97] For a complete list of local and provincial level responsibilities, see Brady, 24.

[98] These include: culture, education, health, media, science, sport, and technology (Brady, 11; Lieberthal, 222).

[99] All people's organizations must register with the Ministry of Civil Affairs, which is led by the CCPPD (Brady, 11). This includes: social organizations (社会团体), private non-enterprise organizations (民办非企业单位), foundations (基金会), and representative offices of overseas organizations (境外分支代表机构) (Chinanpo.gov.cn).

[100] The CCPPD roles are categorized into "leadership" and "guidance"; leadership consists of direct supervision and management, while guidance implies a supervisory role over administrative functions performed by the State. In reality, these official distinctions may be blurred; Brady notes, for example, that ' many provincial and local level leaders are in charge of propaganda work (a Party matter) within their area in addition to their government titles (State-oriented activities)' (21).

[101] This has been particularly noted as common practice in the media sector; Brady reports that compulsory "update meetings" (通气会) are regularly held between senior officials in the CCPPD News department and senior leaders in the media sector in order to communicate policy directives. She additionally observes that distribution of key CCPPD publications such as Internal Report (内部通讯) play an essential role in communicating 'politically appropriate phraseology' (19).

[102] The *nomenklatura* system grants this right to the Party. Lieberthal explains: 'The nomenklatura consists of lists of leading positions over which party units exercise the power of appointment and dismissal, lists of reserve candidates for those positions, and rules governing the actual processes of appointments and dismissals. Through its nomenklatura

possible punishment (see Shambaugh 29), encourages conservative decision-making at these levels.

Converged Media Regulation

Several State-administered offices that are involved in converged media regulation fall under the close leadership of the CCPPD and play particularly strong roles in the propaganda system. These are: the Ministry of Industry and Information Technology (MIIT), the Ministry of Culture (MOC), the State Administration for Industry and Commerce (SAIC), and the State General Administration of Press, Publication, Radio, Film, and Television (SGAPPRFT). The MIIT has assumed the former responsibilities of the Ministry of Information Industry (Section 1, Article 4, document No. 72, MIIT); it is therefore responsible for the technical aspects of electronic communications (Shambaugh, 40), and is also involved in overall planning and development of the ICT industry, and development and co-ordination of relevant policies (Section 1, Article 1, document No. 72). The Ministry of Culture is responsible for cultural activities and products, which can include 'everything from ten pin bowling, to fashion contests, magazine and book selling, karaoke bars, cafes, tea shops, art exhibitions, art tuition, and any other culture-related enterprise' (Brady 17). In recent years, its responsibilities have extended to the import of audio-visual products and to online games (Shambaugh, 41; King & Wood) and the regulation of virtual currency (*The Notice on Strengthening Administration of Virtual Currency in Online Games (关于加强网络游戏虚拟货币管理工作通知)*)[103]. Together with the SAIC, the MOC is also responsible for advertising (Brady 17). The SAIC is also partially responsible for the regulation of virtual currency (*Interim Measures on Administration of Internet Commodity Trading and Related Services (*网络商品交易及有关服务行为管理暂行办法). The State General Administration of Press, Publication, Radio, Film and Television is the recent result of a merger between the General Administration of Press and Publication (GAPP) and the State Administration for Radio, Film, and Television (SARFT) that took place in March of 2013 (Zhu; Li & Liu). Prior to the merger, GAPP was responsible for publishing licenses for print-related media and the licensing and training of journalists, although its scope seemed to be widening to include most information on the internet as well (You); the SARFT was responsible for the regulation of all radio, film and

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system, the CCP exercises control over who attains leading positions...All positions of real importance in China fall under the CCP's nomenklatura-even many..."elected" offices' (234).

[103] This notice was jointly issued with the Ministry of Commerce. The Ministry of Commerce is not listed by secondary sources (ie. Brady 2009; Shambaugh 2007) as an institution under the purview of the CCPPD, and as such its responsibilities are not elaborated in this section.

television and the supervision of relevant national networks (Brady, 17). Both institutions were under the close leadership of the CCPPD.

The institutional network of the CCPPD serves as a backbone structure for media regulation that links into the lower level regulatory structures of the State Council and social organizations, operating through the structures and mechanisms described above. Little is directly known about the nature of the relationship between the CCPPD and the lower level institutions involved in converged media, however some of the institutions that officially fall under its leadership have released policy texts, indicating regulatory interest in the space. These include: the Ministry of Culture (MOC), the General Administration of Press and Publication (GAPP), the State Administration for Radio, Film, and Television (SARFT), and the State Administration for Industry and Commerce (SAIC)[104]. **Figure 4.11** below shows these institutions in their structural context, prior to the recent structural change[105]:

Figure 3.11 *Source: Author*

[104] See Appendix I for full list of Institutions and policy texts.

[105] Recent structural changes are depicted in Fig. 4.12

Social organizations provide another connection between the CCPPD and online games regulators. These institutions fall under the leadership of the Propaganda Department, and according to Brady, over half of the membership of such organizations is accounted for by CCPPD representatives (2005, 63). A complete understanding of how these organizations are involved in the governing of online games is difficult to build from the limited evidence available, however there is some evidence that they are used to facilitate communication between government and media stakeholders. The Internet Association of China (ISOC)[106] and the Game Industry Branch of the China Software Industry Association (CGIA) are the primary social organizations that facilitate online games governance. There is some evidence that the Sichuan branch of the Chinese Consumers' Association are also involved[107]. The nature of their involvement will be explored in the section on government interactions.

Two respondents that worked as in-house legal counsel for large game companies in China identified particular departments within the governing agencies for online games as the primary departments responsible for regulating online games. The MPS police were reported to be involved in enforcement activities, however a dedicated enforcement team for online games that operates under the Cultural Market Department of the MOC was also identified. One respondent legal expert identified a single department within the MIIT as responsible for matters related to internet activity. The internal departments and enforcement teams for the agencies discussed are listed below:

1) Ministry of Culture (MOC)
    - The Cultural Market Department
        - The Cultural Market Comprehensive Law Enforcement Unit (文化市场综合执法大队)
2) Ministry of Public Security (MPS)
    - The Police
3) The Ministry of Industry and Information Technology (MIIT)
    - The Office of Informatization (R6)

The Court System

The institutions of the CCPPD are an integral part of the structural framework of online games policy in China, however they are not the only important institutions involved. Ministerial level stakeholders that operate under the administration of the State Council may operate with

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[106] Brady identifies a connection between the CCPPD and the ISOC ("Guiding Hand", 63).

[107] This evidence is the involvement of the Sichuan Consumers' Association in granting compensation to a Mr. Zhao in response to his complaints about virtual property theft, as described in Chapter III.

different degrees of autonomy from the CCPPD. It has therefore been important to outline how the Propaganda Department connects with the State Council apparatus, in order both to highlight its influence and to leave room for understanding how autonomy can develop within this apparatus, both at local levels of government and under the influence of other powerful state institutions. It is also essential to account for the structural context of the courts. As the research explains in Chapter IV, a lack of comprehensive legal framework for regulating online games has means that many of the initial decisions about online games and their emerging practice are taking place in the courts. The court system is therefore an important aspect of the institutional context where online games regulation is being negotiated.

The courts operate within a separate institutional framework that runs parallel to that of the State Council[108]. Like the State Council, the court system officially falls under the administration of the National People's Congress (Rosenberg, 229), however in reality it is supervised directly by the CCP through the Central Commission of Politics and Law (Lawrence & Martin, 8). The structures of the courts mirror those of the State Council: the system is centralized with courts established at national, provincial, city, and township levels, as well as at levels of limited jurisdiction (Rosenberg, 248). According to Rosenberg's description, the local city level courts and below have the courts of first instance and are referred to as the Primary People's Courts; large cities are People's Intermediate Courts and can function as appellate courts; the Provincial High People's Courts and Supreme People's Court refer to courts at the provincial and national levels (247).

The cases of virtual property law have generally taken place at the low end of this spectrum, at the level of Primary People's Courts and appellate People's Intermediate Courts. Examples include *Li Hongchen v. Beijing Arctic Ice Technology Development Co*., and the conviction of Yan Yifan in 2006. Both cases began at the primary court level and were appealed in intermediate level courts: the first was originally decided by the Beijing Chaoyang District Court and appealed in the Beijing Second Intermediate People's Court (X. Chen); the Yan Yifan theft case was originally brought to the Guangzhou Tianhe District Court and appealed at the intermediate level (*China Daily*, “Fine for Virtual Property Thief”).

China’s court system is heavily influenced by a variety of government stakeholders that operate through both formal and informal channels (Liebman). It is therefore difficult to outline the precise mechanisms of influence and institutional connections that may influence

[108] For a detailed description of the official judiciary structures, see Rosenberg and Lawrence & Martin (2013). For an account of the differences between the official and the implemented judiciary structures, see Lawrence & Martin (2013). For information on external influence on court rulings in China, see Liebman and Yuhua Wang.

outcomes, as these vary according to each case. At the highest level, influential power is wielded by the CCP (Lawrence & Martin 2013, 3), however influence on court outcomes is exerted at all levels of government. Such influence may be exercised by individuals or institutions in the Party, the State Council administrative departments, or other governing institutions. It is notable that court funding is administered by local governments; as Wang Yuhua and Liebman both note, this renders local courts particularly subject to their influence (Liebman 67; Wang Yuhua 46). Liebman has pointed out that the courts are also extremely vulnerable to the influence of mass media and public opinion, and that this influence may operate through the deliberate manipulation of government stakeholder interests in order to exploit their ability to directly influence court decisions (67-68).

The above descriptions outline the institutional frameworks where the primary government stakeholder groups with interests in online games regulation operate. The Propaganda Department, the ministries and social organizations under the State Council, and the court systems are all key stakeholder groups in this area that fall within the realm of government regulators. The structural framework is still evolving, and will continue to evolve as government stakeholders pursue their interests in online games policy. The next sections consider the interests and interactions of the government stakeholders identified above as they relate to converged media regulation.

Stakeholder Interests

This section reviews the government stakeholder interests in online games regulation that have been expressed through policy texts and media reports. The Interests expressed by central, mid-level and local levels of China's government hierarchy are explored. Central government stakeholders in this analysis include high level CCP institutions, offices at the State Council level and the National People's Congress. These are identified as “High-level” stakeholders in this analysis. Mid-level stakeholders are understood to consist of ministries and organizations directly subordinate to the State Council. The category of local government stakeholders incorporates provincial, city, and county levels of government.

High-Level Stakeholder Interests

High-level interests in online games regulation can be determined from policy development goals expressed by central stakeholders in official media and in policy texts. These tend to outline overarching goals regarding the "healthy development" of internet industries (including the online games industry) and the need for administrative reform in order to improve regulation. Some more precise goals have been outlined in policy texts; these promote the development of technical and regulatory infrastructure.

Official media reports have connected the "healthy development" goal directly with the highest levels of the CCP, the offices of the State Council, and the National People's Congress. A 2012 article in the *China Daily* attributes this interest to the highest levels of the CCP[109], describing how new ICT industries fit into the Twelfth Five-Year Plan. The article highlights "New-generation information technology" as one of seven strategic "emerging industries" that will receive significant subsidy from the central government (Lan). A 2011 *People's Daily* announcement attributes a similar interest to the State Council. The article quotes an anonymous "chief official" of the new State Council office as he describes the purpose of the creation of the new State Council Internet Office as part of an initiative 'to better regulate the Internet to ensure its healthy development' (Xinhua, "Internet Office"). Another *China Daily* article from 2012 attributes the same interest in "healthy development" to the Standing Committee of the National People's Congress. In explaining the reasoning for a 2012 decision issued by the NPC, the article quotes an anonymous member of the NPC Standing Committee, who explains: 'the move is intended...to ensure the healthy and orderly development of the Internet' (Xinhua, "China's Top Legislature"). An examination of development goals for internet industries in general sheds light on the meaning of "healthy development". Lan's article describes development goals for this space that focus on central government investment in industrial development as a key aspect of the Five-Year Plan. A 2011 article by Xinhua explains that regulation to mitigate against 'problems such as online porn, gambling and fraud, as well as illegal marketing tricks' is necessary to maintain the "health" of internet-related industries (Fang). Reports that relate more specifically to converged media and the online games industry also highlight both economic and social concerns. In August 2013, a Xinhua article reported industrial goals for converged technology issued by the State Council. The report states: 'The nation is seeking new growth engines in emerging industrial sectors...the government will release 4G mobile communications licenses later this year and promote the convergence of the telecommunication, Internet and broadcasting networks into one complete system' (Xinhua, "Info Sector"). Central government interest in the social aspects of healthy development are related directly to online games in reports about policy developments. A February 2011 *China Daily* report on the *Parents' Guardian Project for Minors Playing Online Games* describes the project as 'the latest effort to prevent minors becoming addicted to Internet games', coming from 'eight central government departments' (China Daily, "Parents, Game Operators to Control Minors"). An additional central interest reported in official media is the improvement of coordination between ministries involved in regulating internet-related media. This has generally been used as a framework for reporting structural changes, such as the 2011 establishment of the SIIO and the merging of the GAPP and SARFT in 2013. For

[109] The Five-Year Plan is issued by the CCP Central Committee.

example, a Xinhua article in the People's Daily introduced the SIIO in 2011, outlining its mandate to 'direct, coordinate and supervise online content management and...direct the development of online gaming, online video and online publication industries' (Xinhua, "China Sets Up State Internet Information Office"). The convergence of the GAPP and SARFT two years later is reported by Xinhua as a 'move...meant to coordinate the resources of each sector and promote the reform of cultural institutions'. The article connects the restructuring explicitly to central decisions, citing it as 'institutional reform drive set forth at the Communist Party of China's 18th National Congress' (N. Zhu).

Other high level interests in converged media regulation can be determined from the official policy texts of high level decisions. Major relevant decisions from high level regulatory bodies include: a March 1997 amendment to the Criminal Law of the PRC by order of President Jiang Zemin, that established regulatory basis for prosecuting computer-related crimes (Zheng, *Technological Empowerment*, articles 285 & 286); a December 2000 NPC Standing Committee Decision on Safeguarding Internet Security [Quánguó rénmín dàibiǎo dàhuì chángwù wěiyuánhuì guānyú wéihù hùliánwǎng ānquán de juédìng]; and the December 2012 *Decision of the Standing Committee of the National People's Congress on Strengthening Network Information Protection* (全国人民代表大会常务委员会关于加强网络信息保护的决定) [*Quánguó rénmín dàibiǎo dàhuì chángwù wěiyuánhuì guānyú jiāqiáng wǎngluò xìnxī bǎohù de juédìng*]. The December 2000 decision expressed a central interest in preventing computer hacking and data security. This decision, issued 'to promote what is beneficial and eliminate what is harmful' (Creemers preamble) focused on content-related behaviour on the internet, such as using it in order to: spread rumours, subvert state power, interfere with state unity, promote ethnic hostility, or disrupt public order. The December 2012 decision focuses on information security and targets the development of infrastructural capabilities by formalizing real identity requirements into national law. Relevant central interests common to two or more of these texts are as follows: national security[110], public interest[111], societal order[112]; monitoring and prevention of illegal activity[113]; and information security[114]. These interests are also

[110] (Dec 2012 decision; Dec. 2000 preamble, section 1 article 1, section 2; March 1997 Criminal Law, articles 285 & 287)

[111] (Dec. 2012 decision preamble; Dec. 2000 preamble, section 6)

[112] (Dec 2012 preamble, section 11;Dec 2000 preamble, section 3)

[113] (Dec. 2012 decision; Dec. 2000 section 4 article 2, sections 6 & 7)

[114] (Dec. 2012 decision; Dec. 2000 decision; March 1997 Criminal Law amendment article 286)

expressed in the online games-related policy texts issued by the State Council Internet Information Office[115].

Official policy texts released by lower level government stakeholder groups pursue some central level interests related to converged media regulation if they are influenced by central authorities. Government agencies under the leadership of the CCPPD, for example, may reflect more central goals and interests in their policy texts than other government agencies. Unfortunately, given that the CCP structures that exert central level influence are both extremely pervasive and are still evolving in this space, it is extremely difficult to distinguish central level influence from the interests of a particular agency. While ministerial-level interests may be influenced by the interests of central stakeholders, their interests are expressed independently. As in the case of central level media coverage, officials and spokespersons for specific organizations convey organizational goals through speeches or interviews that are reported in the media. Agency-specific interests are also expressed through policy texts. The next section explores the interests of ministerial level agencies.

Mid-level Interests

There are a number of agencies operating at this level with interests in online games. The most active of these in recent years have been the Ministry of Culture and the General Administration of Press and Publication, however the research has also identified other ministerial-level organizations with interests in China's online games policy. These include: the Ministry of Information Industry (now Ministry of Industry and Information Technology or MIIT), the Ministry of Public Security (MPS), the State Administration for Industry and Commerce (SAIC), the Ministry of Education (MOE), the Ministry of Finance (MOF), and the Ministry of Commerce (MOFCOM). This section outlines interests common to multiple mid-level organizations and highlights some of the most relevant agency-specific priorities.

Shared Interests

The "healthy development" of the online games industry and the improvement of regulatory coordination for online games are perhaps the most universally expressed interests shared by mid-level organizations[116]. These shared priorities are often expressed in the content of policy texts and in public statements to the press, and reflect the same overarching interests that have been expressed by central level government stakeholders. The policy analysis in Chapter II points out the manifestation of central priorities in the policy texts issued

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[115] See policy text analysis in Chapter II

[116] See analysis of the *Journalists' Code* in Chapter II for a detailed review of how this interest is conveyed by China's government agencies.

by the MIIT, the MPS, the MOC, and the GAPP. These comprise the major online games regulatory authorities at this level, however there are also other organizations involved. Like the major mid-level authorities for online games, these less prominent institutions share a vested interest in the pursuit of the "healthy development" of the online games industry in China. The Ministry of Education is one such organization, having pursued primarily social goals in this area, through policy development that protects minors. Examples of relevant MOE policy initiatives include: the 2005 *Notice on Further Deepening the Management of Internet Cafes (关于进一步深化网吧管理工作的通知),* the 2007 *Notice on Protecting Physical and Mental Well-being of Minors and Implementing Online Game Anti-addiction System (关于保护未成年人身心健康实施网络游戏防沉迷系 统的通知),* and the 2009 *Green Dam Youth Escort – Primary and Secondary School Installation Mandate.* The Ministry of Health and the Ministry of Finance have also supported game-related policies that work to protect minors. These include: the *2007 Notice on Protecting Physical and Mental Well-being of Minors* mentioned above, supported by both ministries, the *Notice Concerning the Computer Pre-installation of Green Internet Filtering Software 关于计算机预装绿色上网过滤软件的通,* backed by the Ministry of Finance, and the 2011 *Notice Regarding the Implementation of the Parents' Guardian Project for Minors Playing Online Games 关于印发《"网络游戏未成年人家长监护工程"实施方案》的通知,* endorsed by the Ministry of Health.

Government actors at the ministerial level have also displayed an interest in protecting China's economic interests in the online games industry. The Ministry of Commerce (MOFCOM) and the State Administration for Industry and Commerce (SAIC) were the earliest of these actors, promulgating some of the first policies to regulate internet cafes business operation [117], and forming part of the initiative that protects Chinese companies from international competition[118]. In recent years, these early actors have expanded their regulatory reach into virtual currency regulation. In 2009, for example, the MOFCOM joined the MOC to issue a *Notice on Strengthening Administration of Virtual Currency in Online Games (关于加强网络游戏虚拟货币管理工作通知).* In 2007, the SAIC was an issuing organization for China's first virtual currency policy, which restricted the use of virtual currency outside of online games (Pillsbury Law 2013). The SAIC further established its interest in virtual currency regulation in

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[117] For example, the SAIC was an issuing party of the 1998 *Notice Concerning the Standardization of Commercial Activities in "Internet Cafes" and Strengthening of Security Management* 关于规范"网吧"经营行为加强安全管理的通知.

[118] This refers to the MOFCOM's promulgation of the 2005 *Opinions on the Introduction of Foreign Capital into Cultural Industry (**关于文化**领域引进外资的若干意见)*

2010, promulgating *a relevant policy separately from the MOC and MOFCOM*[119]. As the use of virtual currency has become increasingly widespread in recent years, other financial regulators have also become involved in policy development relevant to the online games industry. One example is the People's Bank of China, which has been involved in the regulation of virtual currency transactions that take place in China's online games since 2007; it was named the primary regulating authority in this area in the section 1 article 5 of the Notice on Further Strengthening Internet Cafes and Online Games Management Work (关于进一步加强网吧及网络游戏管理工作的通知). Since this declaration, the People's Bank of China (PBC) has demonstrated a concerted interest in the regulation of virtual currency. In December 2013, the PBC released the *On Guard Against Bitcoin Notice* *关于防范比特币风险的通知,* a policy directed toward transactions that take place outside online game environments. This recent policy expresses concerns about the potential financial and security risks of the decentralized, cross-border currency transactions facilitated by virtual currency, and addresses this concern by prohibiting Chinese financial institutions from trading in *Bitcoin*. Bitcoin is an example of virtual currency that is more obviously problematic for financial regulators and national governments, due to the decentralized way the currency is generated and its strong support of anonymity. Issuing and trade of Bitcoin operates outside of online games and is intended to directly replace traditional currency exchange[120]. The *On Guard Against Bitcoin Notice* signals a need for further observation and research in this area, and facilitates this by allowing *Bitcoin* transactions for personal use to take place. The policy text identifies the potential for this case to inform general policy development regarding trade in virtual goods. While this policy text relates explicitly to *Bitcoin*, and may therefore seem relevant only to cryptocurrency transactions, it highlights concerns that are relevant to the trade of virtual goods for real-world money, as in the practice of gold farming. It also identifies governing stakeholders with interests in virtual currency and virtual goods trade. These include: the MIIT, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission, all of which jointly issued the *Bitcoin* policy along with the People's Bank of China. As stakeholders in China's virtual currency trade in general, these governing institutions are also likely to hold interests in the regulation of virtual currency trade in the context of online games. They may therefore play a

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[119] *The 2010 Interim Measures on Administration of Internet Commodity Trading and Related Services (*网络商品交易及有关服务行为管理暂行办法).

[120] Bitcoin is part of a recently emerged category of currencies called “cryptocurrencies” that are generated automatically using encryption techniques. See Wallace for more information on the functionality and early history of Bitcoin and other cryptocurrencies.

more prominent role in China's online games regulation as the policy environment continues to develop to accommodate new and innovative virtual economic activities.

The above examination of policy development activity indicates a widespread manifestation of the central-level priority of social and economic "healthy development" among mid-level regulators. This is the most common of shared interests at this level and reflects the influential nature of key priorities established by central levels of government. Another shared interest among both national and mid-level governing stakeholders is the utilization of licensing requirements as a mechanism of control. Online games operators require licenses[121], as do internet cafes (Xinhua 2002); ministerial-level institutions are responsible for implementing licensing procedures, however licensing requirements have been mandated at the national level [122]. As mentioned in the previous chapter, the most recent draft regulation issued by GAPP categorized online game developers and operators as "internet publishers" (Section 2, article 1). If this categorization is upheld by central interests, staff from these businesses may be required to attend the same training as journalists in order to obtain operating licenses (Section 9, articles 1 and 2, *Provisions for the Management of Internet Publishing Services (Revised Draft)* (网络出版服务管理规定 (修订征求意见稿)). The ministerial-level interest in implementing license requirements is likely related to the potential of this method of control to serve as a source of income for its responsible government department. This potential for income is a likely a motivation for the aggressive jurisdictional claims demonstrated by the MOC and the GAPP. Licensing requirements are also a popular mechanism for enforcement given their widespread use in other areas, such as traditional media regulation. Licensing has been a key part of China's traditional media regulation for some time; extending the reach of an existing regulatory framework is a logical first-line approach to regulating new media.

While central-level interests are generally maintained and pursued by mid-level organizations, the individual interests of these government agencies are pursued at the same time. The mid-level stakeholders' interests in increasing or asserting power and in gathering resources is one example of this, demonstrated by the case example of jurisdictional dispute as the Ministry of Culture and the General Administration of Press and Publication each sought

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[121] (*Interim Measures on the Administration of Online Games (网络游戏管理暂行办法); Provisions for the Management of Internet Publishing Services (Revised Draft)* (*网络出版服务管理规定 (修订征求意见稿)*))

[122] See the September 2009 *Interpretation of Certain Sections* issued by the State Commission Office for Public Sector Reform, as well as the 2007 *Notice on Protecting Physical and Mental Well-being of Minors and Implementing Online Game Anti-addiction System (关于保护未成年人身心健康实施网络游戏防沉迷系 统的通知)* (Section four).

to control the games industry's regulation and licensing procedures. A closer examination of this case indicates that these organizations also expressed diverging, agency-specific, interests regarding the online games industry's future development.

Individual Agency Interests: the MOC and the GAPP

While the Ministry of Culture and the GAPP demonstrate similar interests in ensuring the "healthy development" of the industry, their policy texts and media interaction demonstrate emphasis on different development directions. The GAPP has demonstrated significant concern with the social aspects of "healthy development", at the expense of industrial growth. The Ministry of Culture, on the other hand, has demonstrated emphatic interest in economic growth and engagement with foreign industry. This disparity in priorities is conveyed by the content of policy texts issued by each organization, as well as a public statement by representatives of the Ministry of Culture. This disparity is elaborated below.

From the GAPP's earliest involvement with online games regulation, the policy initiatives issued by the organization have demonstrated significant concern for the protection of minors and development of "healthy" gaming habits. For example: in 2003, the administration mandated the inclusion of an "Advice on Healthy Gaming" advisory in all published online games in China[123]; In 2007, it was the primary issuing organization for the policy mandating implementation of an anti-addiction system for online games[124]. In 2009, the GAPP expanded its interests in the social aspects of "healthy development" beyond the protection of minors to include tightened domestic controls and a complete ban on foreign investment[125]. Its efforts to achieve these goals through policy and game shutdowns were referred to by official media as a 'crack down on online games operating' (Chu). Forty-five overseas online games that had not received prior approval from GAPP were shut down in this campaign[126]. The GAPP culminated its efforts to develop control mechanisms for the

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[123] Notice Regarding the in-game Publication of 'Advice on Healthy Gaming' 关于在游戏出版物中登载《健康游戏忠告》的通知

[124] *Notice on Protecting Physical and Mental Well-being of Minors and Implementing Online Game Anti-addiction System* *关于保护未成年人身心健康实施网络游戏防沉迷系 统的通知*

[125] This was reported by Xinhua (Chu) and outlined in the *Notice on Implementing the Provisions of the State Council on "Three Determinations" and the Relevant Explanations of the State Commission Office for Public Sector Reform and Further Strengthening the Administration of the Pre-approval of Online Games and Examination and Approval of Imported Online Games* 关于贯彻落实国务院《"三定"规定》和中央编办有关解释，进一步加强网络游戏前置审批和进口网络游戏.

[126] Including Blizzard's *World of Warcraft*

online games industry in 2012, as it declared online games subject to the same licensing requirements as traditional media publications[127].

The Ministry of Culture has also demonstrated commitment to the social aspects of "healthy development", however it has also emphasized the need for industry growth by remaining open to foreign investment. Interest in healthy development has been conveyed by promulgation of policies that work to protect both citizens and domestic industry from the perceived negative impacts of online games and the economic growth of the industry. These include policies that have worked to protect minors from the perceived dangers of internet addiction[128], negative content[129], and online gambling[130], as well as those, such as the 2005 *Opinions on the Introduction of Foreign Capital into Cultural Industries* *关于文化领域引进外资的若干意见*, that are designed to protect domestic industry from international competition. The policy bans foreign investment in domestic online games development and operation, however it demonstrates commitment to foreign investment by leaving some room for foreign companies to participate in the sector through joint ventures and contractual arrangements (Rui et al.; Wauters). The room left for foreign investment is deliberate and is highlighted in the text (Paragraph Three), which ends by emphasizing that China's work to attract foreign investment is a key commitment to the World Trade Organization (Paragraph Five). The 2005 *Opinions* document was issued jointly by the MOC, the GAPP, and several other government agencies, and conveyed a united commitment to foreign investment among online games regulators that lasted until the public dispute between the MOC and the GAPP in 2009.

During the 2009 jurisdictional dispute between the General Administration for Press and Publication and the Ministry of Culture, the interests of these institutions demonstrated different emphasis through their approaches to foreign investment policy. The GAPP moved to ban all foreign investment in China's online games, including investment that occurred through setting up wholly owned enterprises, joint ventures and cooperatives, and contractual

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[127] This refers to the requirement of online games companies to obtain journalism licenses outlined in the 2012 *Provisions for the Management of Internet Publishing Services (Revised Draft)* *网络出版服务管理规定（修订征求意见稿）*(Chapter III highlights the requirements in the comparative content analysis).

[128] Eg., Measures of the Administration of Business Sites of Internet Access Services 互联网上网服务营业场所管理办法.

[129] Eg., Notice on Enhancing the Content Review Work of Online Game Products 关于加强 网络游戏 产品内容审查工作的通知 (2004)

[130] The Ministry of Culture's 2010 Interim Measures on the Administration of Online Games *网络游戏管理暂行办法，for example,*

arrangements[131]. This move to protect domestic industry, at the cost of the potential opportunities for growth that foreign capital offer, contrast starkly with the opinions on foreign investment expressed by the Ministry of Culture. The Ministry of Culture has taken a firm stance that this openness must remain as a vital element of industry growth. This was conveyed by the MOC's response to the GAPP's initiative, which featured a public speech by Tuo Zuhai (庹祖海), the deputy director of the MOC's Cultural Market Department, directed toward both foreign and domestic online games companies. In his speech, transcribed by marketing company *Web2Asia*, Tuo indicates that the GAPP's approach to policy development is outdated and runs counter to the industrial growth envisioned by the Ministry of Culture:

> General Administration of Press and Publication must stop the surly interference in domestic online game enterprises. It is MOC's duty to ensure the long-term development of China's culture industry, especially the game industry. Now is the season when the new replace the old and the still cold weather is about to become warm. I believe we will certainly usher the sunny days when the dark clouds will definitely gone [sic] with the wind (Web2Asia).

With this comment, the MOC explicitly contravenes the GAPP's authority to issue online games policy, undermining its attempt to restrict foreign investment and emphasizing the organization's own commitment to industry growth. Tuo further declared to foreign and domestic industry members that the MOC will "use other channels" to resolve this dispute, reassuring them that growth is a priority and that foreign participation is valued.

The disparity in regulatory approach conveyed by the Ministry of Culture and the GAPP through the above policy developments and media statements seem to indicate a fundamental difference in opinion about how China's online games industry should be developed. However this may not be the case: the agencies' emphasis on different aspects of the priorities approved by the central government (ie. "healthy development") may simply be a manifestation of each Ministry's pursuit of regulatory control over the industry. It therefore remains unclear whether this reflects actual difference in interests for the future of the industry, or whether it simply forms part of the larger jurisdictional dispute between the two ministries.

Lower-level Stakeholder Interests

Below ministerial levels, government stakeholder groups consist of a variety of regulatory agencies at the provincial, city, and county levels. The various interests and

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[131] The GAPP completely banned foreign investment in section four of the 2009 *Notice on Implementing the "Three Determinations" Regulations and the Reform Commission Interpretation and Strengthening the Preapproval of Online Games and Administration of Imported Online Games* *关于贯彻落实国务院《"三定"规定》和中央编办有关解释，进一步加强网络游戏前置审批和进口网络游戏审批管理的通知*.

priorities of these local governments are expressed through practical implementation; local authorities (provincial, city, and below) maximize their own interests by choosing how to interpret and enforce central directives. Qiu & Zhou's 2005 study on local regulatory practice concerning internet cafes in the wake of national directives provides a prime example of this. The authors observed local government responses to a national-level directive to promote national chain-store model internet cafes. Responses were highly variable and included both real and superficial co-operation, as well as deliberate obstruction and refusal to co-operate (286). The authors also observed widespread lack of co-operation with technical requirements issued by the Ministry of Culture after it became the primary regulator for internet cafes in 2002 (278). A number of factors facilitate local government autonomy such as that described by Qiu & Zhou; the authors note that the following factors are particularly relevant: the nascent stage of the national legal framework (275), the vague wording of national policy (and subsequent room for wide interpretation), the low risk of punishment for non-compliance, the lack of 'sufficient administrative supervision and support'[132], and local protectionism (276). The authors additionally observe the role of economic incentive in defining the interests of local government stakeholders; they note that 'economic profit maximization' tends to define the decision-making rationale of local government stakeholders as they interact both with other government stakeholders, and with media producers. Despite this significant disparity between national policy and local implementation observed by Qiu & Zhou, the authors also note that local-level decision-making power is not ubiquitous; central-level prioritization of specific issues tends to result in crackdowns and short-term local compliance (276). The national crackdown on illegal internet cafes since 2004 exemplifies this (267).

The above discussion demonstrates the importance of negotiation and relationships between various governing regulators in determining policy outcomes. It has shown that, while high-level interests tend to be espoused by the lower-level regulating agencies, these lower-ranking organizations also tend to pursue their own organization-specific interests. While the “healthy development” of online games as an industry remains a common priority outlined at the highest levels of government, for example, the Ministry of Culture and the GAPP have each pursued different agency-specific interests regarding the policies and implementation measures that should be implemented in order to achieve this common goal. Similar pursuit of individual agency interests has also been observed by Qiu & Zhou at local levels of government. The authors’ findings indicate the presence of a wide variety of agency-specific interests that depend on individual and local priorities. This points to a diverse landscape of government interests that affect China’s practical online games policy. As a whole, then,

[132] The authors refer to a lack of supervisory infrastructure for local governments, as well as financial support.

China's regulatory interest in this area depends on the precise balance of power between intra-governmental stakeholders at any given time. The next section examines some of the interactions that determine this balance, using the case of the changing structure of China's online games regulation in recent years.

Interactions

The research has described how official policy texts and official statements and interviews published in China's official media are used by China's online games regulators as they negotiate the balance of power between them. Examining these publicly visible mechanisms of interaction has allowed the research to identify some of the key governing stakeholders with interests in developing policy relevant to online games and converged media. These stakeholders have primarily consisted of ministerial-level organizations, however some higher-level institutional stakeholders, like the State Council Information Office and the NPC Standing Committee, have also issued relevant policy texts. **Figure 3.11** in the first section of this chapter depicts the mid-level institutional stakeholders in China's online games regulation within their bureaucratic context, as of early 2011. Since then, however, some major changes have been introduced to this institutional landscape that change the structural context of China's online games regulation. The most important changes are as follows: in 2011 a new office responsible for converged media regulation was introduced at the level of the State Council, and in 2013, a new institution was created from a merger between the former GAPP and the SARFT. These new institutional stakeholders are called the State Council Internet Information Office (SIIO) and the State General Administration for Press, Publication, Radio, Film, and Television (SGAPPRFT). Since their formation, links between these new institutions and other regulators for online games have been forged by individuals holding concurrent positions in multiple organizations. This shared staff links the SIIO to the SCIO on a large scale, and to some of its subordinate organizations through key individuals. **Figure 3.12** below illustrates these structural changes and the sharing of staff that connects them.

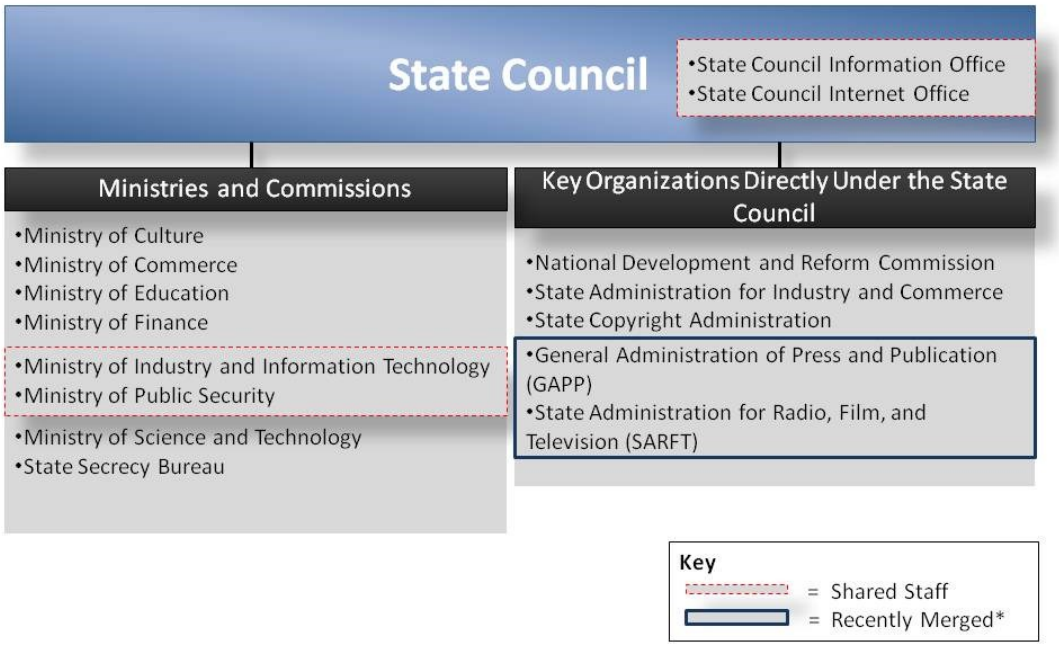

Fig. 3.12

Concurrently held positions also serve to link key ministerial-level online games regulators directly to the CCP Propaganda Department. A close examination of these structural changes sheds light on the less public ways that online games regulation may be negotiated.

The Changing Structure of Online Games Regulation

Examination of the policy environment surrounding emerging practice in online games revealed stakeholder interests at multiple levels of government. Among these, major decisions and interests expressed by the National People's Congress and the State Council seemed to guide the general direction of regulatory development[133], while much of the specific decision-making regarding online games regulation seemed to take place at the Ministerial level[134] and

[133] For example, the MOC's 2010 *Interim Measures* specifically draw their authority from the National People's Congress Standing Committee's 2000 decision on 'safeguarding the internet' and the State Council's 2000 *Measures for Managing Internet Information Services*

[134] The independent approach to policy development demonstrated by the Ministry of Culture (MOC) and the General Administration of Press and Publication (GAPP) dispute in 2009 (see chapter 3 for case example) exemplifies lower-level autonomy.

below[135]. Recent changes in government structure and leadership appointments indicate increased involvement of higher-level actors in the decision-making process. These changes began with the May 2011 founding of a new office of the State Council.

The May 2011 establishment of the State Council Internet Information Office (SIIO) introduced a new government stakeholder interest in online games regulation. The SIIO was established as a high-level organization to be responsible for, among other things, 'the guidance of relevant departments regarding online games, online audio-visual content, internet publishing, and the overall planning of all areas of internet culture' [指导有关部门做好网络游戏、网络视听、网络出版等网络文化领域业务布局规划] (*The Establishment of the State Internet Information Office*). The SIIO provides an institutional channel for communication and co-ordination between central and ministerial stakeholders in online games regulation. Although its founding leadership incorporates some staff from the ministries under its jurisdiction, the office operates at the same level as the State Council Information Office and in fact shares almost all of its staff (Zhang 2011). There are, however, some differences in staff appointments that set the new office apart from the SCIO. The positions unique to the SIIO are occupied by Vice Directors, many of whom hold concurrent positions in other institutions. Close examination of these appointed individuals and their concurrently held positions reveals a series of individualized connections to other key institutional stakeholders in China's online games regulation.

The concurrent leadership roles occupied by the founding deputy directors of the SIIO immediately linked this new high-level regulator with some of the key online games policymakers from the ministerial level. Upon founding, exceptions to the shared staff primarily consisted of two Vice Directors approved by the State Council, who, according to a *Xinhua* report, were expected to hold the positions concurrently with their original ones. The new Vice Directors in question were Xi Guohua (奚国华) and Zhang Xinfeng (张新枫), Minister of Industry and Information Technology and Vice Minister of Public Security, respectively (Zhang 2011). Together with a Director and Vice Director from the State Council Information Office, Wang Chen (王晨) and Qian Xiaoqian (钱小芊), they formed the leadership structure for the new office. The leadership structure is depicted in **Figure 3.13** below:

[135] Although the State Council Information Office was given a supervisory responsibility over web content with the *Regulations on Internet News and Bulletin Boards*, it wasn't until the Green Dam initiative of 2009 that it was named an issuing party in online games regulation.

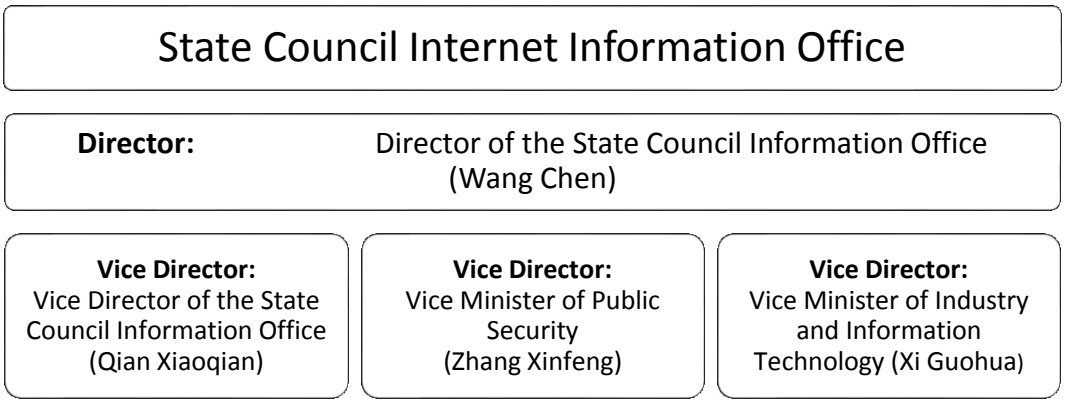

Fig 3.13 *Source: Author's depiction*

In the time since its founding, several changes within the SIIO leadership have established further individualized links with other government stakeholders, including State-Owned Enterprise and the CCP Propaganda Department. Vice Director Xi Guohua now provides a link to government-run industry interests; he no longer operates as Vice Minister at the MIIT, but has assumed the role of Vice-Chairman and Party Secretary of State-owned China Mobile Communications Corporation (*China vitae*)[136]. Other changes in SIIO staff have increased the individual-level links to the CCP Propaganda Department. These include the May 2013 replacement of Director Wang Chen with current Director Lu Wei 鲁炜[137], as well as some additional changes to the deputy director staff appointments.

The convergence of staff in the SIIO that hold concurrent positions in the SCIO, MPS and MIIT suggests potential existing and future cooperation between them as converged media policy is developed[138]. The increased opportunity for interaction provided by this sharing

[136] There is some discrepancy between sources regarding the current status of Xi Guohua; while China Vitae lists Xi as a current vice director, and the author could find no sources to indicate his removal from this position, the *China Directory 2013* does not list Xi Guohua as a deputy director of the State Internet Information Office.

[137] Lu Wei is the former vice president of Xinhua News and propaganda minister of Beijing (CPC News Network, May 2013).

[138] The State Council's 2012 *Measures for Managing Internet Information Services (consultation-revised draft) (互联网信息服务管理办法(修订草案征求意见稿))* explicitly describes cooperation between State Council and ministry-level organizations involved in this area: 'The State Internet Information Content Management Department, according to its obligation and responsibility to manage internet information content management, will coordinate with the State Council Telecommunications Bureau, the State Council Public Security Department, and other related departments to implement the supervision of internet information content' (State Council).

of staff falls in line with China's general goals of improving communication and coordination between disparate internet regulators. This was articulated by SIIO Deputy Director Peng Bo (彭波) at a recent conference held by the Internet Association of China, where he outlined a government strategy to support healthy development of China's internet industries. He highlighted the need for Chinese internet regulators to 'further strengthen communication with government departments,' (应当进一步加强与政府部门的沟通, [Yīng jìnyībù jiāqiáng yǔ zhèngfǔ bùmén de gōutōng]) and to 'establish sound communication and coordination mechanisms' (建立健全沟通协调机制) [jiànlì jiànquán gōutōng xiétiáo jīzhì] (Zhang Wei). A review of the first policy text released by the SIIO[139] reveals the importance of these goals; they form part of the SIIO mandate. This is stipulated in Section 4, article 24, which states that the organizations responsible for internet content, telecommunications, public security, and other relevant departments 'should establish systems for information sharing and communication' (应当建立信息共享和信息通报制度) [Yīngdāng jiànlì xìnxī gòngxiǎng hé xìnxī tōngbào zhìdù].

The changes in SIIO staff since its founding reveal that one way increased opportunity for communication between these departments has been created is through individual appointments. Changes to SIIO leadership appointments since its establishment reflect the continued presence of individual-level links between this organization and other institutional stakeholders with interests in new media regulation. **Figure 3.14** below depicts the recent changes in SIIO leadership positions and names the concurrent positions held by each that link these individuals to other relevant government organizations.

[国家互联网信息内容主管部门依照职责负责互联网信息内容管理，协调国务院电信主管部门、国务院公安部门及其他相关部门对互联网信息内容实施监督管理] (Section 1, Article 3, State Council).

[139] The June 2012 *Measures for Managing Internet Information Services (consultation-revised draft) (互联网信息服务管理办法（修订草案征求意见稿))*.

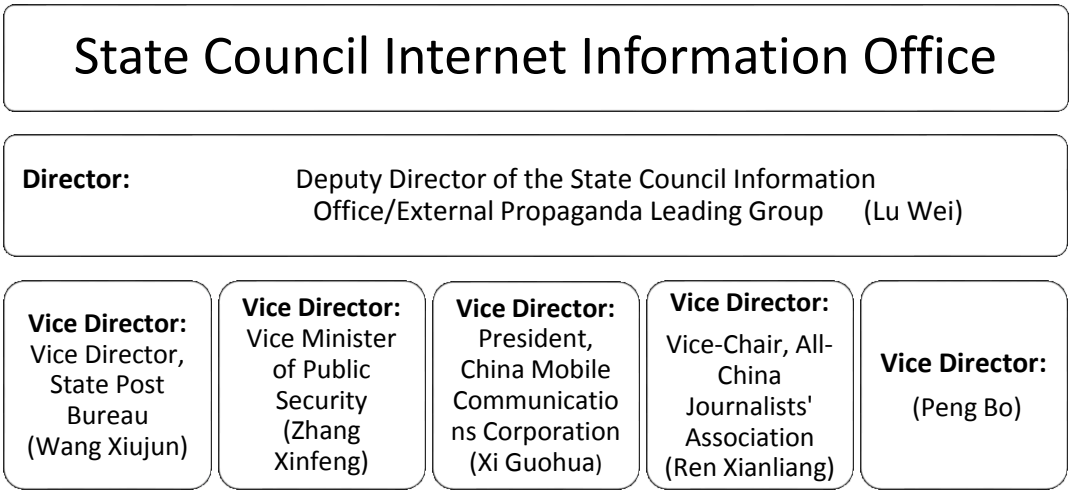

Figure 3.14. *Source: Author's depiction*

Figure 3.14 above depicts several concurrently held leadership positions that demonstrate an apparent increase in opportunity for communication and coordination between some important online games regulators within this higher-level institutional context. Of particular interest are: Xi Guohua, who has connections both to the MIIT as its previous Minister and to commercial industry, as the concurrent President of China Mobile (China Vitae), and Zhang Xinfeng, who serves as an individual connection to the Ministry of Public Security by concurrently serving as its Vice-Minister (China Vitae).

These concurrently held positions create shorter communication paths between the central leadership of the SIIO and its subordinate ministries by using individuals to link them. This can contribute to the streamlining and improved co-ordination of online games regulation by providing the opportunity for increased communication and cooperation between organizations. This does not eliminate the potential for conflict, however, as individuals will make implementation decisions based on their interests in both organizations. The increased links between MIIT, MPS, and China Mobile have been accompanied by increased individual connections to central organizations, and in particular the CCP Propaganda Department. The next section explores these connections and the pathways for communication and potential negotiation they create for China's major online games regulators.

Online Games Regulators and the Propaganda Department

Given the near-complete sharing of staff between the SCIO and the SIIO and the known overlap between the SCIO and the CCP Propaganda Department[140], the SIIO's founding itself indicates a clear connection to the CCPPD. It also therefore flags an increased interest from high-level stakeholders in policy development for online games and other converged media. Recent leadership changes in both the SIIO and the SCIO have solidified these links through key individual appointments. These begin at the level of SIIO Deputy Directorship, with Ren Xianliang (任贤良).

Currently, three individuals clearly connect the SIIO to the CCPPD. These are: Ren Xianliang (任贤良), Vice Director of the SIIO, and Vice-President of the Propaganda Department's All-China Journalists' Association; Lu Wei (鲁炜), who holds leadership positions concurrently in the SIIO (Director) and the SCIO (Deputy Director); and Cai Mingzhao (蔡名照), who holds leadership positions in the SCIO (Director) and in the CCP Propaganda Department (Deputy Director). **Figure 3.15** below shows how these individuals connect these organizations through their concurrently held positions.

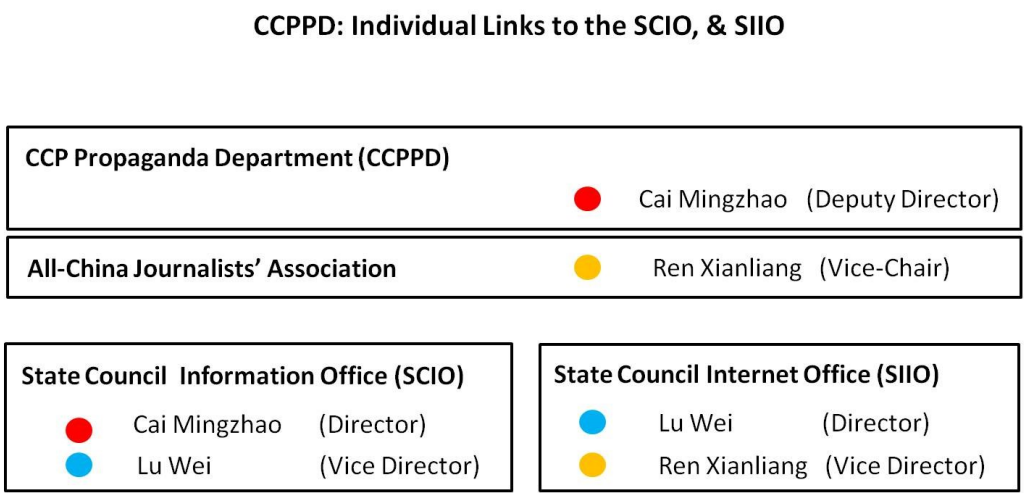

Figure 3.15 *Source: Author*

[140] As explained earlier in this chapter, the SCIO is also known as the External Propaganda Leading Group. Brady notes that this organization and China's internal Propaganda Department are 'very closely linked and coordinated' (2008, 12-13).

Increased CCPPD individual-level connection to online games regulators can also be observed in the staff appointments that accompanied the convergence of the GAPP and the SARFT in April 2013. The GAPP, the SARFT, and the NCAC have all been involved in online games policy development, and this institutional convergence represents an increase in cooperation between them[141] that may help these policymakers respond to the jurisdictional challenges of media convergence that are raised by online games and their innovative use. The major leadership appointments that have accompanied this merger connect the new ministry directly to the CCPPD through its director, Cai Fuchao (蔡赴朝). Cai Fuchao was also appointed the Director of the National Copyright Administration (NCAC) in 2013, along with his concurrent positions as Director of the SGAPPRFT and Deputy Director of the CCPPD. The NCAC has traditionally been a branch of the GAPP, and Cai Fuchao's appointment to Director of the NCAC provides a clear link between the former GAPP administration and the new SGAPPRFT. The concurrent positions held by Cai Fuchao mean that, as an individual, he serves to connect key online games policymakers (GAPP, SARFT) and provide a short communication pathway to media policy decision-makers at the highest levels of China's governing structure (*China Vitae*). One of these key decision-makers is Minister of Culture Cai Wu (蔡武), who, according to the China Directory 2013, is also a Deputy Head of the CCP Propaganda Department (16).

The recent structural changes and individual staff appointments relevant to China's online games regulation mean that the CCPPD, at the level of its deputy directors, provides an institutional link and forum for negotiation of power balances between key leaders in China's online games regulation. These are: Cai Mingzhao, who is linked to the State Council Internet Information Office through his position in the SCIO; Cai Fuchao (蔡赴朝), who is responsible for the leadership of the newly merged GAPP and SARFT and additionally directly leads the NCAC; and Cai Wu, who leads the Ministry of Culture. The links between these institutions led by these individuals are depicted in **Figure 3.16** below.

[141] See China Vitae for a full list of SGAPPRFT vice-directors and their previous allocations in SARFT and GAPP.

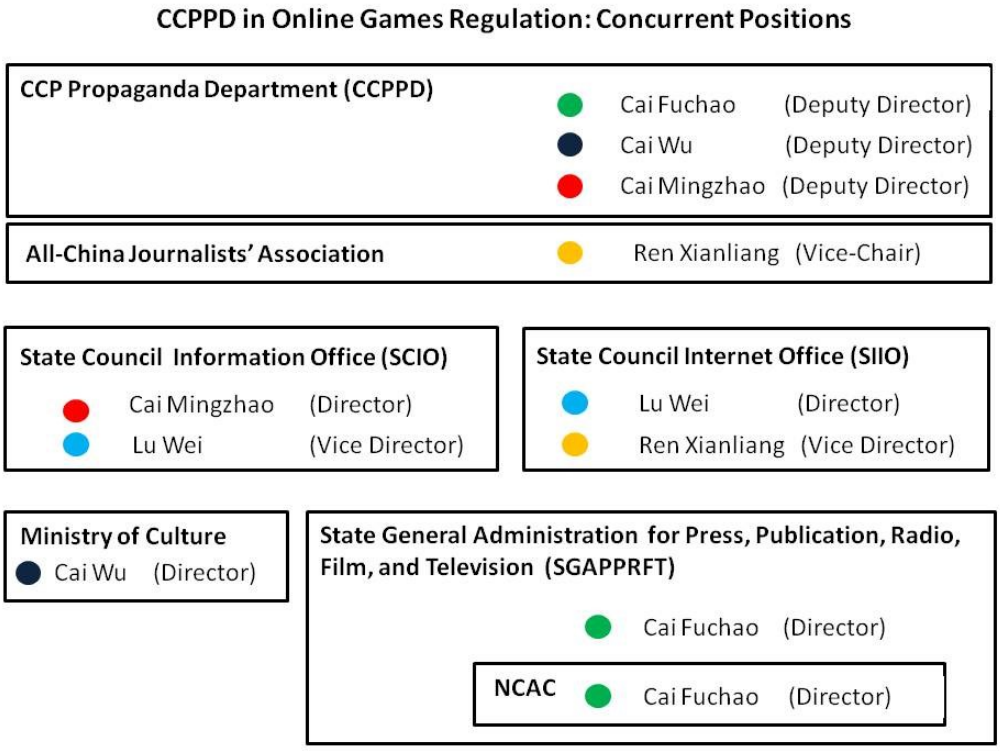

Figure 3.16 *Source: Author*

The above examination of changes in the bureaucratic structures and staff appointments among China's online games regulators reveals a number of pathways for negotiation that may be used to achieve future policy outcomes in this space. These align with some known pathways for political negotiation in China. The insertion of higher-level institutional stakeholders and well-connected individual actors seems to shift the power balance toward higher-level decision-makers. The increased individualized connections to the CCPPD through concurrently held positions does not indicate precisely whether or how they are used, however it does demonstrate opportunity for increased CCPPD activity in this space. The strategic placement of individual officials as leaders of multiple organizations is a known control mechanism employed by CCP Propaganda Department (Shambaugh; Lieberthal) and has been observed in this research to be in operation at the highest levels of China's governing organizations. It is therefore possible that these observations may represent the early stages of a similar CCPPD approach to control over the online games industry.

While the increased CCPPD involvement in converged media regulation points to internal channels for power negotiation led by high-level decision-makers, there is still significant room for disagreement and conflict between China's online games regulators. The interpretation of where jurisdictional responsibilities lie and what the priorities of interest are for converged media regulation still has the potential to vary widely between government

stakeholders. For example, since the institutional convergence of the GAPP and the SARFT, the GAPP's 2012 expanded definition of "internet publishers" to include online games under its jurisdictional reach has yet to be clarified, as does the potential applicability of licensing requirements. In addition to the varied legal texts that result from the fragmented and competing interests of different government agencies, the variation in approach to practical regulatory decision-making between central and local levels of government will continue to affect internal interactions between government stakeholders and factor into internal negotiations that take place as policy is translated into practice. This is particularly the case in an extremely lucrative and privatized industry like online gaming, where the interests of industry stakeholders will prioritize profit over compliance: regulatory implementation at local levels of government must not only balance central interests with specific local priorities, but must also face strong countervailing pressures from media producers and users.

Internal interests play a defining role in the development and interpretation of central policy and work to shape the ultimate government role in the dynamic of converged media policy. Understanding the major government stakeholders and pathways for interaction and power negotiation as described above is therefore important. However, the realities of China's new media policy landscape are not defined solely by the internal actions of government; they also depend on the negotiation between government interests and those of the major stakeholders external to it. Consideration of the regulatory challenges raised by emerging practice in online games revealed that the tensions that shape converged media regulatory practice in China are primarily negotiated between the government, the media, and the public. In order to build macro-level understanding of the existing ethic as it is defined by these tensions, the research considers some of the primary interests and interactions that occur within and between the other major stakeholders.

Media Producers/Operators

Prior to the reform-era decentralization and commercialization of media in China, the structures, interests, and interactions of China's government stakeholder group were also those of the media stakeholder group. Today, while government stakeholders remain highly influential and the media sector is heavily regulated, decentralization and commercialization, as well as the country's more recent accession to the World Trade Organization in 2001 have diversified ownership and interests beyond those held by the government stakeholder group. As private and international stakeholders have been increasingly allowed ownership within China's media sector, they have developed increasing influence and developed increasing interests and influence in China's media sector.

Stakeholders in the production and operation of China's media pursue their own interests where possible, within the boundaries negotiated with government and public

stakeholders. As in the government stakeholder group, stakeholders in the media category pursue these interests at institutional as well as individual levels. The next section explores the key structures, stakeholder interests, and modes of interaction that shape negotiation of online games regulation in the media stakeholder group. It additionally explores a major interaction type that takes place between the media and the government.

Interests in China's media provision and production are held by both institutional and individual-level stakeholders. On an institutional level, media stakeholder interests are heavily influenced by ownership. The interests of government-owned institutions are likely to align with those of their associated government stakeholders, for example, while the interests of independent institutions will align with those of their owners. Many of the independent media institutions in China are publicly listed companies; the interests of these media organizations will then tend to align with the interests of the shareholders[142]. The interests of quasi-state institutions vary according to the negotiation of interests internally. Internal negotiation takes place, for example, between government and private shareholders, and between institutional and individual stakeholders. These interests are also affected by external pressures from the government and public stakeholder groups; examples include the regulatory demands from the government stakeholder group, and the market demands of public stakeholders.

In order to discuss key stakeholder interests in this category and the ways in which they interact, it is first necessary to establish key institutional stakeholders and their ownership structures. The following section introduces the ownership structures that underpin provision and production of China's media, and considers the relationship between these structures and major stakeholder interests.

Institutional Structures, Ownership, and Interests

On an institutional level, stakeholders in the provision and production of media in China are revenue-generating companies whose primary interests are defined by their ownership. While the government maintains a significant ownership stake in Chinese media production and provision, the decentralization and commercialization of the media sector since the nineteen nineties have resulted in the introduction and increased participation of private and international stakeholders (*Open Society Foundations*, 2012). This has particularly been the case for value-added telecommunications services (VATs) such as online games; since China's accession to the World Trade Organization in 2001, foreign companies have increasingly been able to participate in these industries through public offerings and joint ventures (*Focusing on Value-Added Telecom Services*, 2006). However, while this economic

[142] In any publicly listed company, tend toward maximization of growth and profit

"opening up" has increased the number and diversity of stakeholders in media production and provision, especially with regards to converged media, government ownership continues to dominate traditional media outlets and media infrastructure through State-Owned Enterprises (SOEs) and controlling ownership stakes in media enterprises. This selective privatization has meant that the ownership structures of media institutions in China vary along a continuum between one hundred percent government ownership and one hundred percent private ownership.

Institutional Stakeholders

Institutional key stakeholders involved in traditional media production and provision include: state-owned and quasi-state media organizations, content producers and broadcasters[143]; independent media organizations and content producers[144], publishing houses (print media), distributors, and suppliers. Institutional key stakeholders involved in the production of converged media include: Companies involved in the variable interest entity ownership structure (exact structure varies), content developers (foreign[145] or domestic), infrastructural stakeholders (ie. government-dominated telecommunications corporations), access point operators (ie. internet cafe operators), and equipment suppliers (ie. electronics vendors/manufacturers).

Government Ownership: Central and Local, Control vs. Privatization

Government ownership structures vary widely, from complete ownership to ownership of the largest stake in an enterprise (Xu, 2010). Ownership and operation occur at both central and local levels of government and take both direct and indirect forms. Central ownership and operation accounts for major infrastructural enterprises such as telecommunications operators and information technology companies (Mattlin, 16), and major media enterprises such as *Xinhua News Agency*, *China Central Television (CCTV)*, and *China Radio International (CRI).* Local government ownership accounts for more minor and regional media enterprises, though trans-regional and trans-sector co-operation has become both common practice and a

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[143] Examples of state-owned institutions include: *Xinhua News Agency*, *China Central Television (CCTV)*, and *China Radio International (CRI)*. Quasi-state institutions are partly owned by government departments; Jindun Television Cultural Center (partly owned by the Ministry of Public Security) and Zhongbei TV Art Center (partly owned by the Beijing All Media and Cultural Group) are examples of these (Liu 2010).

[144] Examples include: Caijing, The Economic Observer, Beijing Galloping Horse Film & TV Production, and Hairun Movie & TV (Liu 2010)

[145] Foreign content developers can only participate by licensing their product to a domestic operator, as in the case of Activision Blizzard's licensing of World of Warcraft to NetEase, Inc.

centrally issued goal[146] since China's accession to the World Trade Organization (*Mass Media*, China.org.cn). This has resulted in the formation of government-owned multimedia enterprises, the biggest of which is the State-level *China Radio, Film and Television Group*, a conglomerate of media production institutions[147] under the State Administration for Radio, Film, and Television (SARFT) (People's Daily Online, 2001), that has fallen under the management of the larger SGAPPRFT as of 2013. Complete government ownership is more common at the central level, however partial privatization at both central and local levels has been a popular structure in recent years. This allows media enterprises to raise capital and better compete with large international media corporations (Barboza, 2009, 2012). Fan, Wong, and Zhang describe this partial privatization as it has been implemented by local governments:

> Since the creation of the stock markets in Shanghai and Shenzhen in the early 1990s, with the newly gained power local governments have spun out productive assets from their SOEs, organized them into corporations, and then partially privatized some of the corporations through IPOs of minority portions of the corporate shares. Over 1,000 companies had gone public in this way by 2001, and most of these firms remain majority-owned by local governments (9).

Ownership structures for partially privatized enterprises may be direct, using one government agency to hold the controlling share, or indirect, holding controlling shares of a series of intermediary companies which Fan et al. term 'SOE-controlled pyramidal business groups'[148] (1). Fan, Wong and Zhang understand this as an attempt by local governments to 'decentralize' ownership of SOEs where they are legally prohibited from transferring it; they reason that due to its introduction of increased agency costs and inefficiency of information transmission, the degree of actual government control over daily activity tends to diminish as the size of the pyramidal business structure increases (7). Fan, Wong and Zhang's observations imply that there is a dilution of government control that accompanies the decentralization of ownership to local governments and private interests. This commercialization has resulted in increased local government access to private capital and an increased economic importance of local government-controlled enterprises. This affects the power balance of interests between

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[146] The central government established the goal of developing 'trans-regional multimedia newsgroups' to 'meet competition and challenges from powerful overseas media groups' in 2001 (*Mass Media*, China.org.cn)

[147] These include: CCTV, China National Radio, CRI, China Film Group Corp., China Radio and Transmission Network Cooperation Ltd, and China Radio and Television Web (Silverblatt & Zlobin, 167).

[148] For an in-depth explanation and analysis of these structures, see Fan, Wong & Zhang, 2010

central and local authorities and introduces private interests as a major consideration of local authorities.

In China's media sector, partial and complete privatization has been implemented on a selective basis; key industries and central media organizations have been held under tight government ownership, while local level media institutions and targeted enterprise types have been allowed to increase the number and diversity of shareholders through complete privatization and joint venture partnerships (Chan, 16, 2010). In some industries, this has resulted in ownership structures where foreign and private stakeholder interests define those of the media institution. The online games industry in China exemplifies this.

International Ownership Structures: Online Games Companies

Many of the major online games operators in China, including: NetEase, Changyou, Tencent, Giant Interactive Group, The9, and Perfect World, are publicly listed on foreign stock exchanges. As publicly owned companies, their institutional interests are defined by those of their shareholders, which tend toward maximization of growth and profit. Although under Chinese regulation, foreign ownership may not control more than fifty percent of an online games company (The Law Offices of Greg Pilarowski, 16), many foreign-listed companies are able to achieve de facto control through a series of contractual arrangements with Chinese nationals. These domestically-owned entities are referred to as Variable Interest Entities (VIEs) (The Law Offices of Greg Pilarowski; Su).

Variable Interest Entities

Variable Interest Entities provide companies in China with a way to access foreign capital despite restrictions on foreign ownership and investment. The structural organization of companies that operate through variable interest entities tends to consist of companies at the following levels:

- Foreign-listed holding companies held publicly and headquartered outside of China. Examples of these from the online games industry include NetEase, Inc., and Sohu.com.
- China-based wholly-owned subsidiaries of the foreign-listed and foreign-headquartered companies. These are known as Wholly Foreign-Owned Entities (WFOEs).
- Chinese companies held and operated by one or more Chinese nationals (VIEs).

In a VIE structure, the WFOE makes contractual arrangements with the domestic subsidiaries of the foreign-held firm that allow the foreign-listed company de facto control over revenue and operations. Tring describes the arrangement as follows:

> The holding company owns the WFOE through a series of intermediary holdings. The domestic company and the WFOE enter into a series of structured agreements, including an exclusive equity option, equity pledge, voting proxy and technical licence and service agreements. These agreements allow the domestic company to be indirectly controlled by the holding company and its financial results are consolidated into the WFOE's financial statements, as if it were one of the company's subsidiaries (2012).

An example from the 2010 Securities Exchange Commission filings of Sohu.com[149] illustrates how variable interest entities have been implemented to allow the company to operate in China and to access foreign capital.This is depicted in Figure 3.17 below.

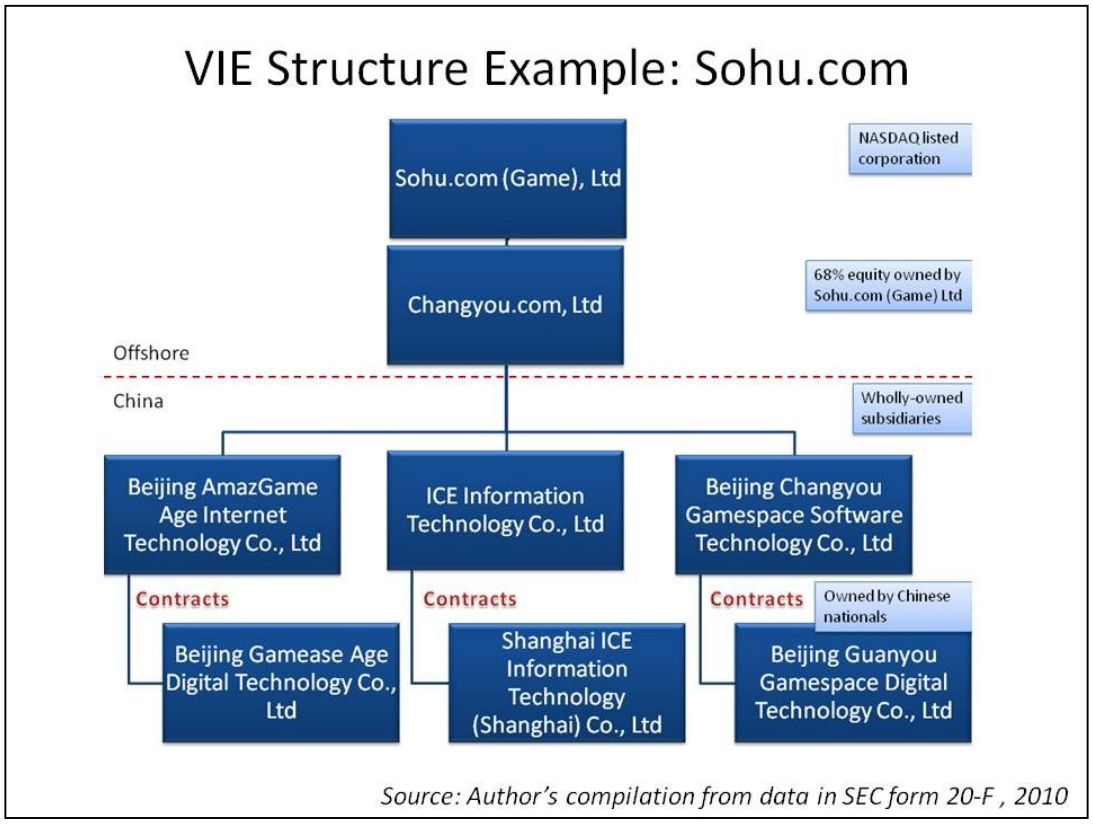

Fig. 3.17

The offshore holding companies (Sohu.com, Changyou.com) own and operate WFOEs in China (AmazGame, ICE Information, Beijing Changyou). These foreign-owned companies[150]

[149] All SEC filings reviewed for this research can be downloaded from the Investor Relations sections of company websites.

[150] Pilarowski notes that in the case of online games companies in China operating through VIEs, the WFOE tends to be a subsidiary of the offshore holding company in which the public

enter into a set of contracts with domestically-owned VIEs (Beijing Gamease Age Digital, Shanghai ICE, Beijing Guanyou). These contracts allow the WFOEs to control and extract revenue from the VIEs; these domestically run companies are the only entities that can legally operate the business in China. They are often led by the original (Chinese) founder(s) of the company, that is to say, the original seekers of foreign capital.

Contracts

The precise nature of the contractual agreements that connect the wholly-owned foreign entities (WFOE)[151] with the VIEs themselves (in this case: Beijing Gamease Age Digital Technology Co., Ltd, Shanghai ICE Information Technology (Shanghai) Co., Ltd, and Beijing Guanyou Gamespace Digital Technology Co., Ltd) varies with each case, however there are some common elements to VIE agreements for online games companies operating in China. These are, as Pilarowski notes: a purchase option, control rights, revenue agreements, loan agreements, and an equity pledge (The Law Offices of Greg Pilarowski, 17).

An analysis from The Law Offices of Pilarowski indicates the functionality of each type of contractual arrangement typical of VIE arrangements for online games operators in China: A purchase option allows the WFOE to purchase the VIE shares if and when PRC law allows. Control rights are designed to allow the WFOE to control the domestic company[152]. Revenue agreements[153] facilitate the transfer of revenue from the VIE to the WFOE, while loan agreements facilitate the transfer of capital from the WFOE to the VIE, should this be necessary. Loan agreements are often combined with an equity pledge, where the domestic VIE shareholders pledge their shares to the WFOE (17). The equity pledge may serve as a guarantee for the loan, or, as Pilarowski notes, simply as a guarantee of compliance with the revenue agreements (17). As of Changyou.com's 2012 Security Exchange Commission (SEC) filings, the company held all five agreement types with its VIEs.

China's online games operators were some of the first pioneers of VIE structure use in the country, beginning with Sina.com's initial public offering in 2000 (Roberts and Hall, 1).

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shareholders, venture capital investors, and the original founders invest (The Law Offices of Greg Pilarowski, 16).

[151] In this case: Beijing AmazGame Age Internet Technology Co., Ltd., ICE Information Technology Co., Ltd., and Beijing Changyou Gamespace Software Technology Co., Ltd.

[152] These tend to operate through a proxy, a power of attorney, or a voting rights agreement (The Law Offices of Greg Pilarowski, 17).

[153] Consulting agreements, technical service agreements, and copyright license agreements are some of the most common forms (The Law Offices of Greg Pilarowski, 17).

The company's success in circumventing foreign investment restrictions and avoiding government backlash popularized the structure and to date it is widely used in a number of industries. Currently, all foreign-listed online games operators in China use the VIE ownership structure[154]. The de facto control over VIEs allowed by the contracts with the WFOEs means that private and foreign stakeholders are able to shape the institutional interests of online games companies that operate in China. As the foreign companies tend to have access to the most capital resources for growth and therefore wield enormous economic power, this may affect the balance of power among stakeholders in China's media; they may tend to prioritize international shareholder interests over domestic interests. Therefore, negotiation of stakeholder interests in regulatory practice for this sector is likely to reflect the dominance of private capital. It is also likely, however, to reflect an effort to align interests between the foreign-owned institution and the nominee shareholders. This is because the contracts that ensure the flow of revenue from the VIE to the foreign shareholders may not be enforceable in Chinese courts.

Contract Legality and the Future of VIEs

The VIE ownership structure has recently been cause for concern both in China (Clarke, 2011) and abroad[155] (Flannery; Su); the legality of the structure is in question and therefore its future use is unclear. Domestic stakeholders have expressed concern about yielding financial control of Chinese companies to foreign investors through VIEs, while foreign shareholders express concern about yielding control of company operations to VIEs (Clarke). Schindelheim (216) and The Law Offices of Greg Pilarowski note that the enforceability of the contracts that connect the domestically-owned companies to the wholly-owned subsidiaries of the foreign investors is extremely uncertain (18). They suggest that, should the contract's validity come into question, a Chinese court is unlikely to side with the Wholly Foreign-Owned Entity. Pilarowski reasons this outcome because 'the control contracts do not comply with the spirit of the foreign ownership restrictions' (18). Schindelheim additionally observes that since they function as a work-around for foreign investment restrictions, they appear to contradict article 52 of the *Contract Law of the People's Republic of China*, which states that a contract is null and void if 'an illegitimate purpose is concealed under the guise of legitimate acts' (218). He also points out significant potential for selective and individualized enforcement of this law

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[154] As of the companies' respective 2011 NASDAQ SEC filings, this included most of the major online games companies in China, such as: NetEase, Inc., Changyou.com Ltd., Giant Interactive, Tencent, and Shanda Games.

[155] Domestic interests express concern about the media control that VIE structures yield to foreign investors, while foreign shareholders express concern about the control of company operations yielded to VIEs (Clarke).

(219-20). In fact, such individualized enforcement has in fact been enacted already in other industry sectors; in 2011, Buddha Steel, Inc. was forced to withdraw from an initial public offering in the United States of America, when local government authorities in Hebei determined that VIE structures contravened public policy (Roberts and Hall, 6).

Two respondents from legal backgrounds that were interviewed for this research shared their perceptions of the future of VIE structures, indicating that regulators are likely to see VIE companies as local because the VIE shareholders 'are local guys' (R3; R4). This respondent understood the potential loss of VIE revenue to be a deterrent for regulatory enforcement against these companies.

In addition to the legal risks of the VIE structure in general, its use in the online games industry specifically conflicts with a 2009 decree issued by the General Administration of Press and Publication. Article four of Decree No. 13[156] 'expressly prohibits foreign investors from using contractual or other control arrangements to gain control over domestic Internet game operators' (Morrison and Foerster LLP). To date, this explicit prohibition of the VIE structure for online games has had no effect on its continued prevalence in China's online games industry; as of 2012, China's online games market is still dominated by foreign-listed companies, all of whom use the VIE structure in order to successfully operate around restrictions on foreign investment. Access to capital from foreign shareholders means that foreign-listed online games companies in China wield significant economic power, while responsibilities to foreign shareholders mean that their interests align with profit maximization and growth. These interests may at times conflict with those of government stakeholders, who may selectively enforce VIE prohibition. However, enforcement of this prohibition carries with it a strong economic risk; significant foreign shareholder loss of VIE revenue may discourage both current and future foreign investment in China. Given the legal uncertainty surrounding the use of VIEs in China in the online games industry, the long term sustainability of this structure remains unclear. What is clear, is that this has introduced massive foreign economic interests to China's media sector that are difficult for government stakeholders to influence and regulate.

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[156] *Notice Regarding the Consistent Implementation of the Stipulations on "Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games* (trans. Morrison & Foerster LLP, 5) (新闻出版总署、国家版权局、全国"扫黄打非"工作小组办公室关于贯彻落实国务院<"三定"规定>和中央编办有关解释，进一步加强 网络游戏前置审批和进口网络游戏审批管理的通知)

The ownership structures of media institutions in China reflect a traditional media sector that is heavily weighted toward government ownership, with an increasing trend toward partial privatization. With regards to traditional media, the negotiation of stakeholder interests in regulatory practice is likely to reflect the strong government presence. By contrast, ownership structures of newer and more highly converged media such as online games revealed an extremely high level of private and foreign ownership. While the exploration of stakeholder interests and ownership structures provides important information regarding the potential for alignment and conflict of interests, it provides little information about the ways in which these interests are negotiated.

The negotiation of stakeholder interests in regulatory practice for online games is likely to reflect the dominance of private capital and the pursuit of company shareholder interests. Given the risk of VIE revenue loss in the case of divergent interests, however, negotiation efforts are also likely to reflect an effort to align the institutional interests of WFOEs with the individual VIE shareholders[157]. The same risk is also instrumental in creating incentive for WFOEs to remain compliant with government stakeholder demands; there is a risk of becoming a selected target for regulatory enforcement should there be a significant divergence from government stakeholder priorities. In order to further investigate how these negotiations take place, the next section explores case examples of important interaction types that affect major stakeholder interests in the media category. These primarily consist of the negotiation of interests between game producers and operators and government regulators, and between institutions and individuals.

Interactions

The exploration of the structures and interests of foreign-listed online games companies in China highlights two key points of tension where potentially divergent stakeholder interests must be negotiated. These points are: the intersection of private and foreign stakeholder institutions and government stakeholder institutions, and the intersection of individual and institutional interests. The outcomes of negotiations at these points have the potential to significantly influence the realities of new media regulation in China.

GONGOs as Intermediaries

There is evidence that negotiation between the strong private interests of online games companies and government interests is to some extent facilitated by intermediary organizations created by the government. The Internet society of China (ISC) is an example

[157]A number of client development documents released by law firms advise potential clients of the risk inherent in the VIE structure in China.

of one such organization that is active in the negotiation of converged media policy. In recent years, the China Games Publishers Association, or CGIA, has emerged as an attempt by some regulators to model this system. The following case example explores the relevance of the use of intermediary organizations to the policy negotiation between government and private stakeholders in the online games industry.

Case Example: social organizations and converged media regulation

The ISC is a government-created "social organization" or what some scholars term 'Government-Organized Non-Government Organizations (GONGOs)' (Lawrence & Martin, 37). Established in 2001 and sponsored by the MIIT, the ISC's self-described purpose is as follows:

> To be a link among the community, to make efforts benefiting the whole industry, to push forward industry self-discipline, to strengthen communication and cooperation between its members, to assist and provide support for policies making, and to promote Internet application and public awareness (*About Internet Society of China*).

The relevance of the ISC to negotiations between stakeholders in converged media policy is declared not only by its self-description, but by its membership. The ISC has over 400 members, many of whom are prominent companies in converged media. These include: Baidu, Inc., SINA Corporation, Tencent, and NetEase. Membership is also held by government-owned media stakeholders[158], government stakeholders in media regulation at both ministry and State levels[159], research institutes, and various other members of government and industry. The connection between the ISC and the current leaders in internet policy development also exists at the level of its leadership: the Secretary General of the ISC is Lu Wei, who is also the current director of the State Council Internet Information Office (SIIO).

The general functionality of the ISC can be inferred from its primary policy document, the *Public Pledge of Self-Regulation and Professional Ethics for China Internet Industry (中国互联网行业自律公约)*. The document, issued the year after the ISC was established (2002), outlines a set of guidelines and code of ethics that uses much the same rhetoric and

[158] These include major telecommunications enterprises such as China Telecom and major central news outlets such as Xinhua News Agency.

[159] Examples include the Telecommunications Support Bureau of the MIIT and the State Intellectual Property Office

expressing many of the same priorities[160] as the *Journalists Code* of the All-China Journalists' Association that was reviewed in Chapter II. What sets this document distinctly apart from the *Journalists Code*, however, is that it establishes a clear mechanism for intra-community monitoring and enforcement of its self-regulatory guidelines (articles 22 & 23). The ISC describes its responsibility for administering the self-regulation of its members:

> The Internet Society of China shall be responsible for organizing the implementation and administering this Pledge, communicating to the member organizations the information related to Internet laws, policies and industry self-regulation, reporting to the competent authority of the government the wishes and requirements of our members, upholding their lawful interests, organizing the implementation of Internet Industry self-regulation andethical conduct and supervise and inspect the implementation of this Pledge by our members (Article 19).

This article of the *Pledge* clearly indicates the ISC's essential functionality: to create a community of industry stakeholders and facilitate a two-way communication and negotiation between the collective industry interests and those of the government. This provides government actors with a clear framework for collective interaction with private industry members; it creates a pathway for government stakeholders to implement compliance (self-regulated but supervised by an overarching organization), while simultaneously offering industry interests a voice in policy development (as their 'wishes and requirements' are reported to 'competent authority'). While the internal pathways for communication between industry and government facilitated by the ISC are relatively opaque, there is one very forum operated by the ISC that creates significant opportunity for interaction between its industry members and internet regulators. This is the MIIT-sponsored China Internet Conference (中国互联网大会) [Zhōngguó hùliánwǎng dàhuì]. While the ISC offers a forum for negotiation between the interests of industry and government, it requires a certain level of affinity between these interests as a starting point; membership is voluntary[161], and the ISC's pledge to uphold "lawful interests" is not likely to include the interests of foreign capital[162]. As of the 2011 ISC

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[160] Priorities include: social welfare (article 11), national security (article 1), international exchange and co-operation (article 17).

[161] The degree to which membership is voluntary is likely to depend on the political climate; the ISC's functionality as a platform for policy negotiation between government and industry means that positive government relationships are likely to depend on industry membership and involvement.

[162] This is due to the fact that the 'web of contracts' (Chan in Flannery) that comprise VIE ownership structures and enable foreign capital to control Chinese online games companies are not legally enforceable contracts according to Chinese contract law (Clarke, 2).

website update, five of the nine major Chinese online games companies were members of the ISC.

Another organization has emerged in recent years that seems to function similarly to the ISC, as an institutional facilitator of industry-government interactions. This is the China Games Publishers' Association (CGIA), a branch of the China Software Industry Association. The CGIA is more directly targeted to the online games industry than the ISC, and organizes the ChinaJoy CGDC, or China Game Developers Conference. This is attended by all two hundred members of the China Games Publishers Association and is sponsored and supported by many of China's online games regulators. Sponsors include the GAPP, the MIIT, and the National Copyright Administration; supporting organizations include: the Ministry of Education, the Communist Youth League of China, and the Internet Society of China (*ChinaJoy2014*). The conferences held by the CGIA are designed to act, like many other social organizations in China, as a forum for game industry and government stakeholders to interact. A statement from the "About Us" section of the 2013 conference website explains this purpose:

> While showcasing new products and technologies, the expo also provides a platform for Chinese government agencies to convey industrial policies, access market information, understand the state of industrial development, and seek the views and recommendations from domestic and foreign enterprises, playing a positive role in healthy, orderly and rapid development of China's digital interactive entertainment industry (*ChinaJoy*).

An incident in 2009 further clarifies the intended functionality of the CGIA-organized conference; it is designed to operate not only as described above, but as the only interaction platform of its kind. The China Games Industry Association communicated this much to its members during a 2009 attempt to quell support for a competing conference, one which is sponsored by the Ministry of Culture. The Association issued a letter to all its members mandating their attendance at the CGIA conference and withdrawal of support for 'similar events held in the country'. The reason cited for this directive is the need to ensure the 'authoritativeness' of the CGIA conference:

> This is also an effort to ensure that CGDC is the only conference of its kind and that its authoritativeness and goals will be achieved. Therefore, the China Game Publishers Association would like to call on all member companies and organizations to refrain their support to any similar domestic event (China Game Publishers Association 2009).

The above statement describes an attempt by CGIA supporters to ensure a monopoly over the framework for negotiation with outside interests. This represents a control mechanism for key external interest groups that is consistent with the general CCP system of mass and social organizations; as Saich describes in his 2000 *Negotiating the State*, the structures and rules that frame China's social organization system 'exist to bind these organizations to state

patronage and control their activities' (125). However, this system tends to fail as a top-down mechanism for control. Saich observes that its implementation does not result in straightforward control of the external interest group, but rather forges a symbiotic relationship. This is defined by compliance or feigned compliance by the interest group, and policy rewards exchanged for this compliance by regulators (125). This system has been observed by Lagerkvist to be at work in the case of social media; the Internet Society of China actively works to offer policy rewards for compliance and industry members worked to appear compliant while pursuing their own interests (2640). The CGIA is attempting to mirror this system in the case of online games.

The CGIA has also clearly indicated a willingness to involve industry stakeholders in the policy development process, and offered economic incentive for industry members to support its authority. The openness to industry input is explicitly stated in the "About Us" statement of the 2013 CGIA conference, which indicates that government agencies will 'seek the views and recommendations from domestic and foreign enterprises' at the conference (*Chinajoy*). Economic incentives for support have been offered in the form of reducing the cost of conference attendance, as outlined in item 2 of the 2009 letter to CGIA members: 'With the 2nd CGDC held during ChinaJoy, participants will…be able to cut their expenses' (China Game Publishers Association).

Despite its widespread support by online games regulators, the CGIA work to establish its conference and organization as the only forum for negotiation between industry and regulators has not been successful to date. The direct application of this traditional model is challenged both by the industry prominence of a competing conference supported by the Ministry of Culture[163], and by the important role of conference attendance in the games industry as a vehicle for marketing and networking. There are a number of high-profile conferences around the world attended by users, industry members, and policymakers alike; this means that foreign games companies attend multiple conferences as common business practice. Attempts by the CCP-led CGIA to curtail conference attendance are therefore likely to be perceived as an economic threat. Given the common business practice of conference attendance, the CGIA is unlikely to obtain a monopoly over games conferences in China. However, the organization may successfully apply the social organization model for industry-government interactions should regulating stakeholders reach an internal consensus and

[163] The Ministry of Culture has supported and continues to sponsor a "similar" annual conference called the China Games Developers Conference, or GDC China.

decide on a single interaction framework. For now, however, regulator-industry interactions for the online games industry are not yet consolidated.

The successful implementation of policy through social organizations depends on the ability and of the targeted institutions to comply and the incentive for compliant behaviour. While Lagerkvist notes that compliance incentive is maintained through policy rewards and sanction risks (2012, 2641), private institutional interests are likely to avoid thorough compliance with regulation if it conflicts with the interests of profit maximization. Sina.com's loose enforcement of the Real-Name Registration system as observed by Lagerkvist demonstrates this (2012, 2640), as does the loose enforcement of the 2007 online games fatigue system by online games companies discussed in Chapter II (Moss; Sun). These compliance incentives are instrumental in defining the institutional behaviour, however a fuller understanding of the complexities of implementation must acknowledge that the extent to which institutional behaviour itself defines practice is also limited.

Negotiation of interests: institutions and individuals

Every institution is staffed by individuals with their own set of priorities and values that are likely to be prioritized over institutional interests when opportunity allows. In companies, this translates into situations where individual managers may prioritize their personal interests and values over the interests and values of the company they represent. Economists refer to this as an agency problem. Wang and Judge explain:

> In a world filled with agency relationships, where one party (the agent) is authorized to act on behalf of another (the principal), an agency problem presents itself whenever the divergence of interests between involved parties is coupled with information asymmetry...Due to the divergence of interests, the agents may not put full effort into their delegated tasks under imperfect monitoring; they often pursue their private interests at the expense of the principal. This is the so-called “moral hazard” problem (Eisenhardt, 1989), which is the major agency problem facing China’s SOEs (483).

While Wang and Judge describe the agency problem in terms of the internal negotiation between private and government interests in China's partially privatized SOEs, it is a problem that exists in any organization where there is a separation between ownership and control; the more agents there are involved in an organizational pyramid, the greater is the potential for distortion of original intent (Shirley & Walsh, 2001, 29-30). In economics, the resulting distortion is referred to as agency cost.

Agency costs are notoriously high in China; this has been widely noted in literature on partial SOE privatization (eg., Bai, Lu & Tao, 2007; Shirley & Walsh 2001; Wang & Judge 2011) but is equally a concern for private firms (Shirley & Walsh, 28). This is particularly the case for new media enterprises in China, where VIEs are commonly used to circumvent restrictions on foreign investment (Su; King & Wood, 2011). Not only do VIEs increase the

degrees of separation between ownership and management, making agency costs more likely, they also shift the balance of power toward the agents by conceding them the legal ownership of company assets (King & Wood, 2011). Individual agents may choose to take advantage of their relative power 'to serve their own purposes at the expense of profitability and owner welfare, or even to expropriate investments funds altogether' (Shirley & Walsh, 29). Individual interests may be defined by personal profit or values, but are also susceptible to influence by and pressure from regulating stakeholders. Thus, while institutional-level interests of private industry and government may be negotiated between institutional stakeholders through intermediaries like the ISC or the CGIA, they may also be negotiated at the level of individual agents.

Although the interests of institutional media stakeholders tend to be defined by their ownership, the interpretation and implementation of these interests is performed by many layers of personnel, who may act according to personal or professional ideals. Individual media personnel in China regularly make content-related decisions that must negotiate their own moral and financial interests with those of their institutions. Within state-owned organizations, institutions are likely to expect individuals to prioritize maximizing the positive guidance of public opinion over content profitability[164]. Individual level self-censorship is one way that this negotiation takes place[165]. It is guided by the foundational training for journalists (Shirk, 43) as well as regular internal communication both in print and in person (Brady, 19; Shambaugh, 29). While media personnel at independently-owned institutions receive the same guidance (Brady, 58), such institutions are likely to differ in their expectations of employees regarding individual decision-making. Publicly listed organizations like China's online games companies, for example, are likely to expect individuals to prioritize profitability over strict regulatory compliance.

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[164] The government-issued guidance of the *Journalists' Code* lists the positive guidance of public opinion as a top priority (Articles 1,2,4,5).

[165] Self-censorship is a regulatory mechanism widely noted in the literature on Chinese media. Shambaugh describes it as a 'passive control capability' used by the CCPPD to influence individual decision-making of media stakeholders without direct bureaucratic intervention. He notes: ' Creative intellectuals—whether they are journalists, professors, artists or filmmakers—know the limits of the propaganda state, even if they are engaged in a process of constantly probing them' (29). Cao (2007), Hassid (2008, 415), Kalathil & Boas, Lee, et al. (37), and Weber & Lu note that this mechanism plays a key role in China's new media regulation. This assertion is supported by documentary evidence such as the ISC *Public Pledge of Self-Regulation and Professional Ethics for China Internet Industry*

Alignment of Interests: Industries, Individuals, and Government Agencies

China's media landscape is characterized by multiple powerful stakeholder groups with strong interests that exist in delicate balance. This balance is particularly delicate in the regulatory environment for online games, as the complex VIE ownership structures represent a tense reconciliation of stakeholder interests that are domestic and international, as well as institutional and individual in nature. Foreign investors use these structures to circumvent restrictions, however in doing so become highly vulnerable to changes in government regulation and enforcement. They also become vulnerable to the individual decision-making power conferred to nominee shareholders. In order to mitigate the risk of nominee shareholder contract breach, many companies work to align the individual interests of the VIE shareholder with those of the WFOE. This can be done in several ways, but often takes the form of investment from the VIE nominee shareholder in the WFOE, in order to ensure alignment of economic interests (Roberts and Hall, 10). Roberts and Hall note that while this is considered best practice, 'alignment of interests may not be a sufficient disincentive by itself' (10).

The risk assumed by foreign investors that employ the VIE structure works as incentive for compliance (or perceived compliance) with government interests in order to prevent revenue loss. On the other hand, the importance of foreign capital and a positive international economic image to China's future economic development works as an incentive for government stakeholders to align decision-making with the interests of the foreign-listed online games operators. Government-run social organizations like the ISC and the CGIA facilitate negotiation of these potentially divergent interests, as do relevant industry conferences such as the Ministry of Culture's GDC China. However, the lack of a consolidated platform for negotiation between industry members and government regulators as of yet means that there are likely to be less public interactions between media and government stakeholders where key negotiations take place.

Less public venues for interaction between media and government stakeholders were described by key informants in their interview responses. Primarily, policy input was reported to take place through meetings that involved personal contact between key officials and game company business owners (R1, R3, R4, R5, R7, R8, R10). Respondent 4 reported that such meetings were often used by regulators to obtain information about industry issues:

> Generally [regulators] will invite some big companies... to their office and discuss some issues...because it is so new, they...cannot totally understand how to run a business and all the issues for this industry, because there are a lot of issues...some of the technical issues, yeah so all their information comes from the gaming companies.

Following these meetings, the respondent reported, the Ministry of Culture typically compiles an annual white paper based on the information provided by the companies.

According to Respondent 4, all the respective companies would then be expected to purchase the white paper as a reference document. While there is no guarantee that these meetings will translate into policy influence, personal relationships between game company owners and key decision-making officials were perceived by respondents to be an effective mechanism for policy influence. CEOs of large gaming companies as the most influential figures in policy development, second to government officials. Well-connected Government Relations departments were reported to be

Opportunities for interacting with regulators that are not related to enforcement fall into one of two categories: policy development and policy guidance. Respondents identified policy development opportunities as consisting of direct requests from game companies to government departments. In general, this was considered unlikely to succeed unless there were individual social networks that could be used (R4). Other pathways that game companies could take in order to influence policy development consisted of applying for government subsidies, where further meetings related to policy development could take place. The respondents that identified this as an effective way to influence policy noted that receiving subsidies increases the opportunities for companies to be in contact with regulators. This would increase the opportunity to form policy through increased contact and to forge personal relationships.

Policy guidance meetings were another pathway to government influence. The importance of policy guidance was articulated by Respondent 5, who remarked that upon reading policy texts, companies and their lawyers were likely to come away with more questions than answers. The respondent noted that in order to interpret policies so that regulators would be satisfied, the Government Relations (GR) department was used as a way to communicate with regulators. GR staff were described as not having any specific training but being skilled in knowing how to communicate with government officials (R3, R4). Respondent 3 noted that a very effective GR department would have close personal contacts with regulators, stating: 'if I was company I would hire somebody's - a son or daughter of some government officials'. Respondents 3, 4, and 5 indicated that GR departments have regular contact with government departments and look to 'gather information' on unwritten policy and its interpretation (R4). Respondent 4 gave an example to describe how the GR department interacted with regulators on behalf of game companies to obtain guidance on certain practical issues:

> The staff in the government relations gather information from the government authorities and they will transfer information to the staff or the company...for example, the technical staff designs some program in the game and after they deliver to the authority and the authority say "no no you cannot do that".

Respondents 4 and 11 described direct contact with local regulators as another pathway for policy guidance. An example was provided regarding the taxation policy for virtual property: Respondent 4 described a case where policy guidance was requested by phone, first from the local tax bureau, and then from the state tax bureau, when the local government was unable to help.

The interactions explored above examine relationships between regulators and industry members. However, another set of interests that affects regulatory outcomes balance are not directly addressed in the interaction types explored above. These are the interests of game users.

Public Users

The economic and social investments of online games players drives the ultimate success or failure of the online games industry. The key institutional structures, stakeholder interests, and modes of interaction that define negotiation of online games regulation in the public stakeholder group are therefore primarily those of the game players themselves. Secondary research on player types and interactions is still in the early stages of development; while relevant research has been prolific in recent years, there is still little consensus on best practice methodologies, and there are no widely accepted theoretical frameworks that explain player interaction. Bartle's player typology theory may be one exception to this statement. In 1990 and 1996, Richard Bartle developed a theory based on first-hand analysis of text-based multi-user dungeons. He categorized players into four types and explored the dynamics of their interactions: Killers, Achievers, Socializers, and Explorers (1996). This framework provides a foundation for understanding some of the activity and player motivations that takes place in online games, however it operates on a basic assumption that players are playing for fun. Bartle asserts:

> Whatever it is that causes a player to come back to a virtual world time and time again, there must be things happening that, on the whole, they find enjoyable or personally rewarding. This is what they call *fun*. There might not be a lot of it, or there may be a good deal of it, but it has to be there (2004, 129).

While this understanding of online game player motivation provides a useful description of motivation for game *play*, it is focused on understanding recreational motivations. The player typology based on this assumption does not account for the complex and increasing interaction that occurs on the blurred boundaries between game play and real-world activity, nor does it account for the convergent use of technology outside the game to achieve goals. Emerging practices such as gold farming, in-game protests, machinima-based politicized

protests, e-sports, and monetized live-streaming of game play, exemplify activity that goes beyond this "magic circle" understanding of online game boundaries[166].

Case examples from the previous chapter show that online games are often used to pursue the real economic and political interests of those that play them. Gold farming workers pursue straightforward economic interests by playing games professionally. The players that used *World of Warcraft* animation to create the machinima online protest video pursued both personal and political interests. These were renewed access to the game, as well as group action against continued infringement on what they perceived to be their rights as players. The cases of virtual property theft (and recognition from Chinese courts[167] that online games players own their virtual property) demonstrate that a general understanding is emerging that the virtual worlds of online games are no longer just games, but a platform for daily human interaction and activity. A thorough identification and categorization of stakeholder interests in the negotiation of online games regulation among online games players requires further fieldwork focused on the subject that is beyond the scope of the current project. The case examples mentioned above, as well as some additional new phenomena, however, allow for a preliminary identification of some major relevant sub-categories. The section begins with a brief overview of the institutional and structural organization of online games users.

Institutions and structural organization

There are some structured environments that encourage collaboration and community formation among online games players, however there are few formal organizations that represent their interests. Structured environments that contribute to community formation include: internet cafes, professional tournaments, websites that facilitate live streamed broadcasting of game play, and the games themselves. For professional players that work in third-party game businesses like gold farming, the primary structured environment is likely to be the gold farming workshop. Within the games, the institutional organization of guilds, teams, or clans facilitates collaboration and community formation between players. Community formation can also transcend these structures to involve team play in multiple locations and multiple game platforms.

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[166] The magic circle understanding of games is one that 'entails treating the game as a "world independent of the everyday world"' See Lehdonvirta (2010) for a detailed explanation of the magic circle concept and why it does not apply to modern Massively Multiplayer Online Games.

[167] Examples of this recognition include the

Interests

Exploration of emerging practice in online games highlights some of the major divisions of interests between players of online games. One of the biggest divisions of interests in online games, since the introduction of gold farming, emerged between recreational and professional game players. Their interests in game play have historically been motivated by pleasure and economic gain, respectively, however there is increasing overlap between these interests as trade in virtual goods becomes more accessible to regular players. The section below describes the conflicting interests signalled in the examination of the gold farming case.

The gold farming case study pointed to a significant conflict of interests between recreational and professional players[168], primarily due to widespread perceptions among recreational players that the practice of gold farming interfered with a positive recreational gaming experience[169]. Some of this interference was related to competition for limited resources (Arnason 2008, Respondent). It is also likely that the discursive association of gold farming with "illegal" or illegitimate behaviour has contributed to this division of interests between the recreational and the gold farming player groups; the most direct conflicts between the two stakeholder groups have occurred where the use of "illegal" modifications was involved[170]. There is also evidence that negative perceptions of gold farming among recreational players relate to a perception that gold farming activity decreases the real-world value of the virtual assets of the recreational gamers (Arnason 2008, respondents 3 and 8).

While recreational players as a group have had conflicting interests with professional players in the case of gold farming, an increasing number of them are transitioning to professional players themselves. Newer forms of professional game play can involve trading in virtual goods and services, tournament competition (e-sports), and/or live broadcasting of game play to a paying audience of fans[171]. As opportunities to monetize game play continue to emerge, the interests of recreational and professional players increasingly align. One

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[168] The conflict of interests between gold farmers and recreational players did not apply to the sub-category of elite level players, who reported collaboration toward mutual benefit between themselves and gold farmers.

[169] This is a major them of the research in Arnason 2008.

[170] These include the April 2010 *Aion* anti-bot protest mentioned in the previous chapter, as well as the December 2010 sentencing of a gold farming couple to prison time for 'operation of an unlicensed business, and...major violations of China's laws concerning Internet publishing and digital rights, as well as of Shanda's copyrights' (Globalvoices)

[171] Examples of this activity can be found on *Twitch.tv* and *YY.com*.

common concern is the security and accumulation of virtual property[172]. This carries monetary value for both stakeholder sub-groups and holds additional sentimental value for many recreational players. Another common interest is uninterrupted access to game play. For socially invested recreational players, access to the game is also access to their social communities. For both types of players, access to the game means access to economic potential. This is increasingly important to users as they create new ways to earn real money by playing online games.

Stakeholder interests among gamers can also be divided according to casual and elite level gamers; each of these sub-groups pursues different game experiences and may be upset if the online games company does not meet their needs. Casual game players tend to seek achievable tasks and facilitated social engagement. Elite level game players tend to pursue the opposite: membership in exclusive communities working to accomplish difficult tasks with high expectations of achievement. Elite level players are more likely to transition from the recreational to the professional stakeholder sub-group; they are typically more skilled and invested in the game, and success in professionalizing game play is largely dependent on skill and time investment. In China, the negative "internet addiction" discourse surrounding online games may affect the interests and decision-making of some online games players; players may deliberately remain in the casual/recreational category in order to avoid negative attention from other public stakeholders by minimizing game play. On the other hand, they may invest more time and energy in game play in order to successfully professionalize and thus legitimize their level of engagement in online games.

The stakeholder interests among online games players can be categorized and identified further; each small community of gamers pursues interests within the game environment, in competition with the interests of other communities, and at times in contradiction with the interests of the game companies themselves. These communities are extremely loosely structured and often extend beyond the game environment itself. The following section discusses these communities and some of the ways they interact with each other, as well as with regulators and media operators.

Interactions

The use of games to generate real-world income means that changes in game rules or regulation that affect the value of virtual goods or access to game play can directly impact the real-world income of a user. This happened in 2007, when the game company Blizzard

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[172] The importance of this interest has been demonstrated by an increasing number of court cases involving virtual property disputes (Wei and Xue, 222).

made a rule change to *World of Warcraft* that vastly increased the supply of in-game currency. The change meant that game players collecting large sums of this currency for trade suffered a massive real-world loss of assets when its value was reduced.

Rule changes like this that take place in the game environment are one way that online games companies and public users interact. The counterpoint to this type of top-down interaction is the use of the game environment to protest unfair practices and seek changes that redress them. An example of this is a 2010 protest staged by users in the game *Aion* against the use of automated software in the game[173]. By gathering in large numbers and causing server shutdowns, the users sought attention and action of the game company to address their complaints. While this example demonstrates the ways that users interact with game companies, it also demonstrates the conflict of interests that can arise between users with different play objectives. This can result in negative interactions between recreational and professional players. Most often, these interactions consist of recreational players deliberately interfering in the activity of professional gold farmers. This can consist of repeatedly attacking or killing the gold farmer's character so that their continued harvesting of resources is impossible or it may consist of attempting to steal their targeted resources (See Arnason 2008, Respondents 2 and 7). Game companies that prohibit the gold farming practice encourage recreational players to take recourse by reporting characters that seem to be engaged in gold farming activity (Ibid.). This may result in the banning of the character and a loss of resources for the gold farmer ("*Professional Gold Farmer Tells All*").

Many players of online games play on a daily basis, and their everyday lives are thus significantly affected by changes in regulatory practice. This level of user commitment can be extremely economically beneficial to online games companies; players not only pay them to access games, they also regularly and willingly contribute to game development and improvement (Humphreys, 161), in the form of audience feedback[174] to new content as well as free labour in the form of player-generated content[175]. While this contributes to profitability, it represents a high level of responsibility for online games companies, who must work hard to

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[173] This refers to an April 2010 protest against the use of bots in the MMOG *Aion*. It involved 30,000 players and led to server shutdowns. A video capture of the event can be found on MMOsite.com.

[174] Feedback occurs in several forms. These include: direct complaints in-game, forum-based discussion, and community action.

[175] This is common practice among online games companies. Humphreys notes that 'Production is not completed at launch, but is an ongoing process, with content produced by players as well as paid developers, and with social networks generated by players a source of economic value' (150).

manage the level of satisfaction among an emotionally and economically invested user demographic. Having contributed significantly to the production of a high quality game experience, users tend to become quickly upset when they perceive the game companies to have failed to meet their responsibilities. These responsibilities are generally perceived to include: maintaining accessibility to the game (ie. technical expertise and support), responding to complaints, and managing the community of gamers to maximize the enjoyment of all players. For example, the user base is likely to demand a high level of technical service and fix technical issues. They are also likely to respond passionately to anything that disrupts their preferences for game play. Responses may take the form of individual boycotts, protests, or legal action, however it is highly likely to be organized by groups. The often intensely social aspect of game play means that entire communities of players may decide to take action at once, leaving one company (game) for another.

Responses from key informant interviews report a softening of the relationships between Chinese game companies and their users in recent years. While industry respondents remarked on a lack of transparency to users (R3; R4), another respondent reported that game companies had recently established user complaint websites in response to increasing user activism. The respondent noted that industry response also involved a change in the dynamic of the relationship between game companies and their user base:

> I think in the past two years or so -two or three years, the industry has - it's aware that these kinds of things are happening more and more. So they are finding solutions to it, setting up a website for complaints and also they try to be more conciliatory towards gamers who try to revolt…before they had this, like "game-god" kind of attitude, not compromising, but now… I think in the past few years the industry, I mean the main firms, they grouped together and they discussed how to solve these problems and they've become softer towards gamers (R1).

The above overview describes some ways that interactions that take place between players with both conflicting and aligning interests, and between game companies and players. Game players also interact with government regulators, in order to resolve disputes with game companies. The cases discussed in Chapter II, for example, describe how cases of disputes over virtual property were resolved through official legal action. These primarily occurred in the context of the courts, however one case was resolved through the intermediary action of the Sichuan branch of the China Consumers' Association (CCA).

Case example: the Mediating Role of the China Consumers' Association

The precise role of the CCA in facilitating dispute resolution is not clear from the case of virtual property dispute it settled; reports state simply that the game player complained to the Consumers' Association of Sichuan and was granted compensation (Murray, 102). However, a recent study by Youyou Yang sheds some light on general CCA approaches to

dispute resolution that are likely relevant to this case. Yang's study interviewed several officials from the CCA about the organization's mediation process. They reported informal mediation as the first method of dispute resolution, followed by two other often-used methods to 'increase the effect' of the resolution (24). When asked how the CCA resolves consumer complaints, one official responded as follows: 'If we find through consumer complaints the fraudulent activities that violate the consumer rights, we can inform the corresponding government agency for administrative punishment. The second method is through media exposure' (24). In the case of virtual property theft brought to the Sichuan Consumers' Association, the outcome is reported as follows: The Consumers' Association judged that, Mr. Zhao as a consumer, his rights should be protected and Shanda company [sic] should compensate Mr. Zhao. It is not known as to how much compensation was paid to Mr. Zhao (MMLC Group). Given the report's statement that compensation was indeed paid and that a judgment was made by the Consumers' Association, it appears likely that the CCA resolved the complaint by involving a relevant government agency with the legal authority to enforce payment of compensation.

The analysis has briefly reviewed what is known about the institutional contexts, the stakeholder interests, and the interactions that involve China's online games users. This overview indicates a clear need for further research on the players of China's online games as the medium operates today: as a platform for national and international engagement, where in-game activity is influenced by motivations both in the game and outside it. As emerging practice and innovative use of this converged media continues to offer significant opportunities for collective action and for player interaction with private interests, the pathways for negotiating player interests will be increasingly important for China's regulators to understand, should they hope to maintain influence in this sector. A thorough analysis of this stakeholder group requires significant further fieldwork, and this is an important matter that needs to be addressed in future research.

Summary

The investigation into China's online games policy indicated that policy outcomes in this space are not determined by proscriptive policy texts, but rather result from the balance at any given time between the competing interests of critical stakeholders. In this chapter, the research set out to learn more about how this balance is negotiated. To this end, it looked at the major stakeholders identified in the previous chapter and examined the institutional contexts in which they operate, as well as the major interests that guide their decision-making. The chapter also considered some of the primary ways that these stakeholders interact as the practical regulation of China's online games is negotiated and new policies are developed.

The newness of China's online games regulation as a field of scholarship meant that the research in this chapter was exploratory in nature, drawing on existing knowledge from relevant fields of scholarship and empirical knowledge from the case study of gold farming in order to guide the investigation. This investigation contributes knowledge about practical policy negotiation for online games in China by identifying and describing key factors that affect how competing interests are negotiated. Case examples from the previous chapter pointed to three broad categories of stakeholders whose competing interests must be negotiated in order to regulate China's online games. These were: China's government regulators, game producers/operators, and public users. The chapter conducted an exploratory analysis of the primary structures, interests, and interactions for each of these groups.

The exploratory analysis indicated that the practical regulation of online games in China is deeply influenced by institutions of the public and private sector, and their competing interests. In the public sector, the research identified a multitude of relevant institutional stakeholders at many different levels of hierarchy. The hierarchical structure of media regulation in China fell into three broad categories: the Party, the state, and social organizations. While officially, the state occupies the highest position of these categories, in reality this role is occupied by the Chinese Communist Party. Subordinate yet overlapping with Party institutions were organizations of the State Council, and below this, social organizations. Within these macro-level structures, the specific institutions relevant to both media regulation in general and to the regulation of converged media and online games directly were identified and described. These included the CCP Propaganda department, a multitude of ministerial-level agencies, the courts, and social organizations such as the China Consumers' Association.

The examination of regulator structures found that, in recent years, the pervasive structures through which the CCP Propaganda Department exerts influence over media regulation have been adjusted to include converged media and online games. This was accomplished through the creation of the State Council Internet Information Office and the appointment of individual officials to key positions. Individuals were also found to play a key role more generally in linking disparate regulating institutions, by holding concurrent positions as officials in multiple organizations. The establishment of these mechanisms for coordination and control reflects an increase in higher-level involvement in this sector. This seems to respond to some of the challenges raised by converged media, such as jurisdictional overlap between ministerial-level institutions and the resulting competition between them as the economic importance of the online games industry continues to increase. The recent merger of the General Administration of Press and Publication and the State Administration for Radio, Film, and Television indicates that institutional convergence is another strategy being

employed in the face of these challenges. These responses echo some of the historical approaches to new media in China that were reviewed in the previous chapter.

While the structural framework for China's online games regulation reflects an increasing involvement of central actors in this space, the exploration of regulator interests indicated that ministerial-level stakeholders tend to pursue their own agency-specific goals as they "implement" and "interpret" central mandates. The research observed this in the case of the Ministry of Culture and the General Administration for Press and Publication, as each organization emphasized different aspects of the centrally-issued "healthy development" goal in their pursuit of regulatory control over the industry. While the pursuit of these different goals facilitated the pursuit of regulator primacy in this space, it also seems to demonstrate a schism among regulators regarding the policy goals for China's online games. An example was given where the MOC sought to remain open to foreign investment in China's online games industry, while the GAPP sought to ban this activity. It remains to be seen how the recent structural changes and increased high-level involvement may affect or change these interests.

The research also highlighted a schism between interests of regulators operating at the ministerial level and those of local branches of government. Local government interests were heavily influenced by individual and local economic concerns, and had the potential to exert significant influence over decision-making in local courts. Local courts were identified as the first port of call for many court cases related to online games and emerging practice; the interests of local government stakeholders may therefore be highly relevant to determining practical policy and decision-making in this space. The analysis additionally indicated that China's financial regulators have significant and increasing interests in the regulation of online games due to the increasing popularity of trade in virtual currency and virtual goods.

The analysis also observed the types of interactions that have taken place between China’s regulators as the online games industry has become increasingly profitable. In general, these reflected the nascent stage of the structures and the legal framework that surround the industry. For ministerial-level agencies, interactions primarily centred around jurisdictional competition, as regulators sought to control the licensing for this new regulatory space. This was accomplished primarily through the issuing of policy texts and communication of key officials in public forums. Higher-level regulators engaged in interaction with subordinate stakeholders through structural reorganization that worked to increase pathways for communication and coordination. The analysis observed recently established links between CCP stakeholders in the Propaganda Department and the ministerial regulators directly involved in issuing policy texts. These links established both pathways for interaction through institutions as well as individuals: a new office at the State Council level was created to

coordinate lower-level ministries, and key officials were appointed to serve concurrently in multiple organizations at different levels of bureaucratic hierarchy.

Following the exploration of structures, interests, and interactions in the regulator category, the chapter investigated these areas as they relate to the producers and operators of China's online games, as well as their public users. Investigation of the structural organizations of the producers/operators of online games began with a general examination of the structures of China's media sector. Despite the commercialization and partial privatization of the media sector that has taken place since the decentralization of media in China, the research found that the structures of the country's media production remained deeply embedded within bureaucratic structures of government in the form of State-Owned Enterprise and partial privatization. While the rest of the media sector is characterized by government ownership and control, the online games industry was highlighted as an exception to this rule. The structural organization of the online games sector in China is primarily defined by the corporate structures of its biggest companies. These complex structures span multiple countries. They are further complicated by measures that have been taken by these companies in order to circumvent restrictions on foreign investment; Variable Interest Entities, or VIEs, allowed foreign-held entities to control domestic game operators through a series of contracts with individual Chinese citizens. The chapter examined the nature and legality of these measures in detail, and found them to be a significant site of tension between the interests of game companies and Chinese regulators. The use of VIEs to list on foreign stock exchanges is allowed by tacit approval, however the use of these structures for this purpose violates China's contract law. This creates significant opportunity for selective enforcement according to regulator interests, however the amount of foreign capital involved would mean that any enforcement would come at significant economic cost and may discourage foreign investment in China more generally.

In general, China's online games producers and operators were found to act in the interests of their shareholders: the maximization of growth and profit. These companies tended to balance pursuit of these goals with an outward compliance with regulator mandates. While game producers and operators were found to act this way in general, the diffuse ownership structures of these companies mean that there is significant potential for internal fragmentation of interests and individual decision-making that may act according to different priorities. This potential for agency cost was observed as a notorious problem in China, both in the media sector and in the regulatory environment in general. The potential for agency cost was exacerbated by the specific nature of the VIE structure. This structure necessarily relinquishes legal ownership of a company's day-to-day operations in China, thereby granting significant potential decision-making power to local VIE shareholders. The individual interests of these managers may not always align with those of the parent company. The chapter highlighted

how companies work to align the potentially divergent interests of VIE shareholders with those of its foreign investors.

The Interaction between stakeholders within China's online games companies centred around the tensions and potential for agency costs inherent in the VIE structure. Parent companies and VIE shareholders were observed to interact through contractual agreements, the exchange of resources for revenue, and through investment by local managers in the parent companies in order to align their economic interests and minimize risk. Following the examination of China's regulators and game producers and operators, the chapter looked at some of the major ways that stakeholders from these groups interact with each other.

The examination of VIE structures revealed that activity that surrounds them maintains the interests of regulators and game companies in a delicate balance. While regulators generally allowed the VIE structure to operate, they maintain a legal basis for cutting the domestic company's ties with foreign capital at any time. This potential for selective enforcement provides incentive for game companies to appease regulators through outward compliance with their demands; thorough internal compliance was avoided where possible when these demands interfered with the maximization of profit. At the same time, the economic power wielded by foreign-held companies and their ties to the international financial system act as a deterrent for regulators that may want to enforce the prohibition of VIE use. Such action would carry with it significant economic costs, and holds the potential to damage China's international reputation as an attractive target for foreign investment.

The strong tensions between the interests of these stakeholder groups revealed by examination of the VIE structure highlight the need for negotiation between China's online games regulators and industry members for both parties to maximize their interests. The analysis found two primary forums for interaction between stakeholders in these groups: social organizations and industry conferences. Social organizations involved in the negotiation of policy for new media and online games included the Internet Society of China (ISC) and the China Games Publishers' Association (CGIA). For the games industry in particular, two conferences were highlighted as key events for negotiation with government stakeholders: the CGIA's ChinaJoy China Games Developers Conference (CGDC), and the Ministry of Culture's China Games Developers Conference, or GDC China.

The chapter's final section considered the structures, stakeholder interests, and interactions that take place among China's online games users. Few formal organizations were found to represent or define the interests of online games users in China, however some structured environments were identified that contribute to community formation among the user population. These include: the social structures built into online games, the physical locations where online games are played, and events or software that facilitate gaming events

and entertainment. Community formation also takes place in the working environments where communities of players involved in third-party industries like gold farming might work.

The interests of online games users were primarily divided according to their motivations for game play: professional players were interested in maximizing their profits and collecting virtual resources, while recreational players sought to maximize enjoyment of the game. Professional players primarily held economic interests in the game, while the interests of recreational players were found to be both emotional and financial. Significant tension between these groups was observed. This centred around the competition for virtual resources and the perceived illegitimacy of professional game play. Interactions between recreational and professional players observed in the case of gold farming illuminated how the interests of these parties conflicted. Despite the apparent conflict in interests, recent years have bridged the divide between the interests of these groups. The increasing professionalization of recreational game play and the popularization of trade in virtual goods have overlapped the interests of recreational and professional players, which are focused on achieving recognition of virtual property rights and maintaining game access.

The final section also examined some of the interactions between users where the competing interests of recreational and professional players were negotiated. One way that recreational players pursued their interests was through cooperation toward collective action in the form of in-game protest. Users were also found to engage in deliberate interference with the activity of other users in cases of conflict. This was demonstrated with an example of recreational players interfering with the ability of gold farmers to effectively harvest in-game resources. When users felt their interests were being infringed upon, they appealed to the game companies for recourse through boycotts or protests. Where this interaction failed to satisfy their needs, users sought legal action.

While game companies were involved in mediating disputes between users with competing interests, the courts and the Consumers' Association of China were identified as key forums for negotiation of disputes between users and online game companies. The Consumers' Association of China was identified as a mediator that had played a key role in a determining the outcome of a virtual property case. The precise mechanisms through which it operates are unclear, however there is some evidence that this social organization performs investigative and decision-making roles in cases of consumer rights. The results of these decisions are administered by government agencies.

The online games industry has introduced powerful new stakeholders to China's media sector that, for the first time, wield significant independent power to negotiate with government regulators. The regulation of online games in China is determined by the negotiated balance at any given time between the strong competing interests of these powerful

stakeholders. Overall, the results of this chapter's exploratory analysis point to a dynamic of tense negotiation between the interests of government regulators, private industry, and media users.

The exploration in this chapter has identified and described some foundational knowledge about the structures, interests, and interactions that influence the negotiation of regulatory practice in China's online games industry. This is helpful for bridging the gap in understanding the realities of regulation, however a practical understanding of policy development and implementation is best achieved through consultation with those who are involved in the process. The research undertook interviews with key informants in order to add first-hand knowledge of the current state of online games policy in China, and to gain expert opinion and insight about emerging practice is affecting and may affect this dynamic. The next chapter presents the results of these interviews and discusses their relevance to this research.

Chapter IV: Innovation

The Case of Gold Farming

This chapter focuses the broad discussions of the previous chapters on the case of gold farming. It begins with a history and background of gold farming. First, brief history of Massively Multiplayer Online Games (MMOGs) establishes basic understanding of the technological platforms where gold farming takes place. This historical overview leads into discussion of what Real-Money Trade is, and how this practice grew along with the virtual economies of MMOGs. The history and background section concludes with a China-specific discussion of MMOGs, describing the infrastructure of Chinese online games and gold farming business practices both inside and outside China. This first section establishes the basis for detailed examination of various aspects of the gold farming industry.

The second section examines the gold farming case in three ways. First, the author explores the mechanics of the gold farming industry and its mechanics of practice, examining key actors and mechanisms that comprise the gold farming industry's value chain. Each of these members of the gold farming value chain are explored in detail, and the mechanisms by which they participate in gold farming are described. Members include: game developers, gold farming suppliers, Real-Money Trade mediating agents and consumers. Following this description of the industrial infrastructure and practice, the chapter then examines the gold farming case from a policy perspective. The policy examination begins with a description of the current policy environment. This leads into a discussion of practical approaches to regulating gold farming and other related emerging practices. This discussion of policy reveals an absence of clear policy mandates for gold farming. The exploration of practical regulation indicates that regulatory development in this area occurs most quickly in the court system, as judges interpret existing policy and make decisions on a case-by-case basis. This section concludes by identifying policy challenges for China that are raised by the gold farming case.

In a final section, the case study on gold farming turns to a focused analysis of the key stakeholders in the regulation of gold farming in China and their interests in future relevant policy development. The chapter concludes with a summary and discussion that highlights some of the key findings of the case study and considers their meaning in the overall context of media convergence and globalization.

History and Background

History of Online Games

Modern computer games have changed significantly since their inception. In contrast to today's highly interactive simulated environments, video game predecessors such as

Goldsmith and Mann's 'Cathode-Ray Tube Amusement Device' of 1948 and Higinbotham's 1958 'Tennis for Two' were simple games with a maximum of two players, played on devices that predated the modern computer[176]. The advancement of computer and video display technology allowed for significant advancement in video game interactivity and realism. Although development of interactivity far outpaced any realistic graphical simulation, the former contributed realism where the graphics could not. The text-based games that emerged in the 1960s transported the player into a fictional universe, acting as a sort of interactive book. These could be played on early forms of computers, and included games such as *Hamurabi* (1969) and *Oregon Trail* (1971). The advent of the ARPANet[177] and PLATO[178] added interconnectivity to video games; not only could players interact with the computer program, they could also interact with each other. This new interconnected dimension of play made way for the text-based Multi-User Dungeons (MUDs) of the late 1970s and early 1980s.

MUDs combined text-based game narration with instant communication between players. At first, only staff and students associated with an ARPANet or PLATO-equipped educational institution could play these games, as access to closed networks was required. In 1980, the University of Essex connected its ARPANet node to the internet and turned its MUD, *MUD1*, into the first internet-based role-playing game[179]. As the internet grew, so did access to and development of game play. Over the 1980s, tens of thousands of people were drawn to the fictional "places" of *Habitat* (1985), *Mirrorworld* (1986), and *MIST* (1987), among others, not only to play the game, but also to form real friendships and communities among fellow

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[176] Goldsmith and Mann's 'Cathode-Ray Tube Amusement Device' used a cathode-ray tube, while Higinbotham's 'Tennis for Two' was played on an oscilloscope. Although other electronic games, such as Ferranti International's Nimrod computer of 1951 and A.S. Douglas's OXO of 1952, emerged in the same era, neither were created for the purpose of amusement. For this reason, they are not mentioned as video game predecessors, although they may have contributed to early computer game development (Brookhaven National Laboratory).

[177] The ARPANet, or *Advanced Research Projects Agency Network*, was the first wide-area packet-switching network and the predecessor to the modern internet. For more information on packet switching, see *Teach-ICT.com*. For a history of the ARPANet, see *Internet Society*.

[178] PLATO, or *Programmed Logic for Automate Teaching Operations*, was an educational network of computers developed by the University of Illinois in the 1960s. It pre-dated the internet, and was terminated after four decades of operation. PLATO hosted some of the first multi-user games, however these were not widely available to the public (Shahrani).

[179] Although Rheingold asserts that MUDs 'started on a computer in a university in England in 1980' (Chapter Five), there are earlier text-based role-playing games such as *Oubliette* (1977) and *Avatar* (1979). However, these earlier games lacked persistence; when no one was playing, the memory was dumped and the virtual world did not exist until someone began playing again (Bartle 2010, 31).

players across time zones and countries. In *The Virtual Community: Homesteading on the Electronic Frontier*, Howard Rheingold describes this experience:

> Your character, Buffy Mojo, is crawling through a maze of tunnels in the dungeon of her archenemy's castle… Buffy's fate will influence the virtual lives of other characters who represent real friends in the material world. You are in a MUD, along with tens of thousands of others around the world who build fantasy worlds in the Net (Chapter Five).

While MUDs were developing player interconnectivity, interactivity and increased realism were the focus of single and double-player console-based games[180]. Over the last three decades of the 20th century, the 'video' element of video games grew from Atari's *Pong*, which was essentially *Tennis for Two* on a television, to the three-dimensional graphics of the *Nintendo 64* and the Sony *Playstation*[181]. In 2002, Microsoft introduced interconnectivity to its console experience, allowing Xbox players to play against other subscribers over the internet (thegameconsole.com). Today, the Nintendo *Wii* and the Xbox *Kinect* provide additional interactivity; the specialized consoles allow the player to use body movement, not just buttons or dials, in order to play games. Although MUDs and console-based games each continued to develop separately, a new type of game emerged in the late 90s that converged the interconnectivity of MUDs with the interactivity and increasingly detailed graphics and sound of console-based games. This was the Massive Multiplayer Online Game, or MMOG.

By the late 1990s, early forms of MMOGs had already existed for some time. The explosive technological advancement of the 1990s led to widespread ownership of personal computers and connection to the internet, and use of personal computers as game consoles became cheaper than the purchase of multiple consoles. Graphical MUDs such as *Habitat* (1985) and *Neverwinter Nights* (1991) presaged the modern-style MMOG; they were among the first to converge graphical representation with real-time virtual worlds (Wolf, 174-5). Other MMOG precursors included *Maze Wars* (1973-74), *Warcraft: Orcs and Humans* (1994), and *Quake* (1996). These games allowed players to interconnect[182], and to play in three-

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[180] A video game console is a specialized computer. Players must purchase the console and purchase game software to play using the machine. As they pre-date widespread ownership of personal computers, purchasing a console to use with a home television was originally less expensive and more practical than the purchase of a home computer.

[181] For a complete history of video game consoles, see *thegameconsole.com*.

[182] *Maze Wars* allowed multiple computers to play over ARPAnet, using terminal servers (World Heritage Encyclopedia). Warcraft: Orcs & Humans and Quake supported TCP/IP protocol (PK), however a 1996 expansion to Quake called QuakeWorld

dimensional virtual environments. These environments were “instantiated”, meaning each game between players was an isolated instance, created specifically for that purpose. In these games, the virtual “world” and all its information would disappear when the game was over. Contrary to this, persistent[183] virtual environments exist with or without player input. In these games, players can obtain new belongings and move to different areas of the game, and this data is tracked and retained when the player exits the world (Mansilla, 19; Nedelec, 6). In 1996, the first commercial MMOG, *Meridian 59,* was released (Wolf 175). This was the first persistent three-dimensional online environment. In the following years, *Ultima Online* (1997)[184] and *Everquest* (1999) popularized this genre. Many new MMOGs were released in response to this new popularity, and they continued to improve in functionality and evolve to allow higher levels of interconnectivity, increased channels of communication (via text, voice, and avatar movement) between players, and complexity of game play. The 2004 release of *World of Warcraft* marked a significant milestone in the popularity of MMOGs, and secured the Massive Multiplayer Online Role-Playing Game (MMORPG) as one of the most popular online game sub-genres[185].

Today, MMOGs (and particularly MMORPGs) have transcended traditional definitions of games to become complex, persistent environments that in many ways mimic real life. They have been described as ‘environments that allow people to undertake various tasks, hunting, socializing, exploring, producing and consuming goods and generally leading a more or less full, rich and detailed life’ (Castronova 2003). This type of ‘socially complex’ (Lastowka 2) online game is now the most popular sub-genre; in October 2010, it gained previously unheard of popularity, with Blizzard’s *World of Warcraft* claiming 12 million subscribers worldwide (Blizzard 2010). MMORPGs have become platforms for social and economic activity on a massive scale. They provide an extremely effective form of communication and medium for social engagement; they combine the social networking capacity of *Facebook*, the persistence

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[183] A persistent virtual environment runs on a server or cluster of servers separately from player computers. Players can log on and off at will, and the environment will continue to exist (ie. The program continues to run and the information about the environment is stored), even when no one is playing. Persistence was first available in text-based games that used mainframe computers as a server to host the virtual environment. Persistent graphical environments developed later, along with the significant advancement in hardware capacity in the late 1990s.

[184] *Ultima Online* featured two-dimensional graphics, however it was the first MMOG to offer real-time combat in a persistent virtual environment (Wolf, 175).

[185] MMORPGs are a sub-genre of MMOG that claim roots in offline fantasy role-playing games such as Gygax and Arneson’s 1974 *Dungeons and Dragons*. They contain quests and combat, and are designed so that a player’s character increases in ability and prestige as more tasks are accomplished and “adventures” undertaken.

of early MUDs and instant chat programmes and the voice connection capabilities of *Skype* with visual representation of place, avatar embodiment, team co-operation, and economic activity. Although economic activity has long been an aspect of MMORPG participation,[186] in recent years this activity has extended beyond the game realms; the emergence of a practice called Real-Money Trade (RMT) has given real-world monetary value to in-game assets.

Real-Money Trade

In order to understand the mechanics of RMT, one must first understand basic mechanics of virtual economies. Within a MMOG, play generally involves participation in a virtual economy. Players can accumulate virtual assets by completing tasks, engaging in combat with other players, hunting, crafting and selling items, collecting valuable items found in the game, or exchanging and selling services. Assets accumulated in this way are used to improve player experience in the virtual world. In MMORPGs such as *World of Warcraft*, better quality equipment (eg., armor, weapons, magical items held in a player's inventory) allows a player to progress more quickly, die less, and generally spend less time on the least enjoyable activities. Players with limited time to spend on game play generally want to spend it engaging in the most exciting tasks, however this generally requires more time than most people can devote. An easy solution to this dilemma was for players with limited time to pay real-world currency for in-game assets or services.

The mechanics of Real-Money Trade vary according to the rules of the virtual space in which the assets are held. RMT that occurs with the participation of a game developer is the simplest form; the player pays the developer real-world currency in order to purchase in-game property. Virtual property can be created at will by the developer, and there is no need in this case to employ RMT workers to play the game in order to collect property for sale. Games that offer this "primary market" functionality include Linden Lab's *Second Life*, and *ZTOnline* (Linden Research, Martinsen). Most MMOG developers, however, forbid RMT in their Terms of Service (TOS) and/or End User License Agreement (EULA) (Blizzard Entertainment 2007; Lastowka, 2). The mechanics of "secondary market" RMT, therefore, often involve two external actors that replace the role of the developer. These are the companies and/or workers that actually collect virtual assets and perform services (commonly referred to as "gold farmers") and companies that mediate between the buyers and sellers of virtual assets and services. These 'RMT mediating agents' (Lastowka) or 'retailers' (Lehdonvirta and Ernkvist), often take the form of websites, such as *IGE, Itembay*, and *SwagVault*, and are extremely profitable (Lastowka 2010, 23). They assume the role of

[186] Lucasfilm's 1985 *Habitat*, for example, featured an in-game currency called 'Tokens' (Morningstar and Farmer).

connecting consumers and suppliers, providing an easy interface for gaming customers to pay for the purchase of virtual goods and services, and for 'gold farming' suppliers to sell them.

The 'gold farming' industry accounts for a large portion of RMT; the most recent estimates gauge it to be worth 880 million US dollars of an estimated two billion dollar industry. It is additionally estimated that 80-85% of this industry operates out of China (Heeks, 12). A paucity of systematic primary research on the subject means that the accuracy of these estimates is by no means guaranteed; there is very little systematic primary field research on the subject. This is likely due to the emergent nature of both gold farming as a research topic and virtual worlds as a research platform. Research to date indicates that the industry is sizeable, that it operates from a number of countries including China, and that general consensus implies a large concentration of the industry in China.

MMOGs in China

China's online gaming population is relatively isolated from the international gaming community. This is generally attributable to two factors: state efforts to control the MMOG industry in the country, and the role of the internet café as the typical venue of choice for online game activity. State efforts to control the MMOG industry will be covered in detail in the policy section of this chapter, but a brief overview of related policy, as well as discussion of its technical impact on MMOG functionality and on gold farming in China, follows.

Due to governmental efforts to foster domestic development of the online gaming industry, foreign companies are prohibited from operating MMOGs in China or owning more than 50 per cent of the domestic companies that do (Rui et al.; Ström and Ernkvist, 647). Online games in China are therefore all domestically operated. These domestic companies often don't export their services[187], and therefore don't have any customers outside of China to populate the virtual worlds they run. Chinese players therefore typically lack the opportunity to interact with players outside China.

Internet cafés are the most popular venue for online gaming in China, as they are simple, inexpensive, and social. In these venues, customers purchase game time in credits at the café and play on its available computers. The café environment fosters community development both online and in the café itself; a 2008 study by Nardi describes the powerful bonds formed in this mixed-reality setting. The fostering of local community provided by internet cafés in China is equally accompanied by a diminished opportunity to forge

[187] China's online game exports and operations overseas are growing (Wang 2012). It remains unclear if this increased expansion will result in facilitated connection between China's MMOG players and the international gaming community.

international connections; there is little to no access to the gaming community outside of China. There are ways for Chinese players to log on to equipment operated outside the country, but it is typically more expensive to do so, requiring (at least): ownership of a personal computer, access to an internet connection, and the specialized knowledge and expense involved in bypassing any technical blocks in place that restrict access. These blocks typically exist in the form of IP address restrictions that allow only IP addresses[188] from certain countries to log onto the game. Such barriers are typically in place due to product localization efforts; MMOG developers tend to "localize" their games for release in different areas of the world, tailoring language input capabilities, business models, and content according to regional differences. Localization of foreign games in China is particularly isolating; licensing for domestic operation and the rigorous demands of the content approval process mean that foreign MMOGs are typically released much later in China than they are elsewhere. The promise of cutting edge game play provides incentive for those with the appropriate resources to try and access foreign servers on their own. For gold farmers, this incentive combines with the appeal of a foreign customer base. In order to conduct business with the international gaming community, gold farmers need to access foreign-operated servers, providing services for the newest games as soon as they are released abroad. Gold farming workers and establishments no doubt take a variety of different approaches to accessing foreign servers, however the barriers they face are the same.

Obstacles faced by China-based gamers accessing foreign-operated online game servers can be divided into two general categories: technical and financial. Technical barriers, as discussed above, usually take the form of IP blocks[189] (ie. a technical access obstacle that applies to all IP addresses from outside a certain region). There are several ways around these obstacles, the most popular of which is likely the establishment of a VPN or Virtual private network. VPNs create an encrypted "tunnel" for data across large geographical distances. It provides the security of a private network and the geographical flexibility of the internet. The encryption prevents normal filtering mechanisms (such as China's "Golden Shield") from being effective[190]. VPNs can be used to maneuver around IP blocks or bans by using the encrypted

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[188] An IP, or internet protocol address, is a unique set of numbers that identifies computers on the internet. IP addresses contain information about the computer's geographical location, and can therefore be used to block certain regions from accessing certain content on the internet. An example of this is *BBC iplayer*, which is accessible only from United Kingdom IP addresses.

[189] There are other methods of filtering, however these are less directly relevant to the gold farming practice. For more detail on these methods, see Open Democracy's interview with Jon Penney from Harvard's Berkman Center for Internet & Society, who explains them in detail (China Correspondent).

[190] There are reports that China's filtering mechanisms can now detect and filter encrypted VPN connections, (Arthur) however Jon Penney suggests this detection is based on the type

tunnel to remotely access a server in a country whose IP addresses are not blocked by the game. This "proxy" server (or VPN "gateway", as they are commonly termed) then makes the access request with its regionally approved IP address, allowing the remotely tunneled China-based user to then access the game[191]. Access to VPN services and proxy servers are extremely useful, but their use may incur additional expense; although access to some (eg., *Hotspot Shield*) is free, it is usually offered as a paid service (eg., *12Vpn, VPN in China, StrongVPN, Astrill*). The additional expense, as well as a recent government crackdown on corporate network access to VPNs (such as University-based internet connections)[192] may make this option unfeasible for the common gamer. To compound this expense, additional financial obstacles emerge due to the alternative business models that prevail in the MMOG industry operating outside of China.

The prevailing business model for MMOG operation in China involves no initial game purchase and no subscription. Developer and operator profit lies in either a per hour payment for time played (credits bought at the internet café), or RMT transactions directly between the operator and the player. These exchanges, referred to by economists as "primary market transactions" and by the gaming industry as "microtransactions", are often used within a "free-to-play" (commonly referred to as "F2P") business model that relies on them as a primary source of revenue. Companies that use this model, such as *Tencent* and *Shanda*, provide small in-game bonuses (for example, equipment such as potions or magical items that help the player to progress more quickly through the game) in exchange for real-world currency. This model has been immensely successful in Asia and in China in particular, with some foreign developers producing microtransaction-based versions specifically for the Chinese market (*Activision Blizzard Quarterly Earning Report*, Q1, 2011). The microtransaction-driven model is becoming increasingly popular in other parts of the world[193].

Outside of China, most online games require an initial purchase of the game for installation on a home computer, and/or a monthly subscription fee. Blizzard's *World of*

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of protocol used (China Correspondent) and can therefore be circumvented by VPN services that change protocols regularly.

[191] See Microsoft for a detailed explanation of Virtual Private Networks.

[192] On May 10, 2011 China technology blogger William Long reported crackdowns on VPN access from corporate networks in China. Affected networks included Southern Medical University and Zhejiang University (Griffiths; Long).

[193] Examples of games operating on the free-to-play model that have enjoyed success in international expansion include: China-based Perfect World's *Perfect World International*, as well as Nexon's *MapleStory* and *Outspark* (Takahashi 2009).

Warcraft, the most successful MMOG to date, requires both; the initial purchase costs upwards of 50 US dollars, while the subscription fee is approximately 15 US dollars per month. On top of this expense, "expansion packs" for *World of Warcraft* are released every few years. These are software additions to the game that increase the scope, add new locations of interest, increase the level cap, and make fundamental changes to game play. In China, expansion packs are released by the game operators for free; it simply adds more incentive to buy play time. However, players looking to play on foreign-operated servers must purchase the expansion pack themselves, at a cost of about 30 US dollars. Additional costs related to importation of these items may also exist. Despite the technical and financial obstacles present, aspiring members of the gold farming industry must overcome them in order to engage with their international customer base.

Industry & Mechanics of Practice

In order to consider the policy issues raised by the gold farming practice, it is necessary not only to establish a basic understanding of RMT and a comparative understanding of MMOG functionality in China; such consideration must begin with a detailed understanding of the gold farming industry itself. Existing explanations of the industry's functionality vary; definitions and terminology are still being established and available research varies widely in type of expertise. The following section draws on available academic sources, the researcher's participant observation experience in *World of Warcraft*, as well as key informant interviews conducted with elite level *World of Warcraft* players in 2008, to provide a detailed description of this emerging industry. This will begin on a broad scale with a definition of gold farming and an examination of the primary actors in the gold farming supply chain. Following this examination is a specific description of the activity that takes place at each stage in the chain.

Among academics and gamers alike, the practice of "gold farming" has been used to refer both broadly to any third-party RMT practice in online games[194] (Arnason 2008, Appendix 3; Dibell; Ge Jin, *Chinesegoldfarmers.com*; Heeks, 3; Sharaput, 19) and specifically to the practice of collecting either virtual currency or virtual goods in order to sell them for real-world currency[195] (Arnason 2008, Appendix 3; Lehdonvirta and Ernkvist, 16; Sharaput, 20). This

[194] RMT practice in online games includes the sale of both virtual goods (eg., currency, equipment) and services (eg., power leveling) and assumes they may be produced in any number of ways.

[195] This narrower definition excludes the sale of services such as power-leveling and often assumes a single mode of production, ie. Hunting and gathering-type activities in the online environment.

project uses the wider definition, as it is more inclusive and reflects the widespread association (among gamers and academics alike) between the gold farming industry and the sale of both virtual goods and services (Arnason 2008, Appendix 3; Dibbell; Ge Jin 2010).

Supply Chain

Current consensus indicates that the gold farming supply chain generally contains at least four primary participants: the game developer, the supplier of virtual goods and/or services, the retailer of virtual goods and/or services, and the consumer (Arnason; Heeks; Lehdonvirta & Ernkvist). These primary categories may be divided still according to various supporting roles, for example: the developer may in fact consist of two companies, one that created the game and another that operates it; the retailer may employ the services of separate companies like *Paypal* in order to process real-world financial transactions (*gold farmers part2.mov*); suppliers may be individuals, or they may consist of a game studio that employs many individual workers to collect virtual goods and/or perform virtual services (*Professional Chinese Gold Farmer Tells All*); consumers may be individuals but may also be groups of individuals such as small in-game communities that decide to collectively purchase virtual goods or services (Arnason 2008, Respondent 5). For simplicity of explanation, the four primary roles will be examined, beginning with the role of the developer.

Developer

The game developer is instrumental in creating the market conditions that create demand for virtual goods and services. Developers are also responsible for creating virtual goods and for general governance of the population of the virtual world they maintain (Humphreys). The developer's governing role means that the approval or prohibition of RMT on their part is instrumental in defining the mechanics and working conditions of the gold farming industry. It is also instrumental in defining the market; approval and regulation of RMT tends to discourage gold farming, whereas its prohibition allows it to flourish.

The market for third-party RMT services depends largely on the differences in game business models and developer attitude toward RMT. Where game business models include a primary market for virtual assets (ie. the developer offers assets for sale), as in Linden Lab's *Second Life* and microtransaction-driven MMOGs, the market for third-party game services is minimal; developers are in a position to fabricate virtual assets at will, whereas third-party game services such as gold farming and power leveling must produce virtual assets under the conditions of economic scarcity programmed into the game. In MMOGs where virtual assets are available for sale from the developer, third-party providers find it difficult to compete. In the few MMOGs where third party sale of virtual goods and services are condoned by the developer (like *Ultima Online* and *EvE Online*) (Lehdonvirta and Ernkvist, 19; Arnason 2008, respondent 10), heavy regulation (such as not condoning the operation of foreign companies

within the game) creates significant entry barriers for new entrepreneurs while reducing potential profit (by funneling potential clientele towards approved suppliers, who, though potentially more expensive, eliminate the risk of account closure). Although some game developers that don't participate in a primary market condone and regulate a secondary market of third-party gaming services (like, for example *Ultima Online* and *EvE Online*) it is far more common for developers to oppose participation in secondary markets (Lehdonvirta and Ernkvist, 17). Opposition of this practice by the virtual world's effective governing body can significantly affect the mechanics and working conditions of gold farmers; Blizzard's *World of Warcraft* provides a prime example of this influence.

In Blizzard's *World of Warcraft*, the developer claims ownership of all virtual items, characters, and currency; selling any of these for real-world currency violates the EULA and may result in the closure of a player's account. A player additionally violates the EULA and is vulnerable to account closure by sharing his or her password with others. This stipulation is a contractual deterrent from purchasing power leveling services. The legality and enforceability of these agreements are ambiguous; they are considered 'highly one-sided' by courts in the USA and Europe (Lehdonvirta and Ernkvist, 18), and contract law applicable in the developer's home country is impractical to enforce on an international player base. Although, as Lehdonvirta and Ernkvist maintain, 'contractual prohibitions are not a very effective deterrent in practice,' the recourses that remain available to developers do create obstacles for successful gold farming operation. One of these recourses is account closure; gold farmers work under a constant threat of having their accounts banned. This adds operational costs to their businesses, but is seen as an ineffective deterrent due to the low cost of accounts relative to potential profits (Arnason 2008, respondent 5). In order to sell virtual goods and services in a hostile developer environment, gold farmers must take measures to avoid detection. Detection is usually based on the transfer of large amounts of currency to and from a character, unwanted gold selling advertisements, or "spam" that originates from the account, or reports of gold farming activity by recreational players. Standard practice under these conditions involves: the use of dummy characters (characters created with an expectation of being banned from the game), private advertising using private chat channels or private in-game mail (to avoid detection by monitoring agents in public channels), and use of complex methods of transferring funds. One example involves the use of the auction house in *World of Warcraft* for large currency transfers. The way this works is as follows:

1. The intended recipient of in-game currency to auction an item of extremely low value for an exorbitant buy-out price (eg, it is worth three copper and sold for one thousand gold).
2. The gold farming agent makes the purchase.

3. The consumer receives the in-game currency in the same way he or she would receive the profits of any auction; delivery through the in-game mail system.

As this method is commonly used by recreational players to transfer funds between characters of different factions[196], detection of its specific use for gold farming activity is difficult.

Perhaps the most effective deterrent of gold farming activity in a MMOG to date has been interference on the part of the developer with the value of virtual currency. Maintaining and balancing the in-game economy is a key role of the developer in *World of Warcraft*; Blizzard asserts, in fact, that the reason gold farming is prohibited is because it negatively affects the virtual economy; under its Exploitation Policy for *World of Warcraft*, the company lists RMT of any kind under 'Abuse of the Economy' (Blizzard Entertainment). In 2007, the developer used its role as economic regulator to abruptly and significantly decrease the value of its in-game currency by vastly increasing supply. As a result, the *Burning Crusade* expansion pack that contained this change resulted in a devaluation of assets held by gold farming operations. One informant describes: 'The primary product of the gold sellers is, well, gold/so blizzard just made it much easier to aquire gold. This…effectively directly hit the bottom line for many gold farming operations' (Arnason 2008, respondent 5). Despite this countermeasure, the market for virtual goods did not disappear. One informant reports:

> It's not like [developer countermeasures] were 100% effective/far from it/they just pushed it under the surface mostly/or sold different products, like leveling/honor grinding services/as long as someone values their $ less then their in game time, I doubt farmers will go away' (Arnason 2008, respondent 5).

Hostile developer environments, then, typically don't discourage gold farming activity, but they do affect its mechanics.

Negative developer attitudes toward gold farming also tend to foster negative working conditions for gold farmers. They are labeled illegitimate players and rule-breakers, and the countermeasures implemented by the developer may inspire individual countermeasures in the form of harassment. Harassment of gold farmers has been noted as racially loaded (Nakamura) and inspired by racist motivation (Arnason, respondent 5). Harrassment may be verbal, or may consist of interference. This latter form of harassment is known as "griefing"; it consists of either killing the player repeatedly (thus making continued play impossible), or

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[196] In *World of Warcraft*, players can choose to participate in one of two factions: the *Alliance*, or the *Horde*. These are akin to separate teams, and they are often pitted against each other in player-versus-player activity. Members of opposing factions cannot communicate except through avatar body language, and cannot trade except through shared auction houses.

"tagging" (striking the first blow to) the player's targeted mobs[197] before the player himself can manage it. This prevents the player from collecting items from mob corpses, and therefore, when targeted at a gold farmer, prevents him or her from doing his or her job. Gold farmers lack the same recourse for harassment as recreational players, as such recourse consists of reporting abusive behavior to the developer. Since the developers consider gold farmers illegitimate players, they are more likely to ban the gold farming account than the account of the recreational player. An examination of production modes used by gold farmers provides a more detailed picture of how these working conditions affect gold farming suppliers.

Gold farming Suppliers & Production Methods

There are several ways that gold farming production typically occurs[198]: through manual collection (wherein people engage in in-game activity that generates virtual assets), automatic collection with the help of computer programs or "bots" (computer programs are programmed to guide a character to perform asset collection in the game), and hacking[199] (people hack into the game accounts of recreational players and steal their virtual assets). In *Knowledge Map of the Virtual Economy*, Lehdonvirta and Ernkvist identify these three modes of virtual asset production as "gold farming", "bot farms", and "hacking groups" (17). Although the identification of these separate production modes of virtual assets is valuable, the definition of gold farming as solely associated with manual collection is erroneous; gold farming is commonly associated with all three identified modes of production (manual, automatic, and hacking)[200]. Having categorized gold farming as 'only a small part of the production sector in the third-party gaming services industry' (16) (the other seventy percent accounted for by the apparently separate 'bot farms' and 'hacker groups'), Lehdonvirta and Ernkvist also fail to

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[197] "Mobs" are computer-generated enemies (Author).

[198] Respondents 3 and 4 referred to human-driven labour activities as "dajin" (打金) and automated labour as "shuaqian" (刷钱), respectively.

[199] Account hacking is often accomplished through the use of keylogging programs. These are generally distributed by embedding them in other programs associated with game play (such as *World of Warcraft* addons) that will be installed on a user's computer (*WoW Account Hacked: Destroyed my Life - An Addicted Gamer's Sad Tale*), or, according to one key informant, by embedding them in websites associated with the game, such as virtual goods retailers (Personal communication between author and informant, May 24, 2011).

[200] The prevalence of perceived association between the practice of gold farming and the use of: "hacks" (performance-enhancing computer programs whose use is prohibited by the developer), "bots", and account hacking, can be observed in online forum discussions such as (*Wowhead* and *Riftgame*), first-hand video accounts of the practice (see *Gold Farmer Hacks While GM Observes*, *Paiid's Back: Hacked by WoW Gold Sellers*), and has been reported by experienced players (Arnason 2008, respondents 4&5; Personal communication, May 24, 2011).

account for the significant and widespread association between the gold farming industry and power leveling services (Ge Jin; Arnason 2008, respondent 3). Another important point is that an alternate use of the term “hacking” is also widely associated with gold farming practice; it refers to the use of unapproved performance-enhancing programs in online games.

The collection of virtual assets may include a number of activities, but (with the exception of account hacking) this activity tends to mimic the act of hunting and gathering. Gathering activity generally consists of running around the virtual environment searching for and collecting various natural resources (such as plants or minerals) that appear or “spawn” in the game. These can be sold or used to make more valuable items (such as potions or armor). Hunting activity generally consists of repetitive killing of antagonistic computer-generated characters, or “mobs”. These might be animals in a forest, zombies in a cemetery, or any number of fictional characters. When a player kills the mobs, he or she can often loot their corpses and collect anything of value that is “dropped” by the corpse for future use or sale to another player. This “loot” typically consists of small amounts of in-game currency and/or various items of low value. Occasionally, however, a high value item will “drop” from a mob corpse. Certain types of mobs will drop certain valuable items, however, it might take many hours of killing said mobs in order to produce the item of value. This repetitive activity is not enjoyed by most players and as a result, it is a job particularly well-suited to gold farmers; a twelve hour shift may only consist of staying in an area known to produce a certain item of value and repeatedly killing the mobs (*gold farmers part2.mov*). This type of focused accumulation of resources from a single location is often called "farming", however when "farming" is efficient, it excludes the possibility of other players killing the same mobs. This behaviour constitutes a domination of resources and is called "camping"[201] a single area. It is considered typical of gold farmers (Arnason, Respondent 9) and the author has personally encountered it many times. "Camping" can interfere with the ability of recreational players to accomplish quests or to farm resources recreationally in that area[202]. For this reason, is often a cause of contention within the player community[203]. One interview respondent describes the behaviour as follows:

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[201] This behaviour has been recorded by a number of players and is available for observation on *Youtube*. See *Following a gold farmer bot in WoW* for an example.

[202] This is because many quests involve killing specific mobs. If these mobs are being "camped", recreational players cannot complete their quests, or gather the same resources for sale.

[203] This contention is articulated in *Ni Hao: a Gold Farmer's Story* (Nyhm) and has also been expressed by gamers interviewed in Ge Jin's final documentary clip (*gold farmers part3.mov*).

> Professional gold farmers will go to great lengths to make sure they get every mob, node, herb in an area...For mobs, they will do something called "ninja tap" in which in order for a character in wow to have rights to loot a dead mob they must do first damage to it. You can be clearly charging into a mob and they will do anythign to make sure they get that tap. For Nodes and Herbs, they will attempt and usually succeed in spamming the node with their gathering profession to get a "charge" of ore from.. (Arnason, respondent 9)

Particularly well-equipped gold farms may use “bots” or computer programs to perform the repetitive activity of "camping" specific spots (Dibbell; Arnason, respondent 9). According to one respondent, bots are programs that command a character to ‘run in a loop and kill preset mobs’ (Arnason 2008, respondent 5). Advanced bots can also command a character to perform specific activities in response to environmental triggers, allowing them to engage in more complex activities and accumulate more valuable goods. One *World of Warcraft* player has documented, for example, a bot that accumulates points for player-versus-player activity[204] (*World of Warcraft Battleground Bots*). Bots can be extremely advanced and profitable; multiple instances of a game can be run on one computer (Lehdonvirta and Ernkvist, 16), with human intermediaries required only to maintain the equipment, see to the smooth operation of the bot programs, and transfer the assets from the bot-controlled “toon”, or character, to a different toon that stores the assets until they are sold (Arnason 2008, respondent 5).

Manual collection of virtual assets can include activity beyond simple hunting and gathering; power leveling is also a lucrative form of RMT. Here, the assets sold are status improvements that cannot be separated from the “toon” or character with which they are gained. These status improvements may be simple attainment of a higher level, or may consist of more complex activity such as honor or faction gain in *World of Warcraft*[205]. Achievement of honor or faction in this MMOG allows a character to purchase particularly unique and valuable equipment, and awards the character with titles visible to other players. Another form of power leveling involves obtaining difficult-to-obtain equipment that cannot be traded from another toon. Such equipment often drops from the most difficult mobs (called “bosses”) in elite-level dungeons. Its possession is a status symbol within the game, marking the owner as

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[204] This would allow the bot to accumulate honor points, which was, according to Respondent 5 in Arnason 2008, a highly traded commodity following the devaluation of *World of Warcraft*'s in-game currency in 2010.

[205] In *World of Warcraft*, honor is gained from successful player-versus-player combat. Faction is a measure of a player’s reputation among a certain group of NPCs. It can be gained through accomplishment of specific tasks and is very time consuming.

a skilled player that is trusted by others[206]. In MMOGs that lack a primary market, these highly coveted items are purchased with significant risk; in order to attach the equipment to the consumer's character, a third party must log into their account. This comes with high security risks, from simply the stealing of virtual assets, to the re-sale of the account for use by other gold farmers. This has real-world value to gold farmers because, as discussed earlier, their biggest markets exist in hostile developer environments and are therefore subject to developer countermeasures such as the banning of accounts suspected of involvement in gold farming activity.

Outside their in-game work environments, Gold farming workers may work as individuals or may work in a game studio[207]. Given the high start-up costs (ie. initial purchase, game subscription, additional accounts if banned, VPN service if needed), it is easier to work in a game studio, though perhaps less profitable long term; Lehdonvirta and Ernkvist estimate that, although gold farming suppliers retain 60-70% of transaction revenue, individual workers in game studios earn only a small percentage of this (21, Fig 3). The authors additionally maintain that typical game studios are companies in suburban China that employ 'young males with disadvantaged backgrounds and no occupational skills' (17). One interview respondent reported that these studios are often deliberately set up by local governments to encourage employment of underemployed youths. The informant shared their first-hand experience interviewing members of the industry:

> I've interviewed gold farming bosses and…they say that some of the operations were set up by local governments inviting these gold farming entrepreneurs there to run the gold farm. So, organising employment for the local village or small town. And it's easy to set up, just buy some computers from the used market.

At the studio level, gold farming workers are typically ill-equipped to deal with a foreign customer base, marketing, and international financial transactions[208], and therefore their business is dependent on an intermediary company which will take a large cut but provide the

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[206] In order to kill elite level boss mobs, it is often necessary to collaborate with other skilled players. In order to obtain rare pieces of armor dropped by these mobs, it is implied that the character was trusted enough to be included in the fight.

[207] Ge Jin has documented both types of gold farming work.

[208] Ge Jin documents a business partnership between an American gamer and a Chinese gold farming workshop whereby the workshop paid the gamer in in-game currency in exchange for use of his foreign Paypal account to transfer funds (*gold farmers part2.mov,* [02:46]).

necessary services. The following section examines the role of these 'RMT mediating agents' (Lastowka 2).

RMT Mediating Agents

While, according to Lehdonvirta and Ernkvist, gold farming suppliers or "producers" are typically located in Chinese suburbs, they suggest that typical RMT mediating agents or "retailers" operate from the country's regional capitals (16). The primary function of these agents is that of marketing and financial intermediary; they eliminate the suppliers' need to develop marketing and capacity for financial transactions while providing a trusted brand and easy interface for consumers. China was not always a typical location for mediating agents; originally, mediators were located in 'wealthy gaming nations' (eg, the United States and Korea) (16) and sourced virtual assets locally, both from professionals and from recreational players trading their virtual surplus for real-world currency[209]. As the industry expanded, local sourcing gave way to outsourcing in order to take advantage of the low cost of labour in countries such as China and Vietnam. During this phase, the role of mediator became even more defined; in exchange for their low-cost labour, foreign RMT workers were provided with access to high-value markets, product marketing and capacity for international financial transactions. Over time, as Lehdonvirta and Ernkvist point out, entrepreneurs in the industry's former production countries gained the skills and resources necessary to operate mediating agents themselves. As a result of this as well as increasing legal pressure from game developers in the United States, the typical RMT mediating agent today operates from countries with low labour costs that are relatively insulated from developer-side legal pressure to cease operation.[210]

Another transformation of the RMT mediating industry reported by Lehdonvirta and Ernkvist is a trend toward consolidation; the authors suggest that today's virtual asset retail websites (numbering in the hundreds) are in fact operated by a small number of mediating companies. RMT Transactions are distributed first to a small number of mediating agents, and the agents then distribute sourcing work among networks of thousands of suppliers (Lehdonvirta and Ernkvist 16). This differential in number of transactions processed accounts for the fact that, while mediating agents have typically been the largest profit-making

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[209] A key informant described this as a common practice in *World of Warcraft* before 'blizzard cracked down on that pretty hard'. He notes, 'most people stopped selling to gold vendors for fear of being banned' (Arnason 2008, respondent 5).

[210] The well-known mediating agent *IGE* provides a prime example of this shift in venue; the company was incorporated in the United States in 2003, and in 2007, operations were moved to the Republic of Vanuatu (*IGE History: The facts!*).

enterprises in the gold farming industry (Huhh 1-2; Lastowka 2010, 23), producers (gold farming suppliers and labourers) have the bigger revenue share on a per-transaction basis; informant estimates reported by Lehdonvirta and Ernkvist set the annual revenue of the eight largest Chinese mediating agents above $10 million US dollars, with 'an additional 50-60 firms with over $1 million in revenues' (16). By contrast, the authors estimate that approximately 100,000 workers divided into game studios of about 10-20 employees comprise the production sector of the industry (41-2). The Lehdonvirta and Ernkvist analysis of the industry indicates the following distribution of revenue shares for a typical gold farming transaction, indicated in **Fig. 4.0** below:

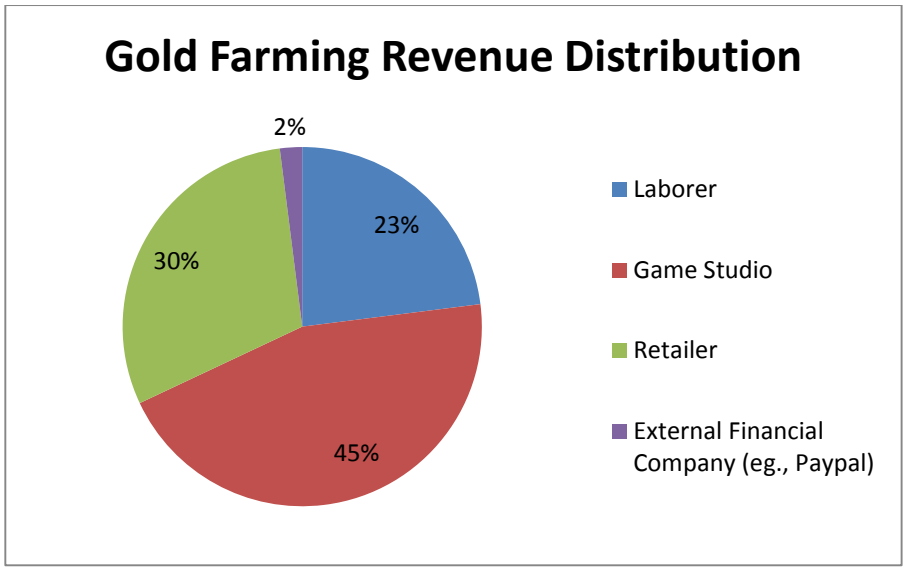

Fig. 4.0 *Source: Author's combination of data from Lehdonvirta and Ernkvist, Figures 3 and 7*.

These estimates are rough at best, given the data from which they are derived; a survey conducted on a non-representative sample of gaming studio workers, for which key data such as game studio operation costs, was only indicated by 3 respondents. Despite the small sample size (N=26), the survey is the first to be published in the field and therefore comprises a sizable portion of the small amount of primary data available on the gold farming industry.

Lehdonvirta and Ernkvist report that RMT mediating agents typically consist of about 500 reasonably well-educated employees; they estimate that 'the retail and management functions of the industry directly employ perhaps a few tens of thousands of skilled workers (customer service staff, studio managers, IT support, and accounting)' (42). The services provided by these skilled workers include: sourcing of virtual goods from suppliers, marketing to consumers, interacting with external financial agents such as *Paypal*, customer service, and in-game transfer of virtual goods. Due to the closed-door nature of the industry, little is known about certain aspects of its functionality. Specific strategies and practices no doubt vary

between RMT mediators, however the following description outlines what is known of standard practice for these activities (sourcing, marketing, and transferring). The research draws on public knowledge to date, first-hand experience, and key informant interviews.

Sourcing

Mediating agents source virtual goods from suppliers[211] based on demand at a given point in time. They may accomplish this in any number of ways. Some of the most typical methods of mediator interaction with suppliers are listed below:

1. Interaction through what Lehdonvirta and Ernkvist term '"buy" sites' (16), which are 'extranet'[212] (16) websites listing orders which can be fulfilled by any supplier.
2. Interaction through instant messaging services such as Tencent's *QQ*
3. Interaction with "wholesalers", an additional company that sometimes enters the gold farming supply chain by 'dealing with fluctuations in demand' (Lehdonvirta and Ernkvist 16), purchasing virtual goods when prices are low and selling them when high.

Marketing

Since most gold farming transactions take place in MMOG environments where the developer opposes third-party RMT, opportunities for in-game marketing are limited. Marketing efforts by mediators attempting to gain exposure within this difficult environment are responsible for much animosity from the recreational player population. The most popular advertising technique by far is what gamers refer to as "spamming" chat channels. This involves characters (usually dummy characters, as these are the most likely to be banned) logging into the game and either announcing the advertisement in a highly visible general chat channel (which is likely to cause the fastest account banning), or privately messaging individual players with ads. The latter form of advertising is sustainable until the character is reported as a gold farming spam agent, and the account subsequently banned. As Lehdonvirta and Ernkvist remark, this is perceived as a detraction from the game experience and 'both gamers and operators detest it' (16). This researcher's informants indicated similar animosity toward this practice, as well as other forms of in-game marketing. These might include sending ads through the in-game mail system or creating visual ads within the game through placement of in-game objects. One commonly reported tactic employs corpse placement to spell out the addresses of gold vending websites (Doctorow, 2007). Out-of-game marketing tactics

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[211] Lehdonvirta and Ernkvist suggest that typical mediator networks include 'thousands of small gaming studios' (16).

[212] An extranet site is a private network that allows selected access to external members (OECD Glossary).

employed by RMT mediating agents can be equally as reviled; many Search Engine Optimization tactics can be underhanded and include frowned upon activity such as the purchase of links from high-ranking websites and other tactics that can be viewed as a form of "cheating" the system. On the other hand, marketing tactics outside MMOGs have also served to build brand credibility and key relationships in the industry. In a 2008 article in Wired magazine, Julian Dibbell describes early marketing tactics by Brock Pierce as essential to the success of RMT mediating agent *IGE*. Dibbell reports full-page ads in respected gaming magazines, participation in academic conferences such as *Game On* as key steps toward establishment of the company's credibility, while Google AdWords and search engine optimization provided competitive edge over the competition (Dibbell 2008). Unsolicited email advertisements or "spam" directed toward previous customers are another key advertising engine; after a one-time virtual asset purchase in 2005, the researcher receives an average of fifty unsolicited advertisements for *World of Warcraft* gold.

Transfers

RMT mediating agents not only deal with sourcing virtual assets and marketing them to potential customers; they also attend to the logistics of international financial transactions from the consumer, as well as the in-game transfer of virtual assets from RMT industry-held game accounts to the account held by the consumer. International financial transactions are typically dealt with through specialized companies such as Paypal. These companies are commonly used for financial transactions on the internet, and provide brand names that consumers are willing to trust with their financial details. While it is difficult for gold farming labourers to set up accounts with these organizations, RMT mediating agents tend to be large corporations with an international presence. This presence tends to include both countries with low labour costs, where acceptance of international financial transactions may be difficult (Lehdonvirta and Ernkvist 43), and countries where labour sourcing may not be practical, but international financial transactions are easily accepted. *IGE*'s presence in both China, a primary source of gold farming labour, as well as in Vanuatu, a country with a reputation for friendly financial policies, is a prime example of this tactic. The mediating agency, operating in both countries, can accept funds in the country with friendly financial policies, transfer funds within its own organization in order to cross the necessary national borders, and pay local workers in the primary source company the necessary wages.

In-game transfers of virtual assets are typically much simpler, although they do require significant presence in the virtual world. In a typical MMOG, liberal flows of assets are only permitted within a given server or "realm". As a result, RMT agents must source virtual assets for each individual realm of a MMOG. Technically, this means that gold farming activity must take place on every server of every game whose currency is traded. When an order is placed

for virtual assets, RMT agents will call in the assets necessary from the suppliers, and transfer them to the consumer in the game. This can be done in several ways:

1. “Face-to-face”: the retailer and consumer avatars meet and physically trade the assets
2. Via in-game mail system: the retailer mails the assets to the consumer
3. Through an in-game Auction House (see 4.1.1)

There is significant risk involved in the transfer of virtual assets; significant fund transfers serve as flags for developers who can intercede and confiscate the assets and ban the accounts involved in the trade. In Julian Dibbell’s Wired article describing the history of IGE, he quotes one company executive as reporting a change in infrastructure wherein the gold farming workers assume the risk involved: ‘what happens now is that the risk has been pushed further up the supply chain. Retailers often don't even touch the gold; they don't even have accounts anymore. It's the farmer that holds the gold and risks the banning’ (James Clarke in Dibbell 2008).

In order to broaden understanding of the industry and the deeper mechanics of the RMT mediating agents within it, this section presents a case example that documents the growth of the most well-known RMT mediating agent to date. Due to the grey-market nature of their work and the location of most RMT mediator headquarters in developing countries, detailed information about their activity is not widely available. *IGE,* or *Internet Gaming Entertainment* has been chosen as the subject for this case study due to the significant public attention it has received; as a controversial industry pioneer, it has merited close attention and its activity is therefore the most publicly documented among RMT mediating agents. The following case example draws on documentation by members of the MMOG community (eg., *The Rise and Fall of IGE*), the internet archives of the *IGE* website, and news reports in order to document the growth stages of the company from a single secondary market website to an industry giant.

Development stages of a RMT mediating agent: the Case of Internet Gaming Entertainment (IGE)

IGE, or Internet Gaming Entertainment, was founded in 2001 by two *EverQuest* players: Brock Pierce and Alan Debonneville. They began operation with a single website, *Eqnetgaming.com*, and an incorporation as *Internet Gaming Entertainment SL* in Spain (*The Rise and Fall of IGE*; *Eqnetgaming.com*, November 2001). By November 2001, according to the internet archives, the company already operated several “Netgaming.com” websites that traded virtual assets from various MMOGs for real currency. In 2003, the company expanded internationally; *IGE Inc*. was incorporated in the United States and *Internet Gaming Entertainment (IGE) S.A.* in Switzerland, before moving the Switzerland headquarters to a

newly created IGE, Inc. in Hong Kong. By this time, the primary website of operation had become *ige.com*, however as its August 2003 archive states, the website was 'part of an overall network of Interactive Entertainment services'. In 2004, IGE, Inc. acquired its biggest rival, Yantis Enterprises, Inc., which dominated the RMT market at the time (Dibbell 2008). Yantis Enterprises ran the MMOG secondary market website *MySuperSales.com,* among a number of others; the company had followed a path of website acquisition since its inception (Dibbell 2008). After the Yantis acquisition, *IGE* claimed a monopoly on MMOG secondary market trade (*The Rise and Fall of IGE*). By 2005, the company owned 'four ebay-style trading platforms, and 40 content websites' (*CNN.com*, November 2005). IGE continued its acquisition trend with a new target in mind; MMOG fan websites. *L2Orphus.com*, *Ogaming*, *Thottbot*, *Allakhazam* and *Wowhead* were purchased under the name of RPG Holdings LLC[213], together forming a network of websites in a position to collect user-submitted data about MMOGs[214]. This set of content-driven websites was called the *ZAM* Network, and catered to demographics in both the United States and China (Zelfden, 2007). *RPG Holdings, LLC* changed its name to *Affinity Media* and was publicized as owner of the ZAM Network. It was later discovered (with much controversy) that *Affinity* was still associated with *IGE (The Rise and Fall of IGE)*. *Affinity media* continued the industry trend toward consolidation, acquiring the Korea-based auction site *Itemmania* in 2006. Under Affinity's management, however, *IGE*'s popularity and stability declined significantly; by this point, most of the early founders of the company had resigned[215] or been bought out[216], and according to IGE's website, 'the company was losing hundreds of thousands of dollars a month and its worldwide RMT operations, with the exception of Item Mania, were struggling' (*ige.com*). When anti-RMT regulation affected its Korean operations and the grey-market status of its primary activity (Yoon, 40) prevented its ability to go public (and thereby acquire investors), *Affinity Media* was in dire straits (*The Rise and Fall of IGE*). Heavy spending on acquisitions and shareholder buyouts had reduced available capital, while

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[213] In order to maintain minimal association of the *IGE* brand with new acquisitions, *RPG Holdings LLC* was created as a wholly owned subsidiary of IGE US LLC, and new purchases were acquired under the new name (*ige.com*).

[214] User-submitted data on these websites contained a significant amount of data about mob and natural resource location at various times. This information can be exploited by gold farmers who will then "camp" the resource-rich areas. Additional exploitable data submitted by users includes equipment inventories and could be used to flag asset-rich players for potential account hacking purposes. The player community discovered an association between the acquisitions and *IGE*, raising concern that user-submitted information game could be exploited by the gold farming industry.

[215] Debonneville left the company in Spring of 2006 (Dibbell, 2008).

[216] Yantis was reportedly bought out for $1 million US dollars per month over a period of 22 months, plus an agreement to not open a competing business for three years.

increased competition from China-based retailers *SwagVault*, *Itemrate*, and *Thsale* compounded financial difficulties. It was rumoured that the company was millions of US dollars in debt to gold farming suppliers, and that 'trouble was mounting, especially at the back-end operation site in China'[217] (*The Rise and Fall of IGE*). Goldman Sachs had reportedly invested a large sum of money (60 million US dollars in 2006) which it then asked to be returned (Dibbell 2008). By 2007, the company was reportedly losing a half million US dollars per month. With Affinity unable to honour the agreement with Yantis, the latter was released from his noncompete agreement (Dibbell 2008).

In 2007, The Atlas Technology Group, reportedly formed by previously bought out shareholders of *IGE* (headlined by original owner of Yantis Enterprises Jonathan Yantis) acquired the *IGE* trademark in 2007. This was described by industry experts as a move by Yantis to buy back *IGE* (Dibbell 2008; Zelfden 2007). The acquisition did not include all of *Affinity Media* (particularly not the United States incorporation of IGE), but only the *IGE* domain name and trademark, as well as the back-end servers and supplier networks (*ige.com*). This protected Atlas Technology Group twofold: it separated the IGE trademark and domain name from the US incorporation which, at the time, was under lawsuit, and it additionally prevented *Atlas* from being subject to repayment of *Affinity*'s reportedly significant debts. The new parent company was incorporated in tax and e-business haven Vanuatu, avoiding legal recourse by developers as well as any necessity of reporting earnings or paying tax (OMPI). Today, Atlas Technology Group is the RMT mediating agent with the largest share in the market, according to the *IGE* website. The company has overhauled its image, and now markets itself as 'leading an effort to clean up the industry' with 'ethical sourcing' practices and efforts to combat fraud and in-game spam (ige.com). Having re-cultivated its original brand value, *IGE* is again looking to expand; the website cites provision of secondary market trade services for *Aion Online*, *Star Wars: The Old Republic*, and 'other new MMOGs' as part of its plans for the future (*ige.com*).

The RMT mediating agent or "retailer" plays perhaps the most controversial role in the gold farming supply chain. Whereas consumers might be excused for being short on time, gold farmers might be excused as desperate for employment, and game operators certainly don't condone the practice, the RMT mediating agents make a tidy profit from the labour of others. Game operators like *Blizzard* insist that they are selling a product that does not belong to them. Recreational players complain about the means; account hacking, use of bots, and in-game advertising are said to decrease the enjoyability of the game (Hernandez in Dibbell 2008;

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[217] According to Julian Dibbell's 2008 *Wired* article on the subject, IGE back-end operations centred around its operations in Shanghai, which were said to stabilize the supply chain. It's reported that during IGE's era of financial crisis, an unpaid gold farming employee stormed the offices demanding payment with a toy gun (Dibbell 2008).

Arnason). Without these retailers, however, the bridge between the world of cheap supply and high demand would crumble. As controversial and morally ambiguous as they are, there is no doubt that RMT mediating agents provide a service for which there is demand. The central role of RMT mediating agents in the gold farming supply chain means that understanding the mechanics of their operation is essential to the identification of key stakeholders in the industry, and to understanding how policy changes may impact them. The last key player in a typical gold farming transaction is that of the consumer. The following section examines this role and the segmentation of player populations that define the gold farming market.

Consumer

The consumer role in the gold farming industry (as in any industry) consists of shaping demand. Demand for virtual assets in MMOGs is shaped by the demands of both the casual player and of the elite, with the casual player demand comprising the larger sector of the market. Casual player demands tend toward currency or items that can quickly increase a player's ability to progress through the game. These players typically play less than the elite level players, although official categorization tends to measure level of commitment rather than simply time played (see Tobold; MMOChampion). The typical casual player has a real-world job and likes to play MMOGs for entertainment during his or her spare time. The idea of high-level play tends to appeal to casual players, yet the reality of the necessary time commitment is impractical. Since the time they are able to devote is not sufficient to attain high level status, this status may be sought in other ways. The purchase of in-game currency or high-level characters allows a player to appear more devoted to or skilled at game play than they really are. As one informant remarked, it also can simply be a way to progress through the game more quickly (Arnason 2008, respondent 5).

In order to deepen understanding of the consumer as a stakeholder in gold farming activity, examination of a gold farming transaction from the consumer's perspective follows. The following auto-ethnographic account from the author's participant observation in *World of Warcraft* provides a detailed first-hand account of buying gold in Azeroth[218].

> *In the Spring of 2005, I had been playing World of Warcraft for a few months. I was a member of a supportive leveling guild, and had transitioned from the status of total noob to what I thought was a relatively experienced player. I had many friends in the game, as I was always eager to lend a hand where I could. I was an herbalist and an alchemist, and found pleasure in giving away the potions I made with the herbs*

[218] Azeroth is the name of the fictional world in which players of *World of Warcraft* find themselves.

that I picked. I spent time helping others accomplish quests, and I gathered items of value to give to other members of my guild. I soon found, however, that this generosity was not economically sustainable. The epiphany came when I found my character about to reach level 40 and unable to afford to buy a mount. The mount was essential to my success in the game; it allows a player to travel throughout Azeroth at a 40% increase in speed. The quests from here on would be designed to be accomplished more quickly, it would slow down my ability to collaborate with others in the game, and (perhaps most importantly) not having one would mean that I was a noob. At the time, a mount cost 100 gold. This was unfathomable to me; I had at most ever managed to keep 10 gold in my inventory. I asked around, and no one in my guild was able to help me. Two guild members, however, did offer me some advice. They had gone to a website called IGE and bought gold a couple of times when they really needed it. It was a legitimate site, they said, and so my account wasn't likely to get banned. Desperate, I decided this was the only way forward. The website, claimed to offer gold on every server in World of Warcraft, including mine. This was a valuable service: World of Warcraft was divided into 200 servers or "realms", which were clones of the same virtual environment, each with a capacity of a few thousand players. Transfer between realms was impossible at the time, though Blizzard introduced it for a fee in 2006. In order to purchase gold in a given realm, then, said gold had to be accumulated on the same realm. That meant that in order to provide this service, IGE had access to gold farmers systematically accumulating virtual assets on 200 realms.

The purchase itself was simple: I used the paypal interface on the IGE website to transfer real-world currency to IGE. I was told to expect the payment through the in-game mail system, wherein players can mail items or in-game currency to each other. I received payment from a dummy character clearly created solely for the purpose of transferring currency. This was obviously an attempt to avoid retribution in the form of a banned account from the game developer, since the sale of virtual assets for real-world currency is against World of Warcraft's End User License Agreement. The purchase was a success; the only lingering reminder of the purchase is the guilt of knowing I couldn't play well enough to find the in-game money for the mount on my own. That, and the continuous stream of unwelcome adverts to my email inbox, trying to sell me World of Warcraft gold.

The above description reveals the perspective of a casual level player of *World of Warcraft*[219]. On the opposite end of the spectrum lies the elite type of MMOG player, whose demands and motivations are much different; they consist largely of consumable equipment necessary for elite level play. A typical elite level schedule in World of Warcraft involves collaborative activity called "raiding" for many hours every evening, with one day off per week. This activity requires significant equipment preparation; specific potions, reagents, bandages, and various other virtual consumables are required in order to even begin an attempt at accomplishing an elite level goal. If the player has a nine-to-five job in the real world, this leaves little time for collecting consumables[220]. This situation is generally unsustainable, and that's where the gold farming industry provides what some elite level players consider an essential service:

> Most everyone I've known that bought gold (suppose I should mention I never did), did so from a time perspective/they didn't have the time to farm the $ they needed for raiding or to play 16 hrs of bgs a day for HW[221] (which is similar but different to gold farming)…I never found it difficult to raise sufficient funds for whatever I wanted/but then again I played a lot, and didn't have a job/wife/kids / would have been a very different story if I did…gold farmers were a key part of raiding/not that they sold gold/ but they sold the mats to a lot of things we used in large quantities/elemental fire, etc etc …so in many ways, the farmers made the early raid game possible (Arnason 2008, respondent 5).

Another informant supported this claim about the gold farming industry's contribution to end-game play, claiming: 'as a raider I would think 60% of the consumables are indirectly purchase from farmers. So I think they enhance my gaming experience' (Arnason 2008, respondent 7). The consumer role is the final link in the gold farming industry supply chain. Having reviewed the intricacies of industry, we can now turn to consideration of the policy environment. The next section examines the policy environment that surrounds the gold farming practice.

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[219] Note: this account describes an event that occurred within the first year of the author's time spent as a complete participant, prior to engagement in elite-level play.

[220] Eg., collecting natural resources or mob drops such as herbs and cloth, and converting them into useful raiding equipment such as potions and bandages.

[221] 'bgs' stands for battlegrounds, a designated area in *World of Warcraft* for player-versus-player activity. HW stands for High Warlord, which is an achievement that marks significant accomplishment in player-versus-player activity.

Policy & Practice

Current Policy Environment

Policy development related to the gold farming industry in China is in a nascent stage; it appears that no policy development efforts in China to date have been specifically directed at this industry. Potentially relevant policy, such as the limits on virtual currency trade introduced in the 2007 *Notice on Further Strengthening Internet Cafes and Online Games Management Work (关于进一步加强网吧及网络游戏管理工作的通知)*, has mainly targeted illegal activity such as online gambling and money laundering rather than the gold farming industry (Claburn; Xinhua 2009). A China Daily article in 2009 asserted that illegal activity was the target of the new regulation, because 'current trading volume [for RMT] is still too small to shake the nation's entire financial system' (Xinhua 2009). The article described official concern, however, that 'as the trade expanded steadily, with increasing conversions between virtual and real money, there would be an impact on the financial system' (Cui Hua in Xinhua 2009). Besides the 2009 limit on use of virtual currency, the only other relevant policy to date appears to be a section of the 2010 *Interim Measures on Administration of Internet Commodity Trading and Related Services (*网络商品交易及有关服务行为管理暂行办法) that obliges businesses operating online games or businesses using virtual currency to apply to the MOC for an operating license (Wang et al.). Additionally, these *Interim Measures* establish certain operating requirements for licensed online game businesses. According to article ten, they must comply with certain administrative requirements such as record-keeping of virtual currency transactions and filing 'the types, the price, and the amount of virtual currency' at the provincial branches of the cultural administration (Win & King 2010; State Administration of Industry and Commerce, 2010). According to this text, the businesses should also have a registered capital base of at least 10 million yuan in order to obtain a license. This requirement may signal certain directions for policy development in this area. The provision of substantial capital may be an attempt to limit new entry into online games-related businesses, thereby limiting the number of private stakeholders and restricting profit to players already established in this sector. The licensing requirement itself seems to be a vague attempt at governmental regulation of this sector, however the development of effective regulation will require significantly more legal detail, as well as strategies for identifying third-party business operators within online games. The first steps toward RMT regulation seen in the *Interim Measures* may signal a license-based approach to regulation of gold farming operations in the future.

Policy Development in Practice

Lastowka has observed that the absence of comprehensive legal frameworks for activity in virtual worlds leaves 'courts…and other legal authorities' to find ways to apply existing law

to this new space (70). Once enough cases on a new issue become the focus of public attention, policy-makers are forced to make decisions regarding official stances on the issue. The case example below demonstrates how how the legal status of virtual property in China has evolved through this process.

Case Example: Virtual Property

The 2003 case of Li Hongchen's lawsuit against the makers of a game called "Hongyue" or "Red Moon" was perhaps the first public case of a virtual property dispute. Li sued the game developers for the return of his virtual property that had been stolen by a hacker (Lyman). Despite the lack of legal clarity in the matter, the Beijing Chaoyang District People's Court awarded Li virtual compensation for the virtual theft; the decision decided fault for lack of adequate security lay with the game developer and ordered the company to restore the virtual property to Li (Lyman). Despite this seemingly official acknowledgment of virtual property's value and ownership, the 2005 case of Qiu Chengwei demonstrates a different understanding; in 2005, Qiu reported the theft of his virtual sword to police who 'were of the opinion that a Dragon Saber in Legend of Mir was not legal property' and told Qiu there was nothing they could do (Lastowka, 20). This case became highly publicized due to Qiu's reaction, which was the murder of his friend. Qiu's case was perhaps the first to publicize the real-world monetary value of virtual items; it came to light that the murdered friend had sold the sword he stole for a sizable real-world sum (20). Another Legend of Mir case was brought forth in 2005 by a Mr. Zhao in Chengdu (MMLC Group); having discovered the disappearance of his painstakingly accumulated virtual assets, he complained to the game operator (Shanda Networking) who refused to help. He consulted a lawyer, who advised him to complain to the Consumer's Association in Sichuan. The Consumer's Association decided that Mr. Zhao's consumer rights had been breached according to Article 44 of the 'Law of the People's Republic of China on Protection of Consumer Rights and Interests' and granted him compensation (MMLC Group). More recent court cases began to recognize the real-world value of virtual property; in 2006, Yan Yifan of Guangzhou was convicted of virtual property theft after hacking into thirty accounts in the game *Dahua Xiyou* and selling their virtual assets for real-world currency (Q. Liang); in 2009, four men in Shenyang were sentenced to prison for extortion of virtual currency (Deng 2009). With the mounting number of property disputes[222], the need for a policy response became clear. External interest groups, including academics (see Beijing Review, 2004), gamer activist groups (see Chew), and consumer rights organizations (such as the Consumer's Association of Sichuan) took a public interest in the issue. According to Chew, game operators began to respond immediately (in 2005) to the

[222] See Chew (6-8) for detailed statistics on this issue.

customer demand for protection from virtual theft, and in 2007, five game companies jointly issued a 'declaration on cooperative tackling of internet theft and protection of healthy development of the industry' (Wei in Chew, 9). Governmental regulatory response has been slower; it was not until the policy initiatives of 2009 and 2010[223] that government-initiated construction began for a legal framework equipped to deal with virtual property issues.

One interview respondent for this research pointed to a policy text that explicitly protects the virtual property rights of online games players in China. Respondent 11 described this text to be very new at the time of interview. Respondent 8 did not explicitly name the document but reported that China's law was in the process of being amended to provide users with a legal basis to prosecute the theft of virtual assets. The policy document is entitled the *People's Republic of China Virtual Property Protection Law (Draft) (中华人民共和国虚拟财产保护法(草案))*. It can be viewed online, however it is not associated with the website of a specific institution. Its official legal status remains unclear.

The lack of clarity regarding virtual property rights was reported by key informants to be in the process of improvement. Respondents with policy backgrounds expected it to develop toward the protection of user interests, while respondents with industry and legal backgrounds reported that official legal acknowledgment of user virtual property rights would pose practical difficulties. Respondent 5 noted that 'if a user actually has an ownership interest in any item that exists within your game, then you would technically need to keep that game going. But that just doesn't work from a commercial perspective'.

The case of policy development related to virtual property illuminates a complex process that includes an increasing number of actors and seems to reflect an increase in economic interests and public participation. Examination of this process highlights the multiplicity of stakeholders and interests in online game-related policy development. The resulting policies and practices seem to depend on the power balances of the various stakeholders as they negotiate the tensions that arise from their competing interests.

The first-hand experience of key informants reported in the interviews for this case study indicate that competing stakeholder interests are also instrumental in determining how the gold farming industry is regulated on a day-to-day basis. The responses highlighted a contrast between the interests of regulators and industry that results in opposing activity in the

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[223] Ie. The *Interim Measures on Administration of Internet Commodity Trading and Related Services (*网络商品交易及有关服务行为管理暂行办法) and the *Interim Measures on the Administration of Online Games (网络游戏管理暂行办法).*

gold farming industry: according to informants, local governments tend to promote and protect the industry (R1), while game companies work with local enforcement agencies to shut down game studios (R11).

Informants that worked as legal counsel (R3; R4; R11) reported that in practice, the gold farming industry only receives negative regulatory attention when it contravenes specific regulations about online games. Specifically, if a gold farmer was under 18, or if illegal software such as bots or other plug-ins were being used to facilitate the gold farming activities (R3; R4). However, according to these respondents, game companies want to eliminate this activity because it interferes with the virtual economy (R4). These respondents indicated that game companies claim legal ownership of virtual property in games and that End-User License Agreements should make this legal according to contract law. However, regulators are not interested in enforcing their ownership claim. In the absence of official support for enforcement, companies were reported to have developed cooperative relationships with local branches of the Ministry of Public Security (MPS). These branches would shut down particularly aggravating operations on request in return for the seized assets seized from the shut-down to the local MPS branch (R11).

With one major exception, most informants indicated that the practice of gold farming, if performed by adults and without help from software programs, would not be illegal in China. Respondents 3 and 4 explained this de facto legality as general business practice, saying if a certain activity is not explicitly prohibited, it is interpreted as legal. They remarked: 'I think the general principle if the government or the law didn't say you cannot do that, then basically you can do this'.

The current regulatory environment for gold farming appears to be fragmented, at times contradictory, and subject to change. One respondent believed this to be intentional (R1), while others considered it a result of gold farming's low priority level compared to other regulatory issues (R5; R8). While the low priority for regulatory attention may be a contributing factor in the speed of regulatory progress, a taxation mandate for virtual property trade issued by the State Administration for Taxation seems to suggest that at least some regulators recognize that some elements of gold farming, such as virtual property trade and the practice of gold farming, may be worth regulatory attention. The next section examines the challenge posed by the taxation mandate and discusses other policy development challenges that are raised by the gold farming industry in China.

Policy Challenges

Gold farming raises a number of issues for regulatory concern for China's government. Issues are raised by the practice exist at both domestic and international levels. At a domestic

level, the gold farming industry is problematic for China's regulatory agencies, as its development simultaneously aligns and conflicts with the regulatory interests demonstrated by China's online gaming policy to date. Economically, the practice seems to align with the official agenda toward informatization of the economy[224]; as Heeks observes, the gold farming practice seems to promote economic development with the need for minimal resources (5). Additionally, the industry has been observed to provide employment opportunities for uneducated people with limited alternative job prospects (Jin 2006). Findings from the key informant interviews support this data. Respondents for the case study reported that gold farming resulted in economic advantages for local economies. One respondent reported that local governments sometimes invite gold farming entrepreneurs to run gold farms in rural areas, thereby 'organizing employment for the local village or small town' (R1). The economic benefits of gold farming were globally acknowledged in 2009 by a report from The World Bank; Ström and Ernkvist estimated that gold farming and similar grey-market[225] virtual economic activity account for a 3 billion US dollar market (6). Infodev's[226] program manager Valerie D'Costa describes the practice as an opportunity (given the low entry barriers) for developing countries to become producers, rather than users or consumers, in the digital world (in Doctorow, 2011).

While the gold farming industry seems to offer potential for economic growth and development, the practice also seems to conflict with governmental concerns regarding public health and protection of minors; standard practice in the industry consists of twelve-hour shifts of game play (Dibbell), an amount that exceeds by far the two hours a week of game play officially recommended for children (Fay, 2011). Although one might argue that gold farming employees are not children, the current indefinite legal status of the industry means that this is not necessarily the case; a lack of direct regulation means that the business provides ample opportunity for exploitation of vulnerable people for profit. In 2011, an article in *The Guardian* reported exactly this; the article contains a detailed account of prisoner exploitation in the gold farming industry in China (Vincent 2011). Exploitation of gold farming workers was also reported directly by some of the interview respondents in this case study. Respondents reported: that no one in the gold farming industry cares about labour laws or banking

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[224] For details on informatization agenda, see Zhao 2006.

[225] A grey market is, according to the Merriam-Webster dictionary, 'a market employing irregular, but not illegal methods'. In his 2005 paper on RMT, Yoon categorizes it as a grey market activity.

[226] Infodev is a development partnership under the World Bank (for more information see infodev.org).

regulations (R11); that gold farming was just part of a larger trend of cross-border exploitation of Chinese labour; and that in underground industries like gold farming, 'Anything can happen there, like rip-offs, exploitation, and like owing salaries...there are no laws protecting these kind of people' (R1). If the gold farming industry is to be promoted, it must also be directly regulated in order to protect vulnerable parties and ensure fair business practice.

Another domestic policy issue raised by the gold farming industry is the need for industry taxation. However, in order to implement taxation, a way to measure the profits of various gold farming agents (the workers, the agencies, and the mediating agents) must first be established. This demand brings the policy issue into the international arena, raising issues that need to be addressed by international regulation and agreements.

Taxation of the gold farming industry is complicated due to the basic issue of location on which much taxation law is based[227]. Gold farming activity typically occurs in a virtual environment that is hosted in a different location than the gold farming worker him/herself. The real-world currency might be transferred internationally any number of ways, but is often transferred initially through an intermediary company that may be hosted in yet another location, including countries with legislation that exempts their operations from taxation (such as, for example, *IGE*[228]). In the international arena, policy issues regarding fair business practice also arise, particularly with respect to the governing power currently held by game developers and operators. The fact that game developers control the software code, or the technical information that records all virtual activity and items, means that they also control what Lessig equates with Law in the virtual world (6).

Lastowka points out that this creates considerable risk for gold farming workers (70); by controlling the virtual economy, the game developer has the power to abruptly devalue the assets of gold farming workers[229]. This raises issues regarding international agreements regarding national treatment and market access, however issues regarding their enforceability and the legality of End User License agreements (EULAs)[230] may also play a role. Future policy development will require interaction with international regulatory bodies such as the WTO and the International Labor Organization. In order to engage internationally however,

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[227] For example, an OECD treaty established an e-commerce taxation agreement determining that sales tax be charged and collected in the country of the customer (Aristidou 2010).

[228] See author's case analysis on IGE in the Technical section of the Background chapter.

[229] See Arnason, 2007

[230] These issues were raised by Respondent 5 in Bauman .

domestic regulation must be established that clarifies jurisdictional authority and legal status of the industry.

Given the regulatory challenges involved in implementation of regulation, the unclear legal environment, jurisdictional competition and confusion, and the rapidly developing innovative practices and uses of this new medium, the government of China is facing a momentous task to determine future policy related to online games and their emerging practice. While there appears to be minimal interest in regulating the gold farming industry directly, related innovative practice is quickly attracting regulatory attention. The rate of change in the evolution of this technology and its uses seems to be accelerating economic development while simultaneously outpacing China's policy development strategies.

Respondents thought it was likely to remain unregulated, unless it grows to affect more of the general population, or if the game industry lobbies against it. Respondents 1, 6, 7, and 10 thought that the number of workshops in operation were not sufficient to merit significant regulatory attention. Respondents generally acknowledged that the lack of industry regulation created significant potential for exploitation of workers (R1, R2, R14), with Respondent 1 describing specific cases where this had happened. However, most informants perceived this to be standard for any manufacturing industry in China, however, and did not think regulators would want to address it in any way. Respondent 2 was the only one that thought this should and could be addressed by regulators, and suggested that the formation of international labour unions could be a productive option. The informant remarked that in order for the gold farming industry to benefit from such a measure, however, perceptions would have to shift such that gold farming work was perceived as labour rather than recreational play (R2).

The consideration of the gold farming case in terms of its history and background, industry and mechanics of practice, and evolving policy environment in China offers some insight into the wider regulatory dynamic how it is responding to the challenges raised by media convergence and user innovation. The investigation in this chapter has shed light on current processes of regulatory development, and key stakeholders and interests that are and that may be involved in developing regulation for the gold farming industry. The next section identifies these stakeholders and discusses their interests in regulatory development.

Examination of Stakeholders and Interests

A list of government regulators with interests relevant to the gold farming industry has been compiled from relevant policy texts that have been released to date. A list of these stakeholders and their associated policies can be found in *Appendix I*. In Chapter II, the research describes how quasi-governmental and private stakeholders in new media regulation

emerged. As new media technology developed, China's economic opening-up resulted in partial privatization of telecoms and the introduction of quasi-governmental and private stakeholders in future regulatory development. With these categories in mind, this examination begins by identifying quasi-governmental and private stakeholders with interests in regulation of the gold farming industry. These include:

- Government-subsidized game developers and operators (listed according to size of subsidies according to *iChinaStock* report):
    - Shanda Games
    - Giant Interactive
    - The9
    - Zqgame
    - Perfect World
    - Kong
- Government-subsidized research institutes and government-associated "think tanks", including (but not limited to):
    - China Academy of Sciences (CAS)
    - China Academy of Social Sciences (CASS)
    - China Development Institute (CDI)
    - Development Research Center of the State Council (DRC)
    - Shanghai Academy of Social Sciences (SASS)

The interests of quasi-governmental stakeholders are often demonstrated with overt compliance. They are likely to publicly align their interests with those of the central government in order to demonstrate compliance and to maintain governmental support. In practice, however, economic self-interest may be prioritized. This has been demonstrated by game operators[231], but may not be an issue for "think tank" stakeholders, who are not part of the private sector. Proliferation of foreign investment in the online games industry means that many private sector stakeholders have emerged whose interests may significantly diverge from those of the Chinese central government. Private game industry stakeholders include foreign stakeholders in the game industry, such as foreign game developers and investors in game companies, as well as private stakeholders in the gold farming industry specifically.

[231] For example, game operators have offered work-arounds to government regulation that would limit the amount of time and money customers could spend on game play (Moss 2006).

Foreign game developers from France (*Ubisoft*), the US (*Activision Blizzard*, *Electronic Arts*), and South Korea (*NCSoft*) are some of the primary foreign stakeholders in this category. Private stakeholders in the gold farming industry itself include:

- RMT mediating agents (list of primary stakeholders) [232]:
    - Avatarbank
    - Bank of WoW
    - Belrion
    - *DGamesky*
    - EpicToon
    - *Game4World*
    - *Goblins4hire*
    - Goldmonger
    - Guy4Game
    - *IGE*
    - InGameDelivery
    - Koala Credits
    - OffGamers
    - OgPal
    - Playerauctions
    - MOGS
    - MooGold
    - MySuperSales
    - *SSegames*
    - *Swagvault*
    - *Time2WoW*
    - USfine
    - *WGTOnline (cheapergold.co.uk)*
    - *Woowmart*

[232] Compiled from the following combination of methods: 1) Author's review of a three-year collection of gold farming advertising emails related to currency mediation for *World of Warcraft.* 2) Top ten rated sellers from *mmobux.com*, a gold selling review site 3) Google search

- Game studios
- Gold farming agents

RMT mediating agents are likely to favour either no regulation of the gold farming industry in China, or regulation that does not favour the industry. The logic behind this conclusion is that the economic self-interest of mediating agents favours a grey or black market regulatory environment; they occupy an exclusive position in providing China's gold farming suppliers with access to the lucrative foreign RMT market. If the industry is regulated, the exclusivity of this position is jeopardized; China's regulators, seeing a large portion of potential domestic income going to the foreign-based mediating agents, may see fit to compete by allowing or encouraging the development of domestic-based mediation services, or otherwise reduce the profit margins of foreign mediating agents and increase domestic supplier and agent profits.

Game studio interests regarding regulation of the gold farming industry may either favour or counter regulatory development; government standardization of the industry may increase their profit margins by decreasing the margins taken by foreign RMT mediators, however it may also disrupt normal business operation. If the industry is regulated, exploitation of vulnerable workers (which increases profits) will be more difficult. Additionally, the development of labour standards may result in extra business operation costs, such as hiring more workers to compensate for mandated shorter shifts, and the building costs of standard-compliant work facilities (such as, for example, well-ventilated work environments and appropriate worker living accommodations). Smaller game studios[233] and exploitative venues will be less likely to favour regulatory development, whereas larger studios may see regulation as an opportunity for increased long-term profit[234]. Current data indicates that there is significant variation in the nature of game studios. Until June 2011, most reports placed them in suburban or rural areas of China. Recent reports indicate that the practice is taking place in Chinese labour camps, specifically the Jixi labour camp. This case introduces another stakeholder, ie. the local profiteer. In the case of the Jixi labour camp, the local profiteer took the form of 'prison bosses' (Vincent 2011). Interview respondents reported that these local profiteers are likely to be members of local governments. Respondent 1 perceived the report

[233] To whom the cost of standardization may represent too large an initial investment compared to the perceived profits of industry regulation

[234] Larger studios are more likely to have available capital for initial compliance-related costs and are more likely to see large-scale benefits from the increased revenue that standardized mediation may implement. They are therefore more likely to see regulation toward domestic profits as a favourable development.

on the Jixi labour camp as 'another example where Chinese government is involved in gold farming'.

Gold farming agents, like game studios, are also likely to demonstrate conflicting interests in regulatory development of the gold farming industry. Where regulatory efforts may improve their working conditions and compensation, any increase in domestic profit margin is likely to be kept by the larger players in the supply chain, such as the game studios, who already take a large percent of the workers' potential profits (Ström and Ernkvist, 2010). This limits the potential benefits of regulation toward the improvement of working conditions. This potential benefit may not offset the risk of increased regulation enough to make gold farming agents favour regulatory development. Risks include: government crackdowns on improperly operated studios, which may result in worker unemployment, and potential requirements for official registration of workers, which could be problematic for migrant workers[235].

Other significant stakeholders in gold farming industry regulation consist of recreational players. Within this stakeholder category there are smaller stakeholder groups with conflicting interests. These include:

- Casual players and guilds
- Elite players and guilds
- Gamer activist groups

Casual game players and guilds are likely to favour regulation that bans the practice of gold farming, but to oppose regulation that acknowledges it as a legal industry. This stems from widespread views among casual players about the gold farming industry, including[236]:

1) The gold farming industry disrupts the in-game economy and other elements of normal game play.
2) The gold farming industry promotes the practice of virtual theft
3) The gold farming industry promotes the use of bots and other 'illegal' programs

[235] The gold farming industry has been reported to provide effective employment for workers with few job alternatives. This indicates there may be a large number of migrant workers that may encounter permit problems if the industry draws regulatory attention.

[236] These views are observations based on a detailed analysis of online discourse about gold farming and gold farmers, conducted in 2007. The analysis included forum discussions from the official *World of Warcraft* forums, blog posts, comments on Youtube, and comments on gold farming-related news items. For further detail, see Arnason 2008.

4) The gold farming practice itself is illegal (due to its violation of End User License Agreements) and therefore members of the gold farming industry are criminals

Gamer activist groups in China are likely to express similar regulatory interests due to the widespread anti-bot sentiment amid the gaming population (MMOsite 2010). Game operator association of bot use with gold farming activity (as reported in a 2010 case by *Globalvoicesonline.org*), may contribute to this perception. The association between gold farming and bot use is likely to result in substantial negative views about gold farming by recreational game players, given the extreme opposition to bot use among players of online games in China. The case example of in-game protests that caused server crashes in *Aion* was centred around the key issue of user frustration due to widespread use of bots. In response to a perceived lack of effort by game companies to eliminate bot use, users have even been reported to engage in violent protest; Respondent one reported that user protest had reached instances of violent protest and occupation of game company offices.

Elite level game players and guilds are likely to favour regulation of the industry that would improve working conditions, but, unlike casual players, are not likely to display a strong interest in banning the gold farming practice. The author's interviews with elite level players of *World of Warcraft* indicated that many high-level players and guilds in fact form symbiotic relationships with gold farming workers. Interviewees reported that some elite raiding guilds use gold farmers as a way to fund the resource-heavy raiding activity; in exchange for large sums of in-game currency, the elite guild will allow a gold farming worker to accompany them on a raid in order to gain access to otherwise inaccessible gear that will increase their working productivity (informants 5 and 7). Other opinions expressed in the interviews indicated elite player concern for the real-life working conditions of gold farmers (informants 4, 5 & 7). This indicates that elite player interest in regulation of the gold farming industry may favour regulatory development that would improve working conditions for gold farming agents. These respondents consisted of players on a US-based server; interests of elite players and guilds on China-based servers may demonstrate different interests.

International regulatory bodies are also key governmental stakeholders in gold farming regulation. Key stakeholders in this category are primarily those with a focus on international economic activity and trade, as well as internet governance more generally. Some of these organizations have demonstrated significant interest in gold farming-related

activity in recent years. The United Nations Internet Governance Forum[237] recently highlighted the importance of trade in virtual goods in a workshop report, which stated that the forum had worked to identify emerging issues in this area and 'bring them to the attention of the 'Ninth World Trade Organisation (WTO) Ministerial Conference (Bali, Indonesia, 3-6 December 2013), to help ensure that no country/stakeholder group is disadvantaged from the trade in virtual goods and the opportunities of emergent digital trading hubs' (Workshop #160 Report). This is an indication that both the United Nations and the World Trade Organization (WTO) are recognizing this activity as important to future policy development and to international cooperation. The Organization for Economic Co-operation and Development (OECD) and the World Bank have also expressed interest in gold farming and virtual currency trade in online games, and their potential positive and negative impacts. The World Bank, for example, has investigated the potential of gold farming as a development tool (Lehdonvirta & Ernkvist), and the Financial Task Force of the OECD has highlighted the trade of virtual goods in online games as a potential vehicle for money-laundering (2010). The regulatory interests of these international organizations will vary according to their particular focus, but are likely to generally promote regulatory development that aligns with their purposes and mandates. These include: economic development, economic fairness, standardization of financial activity for the purposes of taxation and global collaboration, and general fairness in the conduct of affairs relevant to the international community. Relevant issues raised by the gold farming industry that will require international cooperation in order to address include: the strong potential use of gold farming and other ICT-based industries for economic development, the control of market access by RMT mediating agents, the current and potential future control of currency valuation by game developers and operators, the need to develop infrastructure and regulatory frameworks that support taxation of virtual goods, transactions, and related income, the regulation of business operations in the industry toward the protection of vulnerable workers, and other general issues related to fair governance of virtual worlds. Security and defense organizations around the world also have a keen interest in this space and must be considered key stakeholders in its future regulation. The gold farming industry demonstrates an opportunity for making unmonitored and unregulated international monetary transfers through highly converged media such as online games. This opportunity is ripe for criminal exploitation of many kinds. The development of systems that can monitor and regulate this activity is likely to be of high priority to these security and defense organizations. The interview research for this case indicates that defense organizations in China may already be involved: a respondent legal expert perceived there to be a strong likelihood that the People's Liberation

[237] The Internet Governance Forum is a multi-stakeholder advisory group that advises the Secretary General on emerging issues in internet governance (*About the Internet Governance Forum*).

Army is monitoring activity in online games for defence purposes and for illegal behaviour such as money-laundering (R6).

There are some factors that may contravene the interests of the international organization stakeholders mentioned above. These include: the lack of law-maker understanding of the new technology and ways in which it can be regulated, economic advantages that certain countries enjoy as a direct result of the industry's grey-market status (such as, for example, tax haven countries in which large RMT mediating agents may be headquartered), and opposition from powerful stakeholders from the private sector (for example, large game companies such as *Activision Blizzard*) who also benefit from a lack of regulation in this space, currently holding powers of governance by default.

Relative to the online games industry alone, gold farming demonstrates a further increase in the number and variety of stakeholder interests in policy development. This expansion of stakeholders can be seen among government regulators, media producers, and game users. The international nature of the gold farming industry has meant the expansion of regulating stakeholder interests to increasingly include international regulatory bodies as well as national governments. Another example of stakeholder pluralization in the gold farming case is that game users have expanded beyond recreational game players to include professional gold farming workers as well. This has happened as market demand for virtual goods and currency created by recreational users has provided economic incentive that attracts virtual workers. The pluralization of policy stakeholders additionally includes the introduction of new stakeholders from both domestic and international third-party businesses; these include RMT mediating agents and smaller stakeholders in the gold farming supply chain.

In China, the number of regulating stakeholders with interests in online games is increasing as the market for virtual goods and virtual currencies continue to grow. The regulation of virtual currencies in online games has attracted the attention of some of China's financial regulators. The Ministry of Commerce and the State Administration for Industry and Commerce have both participated as issuing authorities for policy texts that govern virtual currency trade relevant to online games[238]. Should gold farming and other RMT activity continue to grow, the stakeholders with current interests in virtual currency regulation are likely

[238] The Ministry of Commerce jointly issued *The Notice on Strengthening Administration of Virtual Currency in Online Games (关于加强网络游戏虚拟货币管理工作通知) with the Ministry of Culture in 2009.*

to also express interest and claim increased jurisdictional authority in the online games policy environment.

As game companies outside of China increasingly expand their scope into virtual goods trade and RMT, the number of international regulatory stakeholders interested in regulating this space is also likely to increase. An example of this activity can be observed in Blizzard's 2012 attempt to replace the role of RMT mediating agents: the company launched a user-to-user real money trading platform in its popular game *Diablo III*. While the RMT platform has been flagged for shut down in 2014, the expansion of Blizzard into the realm of sanctioned international trade platforms reflects a strong economic incentive that is likely to draw similar attempts by game companies in the future. This expands the scope of regulating stakeholder interests in online games to finance and international trade.

The gold farming case study showed that stakeholders in gold farming policy development seemed to represent an expansion of the stakeholders in China's online games policy more generally. This expansion was both domestic and international. Domestically, gold farming has expanded online games activity to include recreational players and professional virtual workers. It has facilitated international trade which is increasingly drawing the attention of international and financial regulators. It has also directly linked the financial interests of third-party international businesses like RMT mediating agents, to the domestic and international policy development in this space; domestic policy may affect a company like IGE's ability to supply virtual goods, while international policy may impose tax, affect their market access, or at least require transaction recording and archiving.

The examination of the gold farming case, along with the discussion of policy challenges for online games regulation more generally in Chapter II, show that the innovative uses of online games are currently outpacing the ability of China's regulators to create regulatory frameworks that can accommodate and monitor this emerging activity. Emerging practice is also outpacing regulatory development on an international level; virtual currency trading has only really begun to receive attention from international regulatory bodies as more obvious and immediately understandable trading platforms for RMT, such as Bitcoin, draw attention to the issue. As policy is being developed, it faces many implementation difficulties related to negotiating stakeholder interests in this area. The research showed that users and media producers are increasingly powerful stakeholders in this process. There are extremely large economic interests in this area for media producers and for public users, both of whom are likely to circumvent regulation that counteracts their interests. Circumvention efforts by these stakeholders are likely to evolve faster than regulating infrastructure. Producers and users are already intimately familiar with the technology, and therefore their knowledge levels tend to exceed those of regulators. Negotiating the conflicting interests and accounting for the

concerns and interests of non-regulator stakeholders will be a major challenge for regulatory development.

Conclusion

The chapter looked at the technicalities of online games and emerging practice by exploring the infrastructure, supply chains, and business models involved in the practice of gold farming. The research found that, in general, China has managed to exert an infrastructure-level control over most of its online games activity that is reminiscent of its control over and, as Diebert refers to it, *territorialization* of, the wider internet (147). This is primarily effected through economic incentives that encourage Chinese players to access online games through internet cafes rather than face the expenses of independent access. It is further supported by policy measures that forbid foreign companies from operating online games in China and mandate that China's online games operators locate their servers in China[239] (Section 2, Article 3). The gold farming industry and its complex international supply chain were found to contrast starkly with this domestic model of online gaming in China. Not only do gold farming workers access games independently, they use foreign game subscription cards and technology like Virtual Private Networks to access the international game servers. For China's game users involved in gold farming, the economic incentives of Real-Money Trade encourage workers and entrepreneurs to do business on international online games platforms, as they accumulate virtual goods on foreign servers to sell to the foreign market. While the technology for blocking international access through VPNs is being developed by the Chinese government, new ways of circumventing technical blocks are constantly being developed (Mozur). As long as there is economic incentive to do so, businesses that can profit from new circumvention measures are likely to invest in the continued development of workarounds. The opportunities offered by gold farming and RMT to exchange labour internationally mean that economic incentive to engage in this type of activity is likely to grow unless there is a cooperative and concerted international effort to prevent it. The perceived balance of positive and negative impacts of this growth will determine whether the international community seeks to diminish or to encourage it.

Gold farming and other third-party gaming services that take place on online games servers outside of China offer China's domestic companies and workers easy access to the international labour market. This virtual access to international labour demand could potentially be quite profitable and helpful to local economies. Its minimal entry requirements (internet

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[239] See, for example, the GAPP's 2012 *Provisions for the Management of Internet Publishing Services (Revised Draft)* 网络出版服务管理规定 (修订征求意见稿）, section 2, article 3.

connection, computer, game cards to play on foreign servers) mean that businesses can operate in remote locations, where labour costs are low. This can both reduce operating costs for businesses and provide new employment opportunities to local communities.

Heeks and Lehdonvirta and Ernkvist consider gold farming a potential tool for economic growth; they investigate it as an example of virtual work with great potential to offer new development opportunities for struggling economies. With its location flexibility and minimal training requirements, there is little doubt that gold farming and similar RMT practices can offer increased economic opportunity in underdeveloped areas. However, its current success is likely associated, at least in part, with its ability to exchange funds outside the reach of current local and international regulatory frameworks[240]. This aspect of the gold farming industry offers some clear advantages for local economic development: a lack of licensing or minimum wage requirements mean that entry barriers are minimized, while the absence of a taxation burden helps small local businesses to thrive.

The lack of regulatory framework also exposes workers and customers to a series of risks that could negatively affect the industry's growth. These include, among others, worker exploitation and associated negative potential impact due to bad publicity, and significant opportunity for consumer exploitation due to the absence of any industry standards, official supervision, or accountability. On an international level, the opportunities for both worker and customer exploitation are increased.

Without adequate international regulatory infrastructure, gold farming companies are able to operate without the burdens of taxation, adherence to international labour laws, or in fact without being subject to legal scrutiny of any kind. Intermediary companies such as RMT mediating agents are able to distribute different parts of their operations such that national laws align with maximization of profit. On the surface, this appears to be no different than any other multi-national corporation, and in many ways the situation is the same. The primary difference, however, is that the entire RMT industry provides a new method of exchanging funds internationally that circumvents the entire international banking system as well as all of its associated regulation.

This is a point of immense opportunity that is also accompanied by immense challenges. Under the current reach of regulation, virtual workers in developing economies are able to effectively circumvent existing financial and legal restrictions on the international

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[240] Heeks remarks on this aspect of gold farming as a factor for the industry's financial success (17).

exchange of labour. Gold farming is no exception. In Ge Jin's 2006 documentary, one owner of a gold farming workshop comments on this aspect of the business. He states:

> When I was studying in America, I found everything, from a meal to a haircut, is 8 times more expensive than in China. But you cannot transmit a meal to America. Nor can you transmit Chinese labor to America, otherwise it's easy to make money. But I suddenly realized that selling virtual goods online is the same as transmitting Chinese labor, virtually. I was very excited when I came up with that idea (Tie Tou in *gold farmers part2.mov).*

The potential for work that, like gold farming, involves the exchange of virtual goods and currencies to help economies develop depends on how its relationship with regulation evolves. The recent reactions of national governments to the increasing exchange of virtual currency do not seem promising for future regulatory development; virtual currencies are perceived as posing risks of loss to consumers (People's Bank of China; Schwartzkopff & Levring), as a potential threat to national currencies (Elwell et al., 5; People's Bank of China), and a vehicle for criminal activity (Elwell et al.; Reuters). While much of this negative reaction has been focused on Bitcoin and other straightforward virtual currencies, gold farming and the exchange of virtual goods in online games has not escaped negative attention from regulators[241]. There is a possibility, however, that gold farming and other less obvious forms of unregulated exchange may remain somewhat distanced from the wider virtual currency scare. Their lower media profile may lower their priority as a regulatory target, and the industry has an established capacity to circumvent constantly improving technical restrictions[242]. The ability to do so may be the key to the industry's ability to succeed and to provide growth opportunities to local economies

[241] One example of this is an investigation by the United States Federal Bureau of Investigation in 2011. Reports describe a raid on the home of two university students in Michigan in search of documents related to gold farming transactions in *World of Warcraft* (Good; Hing)

[242] For example, gold farming has consistently adapted to measures implemented by games companies to eradicate gold farming (see *Professional Chinese Gold Farmer Tells All* for details), as well as the technical restrictions in place in China that prevent access to foreign game servers.

Chapter V: Change

Conclusion

This project explored how new media regulation in China is changing in response to the new challenges raised by media convergence. The research focused on the case of gold farming, and explored its surrounding contexts in detail. The thesis has examined the history, challenges, and current state of the policy environment for online games in China, and has investigated the realities of China's practical online games regulation from both macro-level and micro-level perspectives. The exploratory analysis in Chapter III took a macro-level approach to investigation, using micro-level case research to build broader understanding of the regulatory dynamic and the tensions that shape it. While this research draws from and contributes to scholarship in a number of fields, it primarily builds knowledge in three key areas of study: new media in China, policy studies of China, and media convergence. Following a summary of key insights from each chapter, this final chapter highlights how the findings contribute new knowledge in these areas.

Policy

Chapter II explored the policy environment that surrounds China's online games industry, and found it to be complex, fragmented, and characterized by numerous regulatory challenges. The research found that China's online games policy consists of a number of disparate, sometimes conflicting, texts issued by a variety of government agencies. The research in Chapter II examined some of the major challenges that face policymakers in China as the online games challenge policy making efforts with jurisdictional overlap and innovative practices. Major challenges consisted of: conflict between government agencies that compete for jurisdiction over this profitable industry, legal confusion stemming from a lack of regulator familiarity with the technology and its new uses, and innovative uses of online games that challenge existing policy. The nature of these challenges is fully explored in the gold farming case study in Chapter IV.

The investigation in this chapter also revealed that some of the current regulatory challenges currently faced by China's online games policy environment are similar to those that China's media regulators have faced in the past. The chapter found that the approaches to policy development that have been adopted in response to these new challenges are similar to those that have been used in China to regulate new media over the last century: efforts to grow new media industries were consistently balanced with regulatory measures designed to maintain government control over the new media and to mitigate any perceived negative impacts. Institutional convergence and higher-level involvement in policy development were

revealed as consistently used methods of clarifying confusion and reducing conflict between regulatory agencies.

Another result of this chapter's analysis is a list of major policy documents that are relevant to China's online games industry. The list includes information about the release dates, the document titles, and the various government agencies that released them. These are presented, along with brief notes on the content of the documents, in Appendix I. Given the paucity of research on this subject and that this environment is quickly evolving, the list of policy documents that are intended to regulate this industry contributes important knowledge for future scholarship in this area.

Practice

The examination of regulatory challenges revealed that policy texts could not be understood to describe practical regulation. Policy texts had been used in the case examples as vehicles for assertion of power and claiming of jurisdictional territory, however they revealed little about everyday regulatory practice. The policy environment surrounding innovative uses and emerging practice like gold farming was found to be even less developed. Policy texts that were directly relevant to emerging practice were scarce, and the legal status of virtual property and its trade unclear. Policy development was found to be taking place in the courts on a case-by-case basis. In light of the inability of policy texts to illuminate practical regulation of online games, and the early stages of policy development related to innovative uses of the technology, the research worked to better understand existing regulation by examining how it is practiced. Overall, the investigations in Chapter III indicated that current regulatory practice for both online games and their innovative uses is determined by the negotiation of interests between key policy stakeholders. Chapter IV engaged in a closer examination of the factors and processes that affect this negotiation.

Chapter III featured an exploratory analysis of the regulatory dynamic that shapes the everyday practice of online games regulation in China. The analysis began by observing how strong tensions between and among regulators, producers/operators, and users of online games in China emerge through their actions and interactions as they pursue their interests in regulatory outcomes for online games. This section analyzed the tensions observed in the case examples from Chapter II and from the Chapter IV case study and provided a visualization of the micro level interactions that were observed between and among these stakeholder groups. The visualization provided an initial framework for understanding these interactions on a broader level as interrelationships between key stakeholders groups in China's online games regulation. This broad, relational understanding of stakeholders and interests was then used to guide the chapter's exploratory analysis, which examined key

factors that shape how the competing interests of stakeholders in China's online games regulation are negotiated. Using an investigative framework adapted from policy and political science research, the analysis in Chapter III explored three key aspects of the regulatory dynamic. For each major stakeholder category, the structural context, stakeholder interests, and pathways for negotiation of interests were examined.

The examination of regulator structures outlined the complex bureaucratic framework that surrounds media regulation in China, and described the general roles of its major regulating institutions. Party, State, and Social Organizations were identified as general institutional categories, and the specific institutions that are relevant to the regulation of online games were positioned within this broader hierarchical structure. The structural framework for online games regulation was found to have changed in recent years, from ministerial-level decision making toward an increase in involvement of high-level State and Party institutions. This was accomplished through institutional convergence and through the appointment of key individuals to concurrent positions in institutions at different levels of government. The chapter demonstrated a network of individual links that have been recently established between key ministerial-level stakeholders in online games regulation and central-level government institutions. A number of stakeholders in online games regulation were identified by the research, at all levels of government bureaucracy. In general, there seemed to be trends in the types of interests pursued at different levels of government. High-level organizations with close ties to the central CCP government expressed interests in online games regulation that are consistent with the long-standing ideology of China's media regulators: to promote economic development while mitigating any perceived negative effects of the industry's growth. This ideological balance was found to be reflected in the language of "healthy development" which is used in policy texts to describe regulatory goals regarding the online games industry. Policies issued at the ministerial level tended to operate within this same discourse of "healthy development," however the interpretation of this discourse was adjusted to suit the interests of the individual ministerial organizations. The interests expressed in ministry-issued policy texts tended to prioritize one side or another of the "healthy development" ideology, focusing on industrial development or protection of minors and the public interest. Lower-level regulators were found to prioritize local and individual interests over central interests, as evidenced by practical outcomes. Social organizations and their associated industry conferences were identified to be key platforms for interaction between regulators and game companies. The courts and branches of the Chinese Consumer Organizations were identified as key platforms for interaction between regulators and users of online games.

The exploration of game producers and operators began with a focus on the structural impact of privatization. Whereas China's government generally retains controlling ownership

of traditional media companies through State-Owned Enterprises, the online games industry has been allowed to operate as a completely privatized sector. As a result, China's online games companies have been free to seek capital through overseas investment, and many of the biggest companies are listed on foreign stock exchanges. The impact of overseas listing has been complex ownership structures that span multiple countries and involve stakeholders with potentially divergent interests. The research identified the Variable Interest Entity as a focal point for a number of strong tensions. These took place both within a single game company and between game companies and regulators. Within a game company, there was significant potential for agency costs to affect company activities on a local level, should the individual owners of domestic operations choose to divert revenue from the parent company. The structure additionally puts the companies in a precarious legal position, because the use of the VIE structure in this way violates Chinese law. Overall, the chapter demonstrated that privatization and Internationalization of China's online games industry are changing the power dynamic of China's media sector, as the economic contributions of private and international stakeholders increase the cost to China's economy of enforcing compliance.

The final section of the Chapter III explored the structures, interests, and interactions of online games users. The analysis of game users revealed tensions between professional and recreational players, and pointed to an increase in professional game play, as new ways of monetizing play such as e-sports and streaming, have gained popularity. Gold farming workers, along with other players that earn money from play[243], were found to constitute a group of professional online game players whose interests in play are economically driven. These economic interests were found to be motivating factors for circumventing regulation.

Innovation

Chapter IV presented a focused discussion of the gold farming case, beginning with a history and background and proceeding to examine the case from three perspectives. These were: the underlying technological and commercial infrastructure and the mechanics of practice; the regulatory policy and practice relevant to the gold farming case; and the key stakeholders and interests in related regulatory development. The history and background described the technology and business models that shape China's online games industry in general, and then focused on the practicalities of Real-Money Trade and the gold farming industry. It then examined key elements of the gold farming industry value chain. This section examined the process of gold farming both inside and outside the game, and included

[243] Examples of other players in this category include streamers and high level e-sport participants.

descriptions of the process of virtual property trade that occurs within the games, as well as the commercial mechanisms that facilitate the translation of virtual assets into real currency.

The policy discussion in this chapter indicated that the current regulatory approach to regulating innovative uses of online games generally tolerates new and developing behaviour until it crosses a threshold of acceptability or, as in the case of virtual property disputes, until the issue is raised in a court environment. The legal status of gold farming lacked clarity and game studios were caught between the competing interests of supportive local governments and game companies seeking to shut them down. Respondents perceived this lack of legal clarity to be intentional and perceived the gold farming industry to be of low priority for regulatory development compared to other issues. Whatever the regulatory priority of the gold farming industry may be, discussion of the policy challenges raised by gold farming highlighted the need for these challenges to be addressed by policymakers in the near future: the lack of legal and technological infrastructure equipped to deal with trade in virtual goods prevents regulators from levying tax on this trade and leaves significant room for further exploitation of this venue for criminal activity. The final section of Chapter IV identified key stakeholders that have interests in future regulatory development in China that relates to the gold farming industry. This section examined the interests of each major stakeholder group and looked at some of the larger issues that the case raises about the future of media convergence.

The gold farming case study demonstrated how the gold farming industry circumvents the existing infrastructure designed to regulate international financial transactions and trade. The research noted that gold farming was not unique in this practice, and concluded that gold farming appeared to be an example of a larger trend toward an unfettered exchange of international labour, facilitated by virtual environments. The peer-to-peer labour markets operated by *Odesk* and *Elance* were highlighted as examples of this larger trend. While *Odesk* and *Elance* operate somewhat differently to the gold farming industry, the labour exchange they represent is larger in scale and evokes questions that also apply to the gold farming case. Whose labour laws should apply to transnational labour? Should there be a minimum wage? How can regulation provide for the protection of vulnerable workers, and how could such a thing be implemented? The research in Chapter II and in the case study of gold farming revealed that before these international policy issues can be approached, a number of challenges to effective regulation in national contexts must be addressed.

Change

The findings of this research contribute to existing understandings of new media in China. The investigation showed a major shift in the power dynamic between China's new media industries and its regulators that empowers new media companies to prioritize profit

over regulatory compliance. It showed how this power shift had taken place, beginning with the introduction of international and private stakeholders that was facilitated by the Variable Interest Entity ownership structure. As these companies experienced enormous economic success and expanded to multiple media sectors, the industry as a whole has become an important part of China's economy. This has made it extremely difficult for regulators to achieve policy compliance, as the potential cost to regulators of shutting down company operations has become a deterrent. The speed of technological development and convergence also puts regulators at a relative disadvantage compared to industry, in terms of technological expertise and infrastructural control. In the absence of expertise and funds to operate infrastructure of their own, China's regulators depend on industry to cooperate with policy directives and take charge of substantial amounts of policy implementation. This leaves significant opportunity for non-compliance.

In response to this shift in relative power between new media industries and its regulators, government agencies have had to depart from the tried and true methods of policy development and implementation for new media and introduce new methods of pursuing compliance. This research has shown that in the case of online games, regulatory stakeholders had focused on incentive-based compliance and increased efforts to encourage negotiation between companies and regulators. The case study also revealed some of the ways in which media convergence has changed the way people use new media in China. The exploration of the regulatory dynamic for online games in China revealed significant user investment in the games they were playing, and pointed to many ways that users can generate income from online games platforms. As online games and other converged media increasingly become platforms for economic activity, the absence of coherent regulatory frameworks may become more of an immediate concern.

The investigation also contributes to existing understandings of the nature of media convergence and what it means for regulators in China and in the international community. The case study of gold farming demonstrated that the traditional methods of addressing challenges raised by media convergence are not working: the new uses of converged media and degree of international engagement have opened a pathway for the international transfer of funds that circumvents the regulatory framework of the international financial system. The research identified policy challenges raised by media convergence that must be addressed by China and the international community in the coming years. The investigation highlights the need for governments to mitigate the increasing power of companies that own and operate converged media platforms, in order to address their infrastructure-level control, multi-national operation, and relative advantage in technical expertise.

The examination of online games regulation in China has contributed to understandings of new media in China and the nature of media convergence as described above; it also contributes to knowledge about policy studies of China. One contribution the research makes by demonstrating that some phenomena and mechanisms of practice that have been observed elsewhere in China's policy landscape are also active in the regulatory dynamic of China's online games regulation. This research has shown that the interests of China's online games regulators fragment along both horizontal (interagency) and vertical (central-local) lines. Horizontal fragmentation of interests, between government agencies at equal levels, was demonstrated in the Chapter II case example of the jurisdictional competition between the Ministry of Culture and the General Administration of Press and Publication[244] that resulted in the 2009 suspension of Blizzard's *World of Warcraft*. This divergence of interests was further explored in the comparative content analysis of policy texts issued by these same agencies. The research also highlighted the divergence of interests between central and local regulators, citing local government protection of gold farming game studios and local government influence over low-level courts. A related insight that this research yields is that there is a large gap between the content of policy texts that relate to online games and their practical implementation. In fact, the investigation found that, for online games policy texts, the texts themselves were often unclear and aspirational, mandating activity that could not be implemented with the current state of infrastructure. This gap between policy and practice has been observed elsewhere, and this research simply demonstrates that it is readily observed in the policy and practice of online games regulation in China.

Perhaps the most important contribution to policy studies in this research is the exploratory analysis of the regulatory dynamic in Chapter III. The literature review in the introduction to this project indicated that, to date, macro-level studies of China's media regulation tend to not be informed by microanalysis. The exploratory analysis presented in this research begins to fill this gap by building macro-level understanding of the institutions, stakeholder interests, and pathways for interaction that can be observed in the case study. The information presented in this case study was based on the exploration of the gold farming case specifically, and therefore can only be conclusive in the context of this specific case. However, the contextual research about this case has the potential to be widely applicable. Further case-oriented explorations into the regulatory dynamics that shape regulatory practice for new media in China could enhance understanding of how negotiations take place and work to identify trends that may be common to multiple cases. Case-informed understanding of regulatory dynamics can be used to help both China and the international community to work

[244] This is now known as the State Administration for Press, Publication, Radio, Film, and Television

toward developing effective regulatory measures that account for the complex tensions, implementation difficulties, and evolving uses of new media as it continues to converge and evolve.

Appendix I: Major Regulations Related to Online Gaming in China

Date	Regulation	Released By	Notes
Feb. 1994	*Safety and Protection Regulations for Computer Information Systems* 计算机信息系统安全保护条例	State Council	Gives the MPS primary responsibility for supervising the internet, 'security protection work …and [prosecution of] illegal cases' (in Zheng 2008, 59).
Feb. 1996	*Interim Regulations on Management of Computer Information Networks – International Connections* 计算机信息网络国际联网管理暂行规定	State Council	Obligates all internet users (individual and organizations) to obey state laws and follow the State Secrecy System, outlaws information that is harmful to public security or pornographic (in Zheng 2008).
Mar. 1997	*Article 285 of the Criminal Law: 'Crime on illegal access to state computer information system,' and Article 286: damaging computer information system* 刑法第 285 条：非法获取计算机信息系统数据罪 及第 286 条：破坏计算机信息系统罪	National People's Congress	Establishes a legal basis for punishing various computer-related crimes (in Zheng 2008).
May 1997	*Interim Regulations on Management of URL Registration* 中国互联网络域名注册暂行管理办法	State Information Leading Group of the State Council	Mandates the registration of all internet users with the CNNIC, and acceptance of their guidelines (in Zheng 2008).
Jun. 1997	*Rules and Regulations on Implementation of URL Registration*	CNNIC	Implements the Interim regulations of the same title (Zheng 2008)

	中国互联网络域名注册实施细则		
Dec. 1997	*Computer Information Network and Internet Security, Protection, and Management Regulations* 计算机信息网络国际联网安全保护和管理条例	The State Council	States that all ISPs and other internet access points are responsible to the Public Security Bureau (PSB) and must assist them in investigation of violations. Specifies license cancellation consequence of non-compliance (in Zheng 2008).
Dec. 1998 (Promulgation)	*Notice Concerning the Standardization of Commercial Activities in "Internet Cafes" and Strengthening of Security Management* 关于规范"网吧"经营行为加强安全管理的通知	Ministry of Public Security (MPS), Ministry of Information Industry (MII), Ministry of Culture (MOC), State Administration for Industry and Commerce (SAIC) (& provincial branches)	Internet café regulation
Jan. 2000	*State Secrets Protection Regulations for Computer Information Systems on the Internet* 计算机信息网络国际联网安全保护管理办法	State Secrecy Bureau	Prohibits release of 'state secrets' online
Sept. 2000	*Measures for Managing Internet Information Services* 互联网信息服务管理办法	The State Council	Promotes development of internet services, mandates record-keeping of ISPs (Zheng 2008).
Sept. 25, 2000 (effective)	*Regulation on Telecommunications of the PRC* 中华人民共和国电信条例	State Council	Indicates that Internet Cultural Operation Entities engaging in online game operational activities should also obtain a Value-added

			Telecommunications Services License.
Nov. 2000	*Regulations on Internet News and Bulletin Boards* 互联网电子公告服务管理规定	MII and SCIO	Restriction on foreign news and BBS content. Indicates SCIO supervises content of media organizations and web portals and that content must comply with their guidelines.
Dec. 2000	*The Decision of the NPC Standing Committee on Safeguarding Internet Safety* 全国人大常委会关于维护互联网安全的决定	National People's Congress	Establishes prison sentence consequences for anyone publishing 'harmful' information, inciting the overthrow of the government or division of the country on the internet (Zheng 2008).
Jan. 2001	*The Death Penalty for Offenses Related to Use of the Internet*	The Supreme People's Court	Establishes possibility of death sentence for 'especially serious harm' over the internet (Zheng 2008)
April 3, 2001	*Measures of the Administration of Business Sites of Internet Access Services* 互联网上网服务营业场所管理办法	MII, MPS, MOC, SAIC, branch offices at the provincial, municipal & county levels, coordinated by MII & provincial sub-units	Internet café regulation
March 26, 2002	*Public Pledge of Self-Regulation and Professional Ethics for China Internet Industry* 中国互联网行业自律公约	Internet Society of China	
Aug. 1, 2002 (effective)	*Interim Measures for Administration of Internet Publication*	General Administration of Press and Publication,	

	互联网出版管理暂行规定	Ministry of Information Industry (jointly)	
Aug. 1, 2002 (effective Sept. 30, 2002)	*Regulations on Internet Domain Management* 互联网上网服务营业场所管理条例	MII	Requires increased monitoring of internet use by Internet Service Providers, including the use of specialty software. Mandates reporting to MII, MPS and SSB
Sept. 29, 2002	*Rules on the Administration of Business Sites of Internet Access Services* 互联网上网服务营业场所管理条例	MOC, MPS, SAIC, MII, branch offices at provincial, municipal & county levels, coordinated by MOC and provincial subunits	Obliges internet café operators to install software to prevent access to information considered 'harmful to state security', related to 'heretical organizations', and violence and pornography
Feb. 21, 2003 (promulgated) April 1, 2003 (effective)	*Announcement on Readjusting the Classification Catalog of Telecommunications Services* 信息产业部关于重新调整<电信业务分类目录>的通告	Ministry of Information Industry	
July 2003	*Notice on Improving Internet Domain Management* 关于完善互联网域名的通知	MII	Obliging all organizations that provide domain services in China to register with the MII, and only those meeting the Nov. 2002 Regulations can continue to provide them. (Zheng 2008)
Nov. 2003	*Explanations on Requirements to Provide Domain Registration Services*	CNNIC	

	中国域名注册服务体系说明		
2003 (Promulgated), 2004 (amended)	*Interim Provisions on the Administration of Internet Culture* 互联网文化管理暂行规定	Ministry of Culture	
2003	*Notice Regarding the in-game Publication of 'Advice on Healthy Gaming'* 关于在游戏出版物中登载《健康游戏忠告》的通知	GAPP	Stipulates that all game publishers must post 'advice on healthy gaming'.
February 26, 2004	Some Opinions on further strengthening and improving the moral and ideological construction of minors 关于进一步加强和改进未成年人思想道德建设的若干意见	CPC Central Committee, State Council	Mentions game software, threats of international influences
May 2004	*Notice on Enhancing the Content Review Work of Online Game Products* 关于加强 网络游戏 产品内容审查工作的通知	Ministry of Culture	Establishes the online game content review committee, establishing MOC as content review authority
Sept. 9, 2004 (effective Dec. 20, 2004)	*Regulations on Internet Domain Management* 中国互联网络域名管理办法	MII	Revised version of 2002. Consists of regulations that integrate new rules with the 2003 *Notice on improvement of Domain Management*
Feb. 2005	*Regulations on Non-Profit Internet Services Provision* 非经营性互联网信息服务备案管理办法	MII	Requires the registration of all non-profit ISPs with the MII

March 28, 2005	*Notice on Further Deepening the Management of Internet Cafes* 关于进一步深化网吧管理工作的通知	Ministry of Culture, the State Administration for Industry and Commerce, Ministry of Public Security, Ministry of Finance, Ministry of Information Industry, Ministry of Education, Central Civilization Office, Communist Youth League Centre, Legal System Office	
30 April, 2005 (effective 30 May 2005)	*Measures on the Administrative Protection of Internet Copyright* 互联网著作权行政保护办法	MII, National Copyright Administration	
June 9, 2005	*Notice on the Work of Purifying Online Games* 关于净化网络游戏工作的通知	Ministry of Culture, the Central Civilization Office, Ministry of Information Industry, Ministry of Public Security, State Administration for Industry and Commerce	Outlines the positive role of online games but also "serious problems"; prioritizes cleaning up business activities operating without permission; promotes unification of thinking among different ministries. Includes internet culture business activities (names e-sports) amid a list of things that should be banned
June 16, 2005 (updated February 2010)	*China Game Industry Self-Regulation Convention* 中国游戏行业自律公约	China Software Industry Association Game Software Branch (CGIA)	Self-regulation convention
July 6, 2005 (effective)	*Opinions on the Introduction of Foreign Capital into Cultural Industry*	Ministry of Culture, State Administration of Radio, Film & Television, General	

	关于文化领域引进外资的若干意见	Administration of Press and Publication, PRC National Development and Reform Commission and Ministry of Commerce	
July 12, 2005	*Opinions on the Development and Administration of Online Games* 关于网络游戏发展和管理的若干意见	Ministry of Culture, Ministry of Information Industry	Outlines the market situation and development goals, outlines serious development issues
August, 2005	*Notice on the development of the online game fatigue system* 关于开发网络游戏防沉迷系统的通知	Issued by the largest game operators in China (these include: *Shanda Interactive Games Ltd.*, *NetEase.com Inc.*, *Sohu.com*, *The9*, *Tencent*)	
Sept. 2005	*Measures on the Administration of Internet News Information Services* 互联网信息服务管理办法	SCIO and MII	Adds further categories of forbidden content to existing regulation. These include: 'information inciting illegal assemblies, demonstrations, marches or gatherings to disturb social order' and 'information released in the name of illegal civil organizations' (Zheng 2008).
March 1, 2006	*Cultural Market Administrative Law Enforcement Management Measures* 文化市场行政执法管理办法	Ministry of Culture, Ministerial Affairs	Outlines enforcement procedures for specific types of violation
February 15, 2007	*Notice on Further Strengthening Internet Cafes and Online*	Ministry of Culture, State Administration for	Prohibits the use of virtual currency

	Games Management Work 关于进一步加强网吧及网络游戏管理工作的通知	Industry and Commerce, Ministry of Public Security, Ministry of Information Industry, Ministry of Education, Ministry of Finance, Ministry of Health, Ministry of Supervision, People's Bank of China, State Council , General Administration of Press and Publication, State Council Legislative Affairs Office	outside the online gaming context
April 15, 2007 (effective)	*Notice on Protecting Physical and Mental Well-being of Minors and Implementing Online Game Anti-addiction System* 关于保护未成年人身心健康实施网络游戏防沉迷系 统的通知	the Central Civilization Office of the GAPP, the Ministry of Education, Ministry of Public Security, Ministry of Information Industry, the Central Committee, the National Women's Federation, the China Next Generation Working Committee	According to Wang et al.,'requires that online game users must submit their personal information to complete registration in order to identify which players are minors that need to be protected. In addition, the Legislature intends to have technical measures to be implemented by online game operators that would not only prohibit minors from accessing inappropriate games or game functions, but also be useful in resolving disputes arising out of online games'.
Jan. 1, 2009	*Special Action to Actively Carry Out the Remediation of Internet Vulgarity* 积极开展整治互联网低俗之风专项行动	MOC	

April 24, 2009	*Announcement on Regulating Applications for Content Review for Imported Online Games* 文化部关于规范进口网络游戏产品内容审查申报工作的公告	MOC	
April 2009	Notice on Performing Installation of Green Dam Filtering Software in Primary and Secondary Schools 关于做好中小学校园网络绿色上网过滤软件安装使用工作的通知	Ministry of Education, Ministry of Finance, and the State Council Information Office as well as private companies Lenovo, Inspur and Hedy	Introduces monitoring software
June 4, 2009	*The Notice on Strengthening Administration of Virtual Currency in Online Games* *关于加强网络游戏虚拟货币管理工作通知*	*the Ministry of Culture and the Ministry of Commerce*	Mandates the separation of licenses for real-money trading and issuing of virtual currency (Section 1, article 2)
Sept. 7, 2009 (Issued)	Notice on the Issuing of the Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the “Three Provisions” 关于印发《中央编办对文化部、广电总局、新闻出版总署<“三定”规定>中有关动漫、网络游戏和文化市场综合执法的部分条文的解释》的通知	State Commission Office for Public Sector Reform	
Sept. 26, 2009	*Cultural Industry Promotion Plan* 文化产业振兴规划	State Council	States that government investment in the cultural industries should be increased, more talents should

			be trained. States that taxation and financial policies, as well as the legal and commercial environment should be improved to support development.
Sept. 28, 2009 (Issued)	*Notice on Implementing the Provisions of the State Council on "Three Determinations" and the Relevant Explanations of the State Commission Office for Public Sector Reform and Further Strengthening the Administration of the Pre-approval of Online Games and Examination and Approval of Imported Online Games*[245] 关于贯彻落实国务院《"三定"规定》和中央编办有关解释，进一步加强网络游戏前置审批和进口网络游戏审批管理的通知	General Administration of Press and Publication, National Copyright Administration and National Anti-Piracy and Pornography Working Group Office	Bans foreign investment and VIE structures
May 31, 2010 (Promulgated) July 1, 2010 (Effective)	*Interim Measures on Administration of Internet Commodity Trading and Related Services* 网络商品交易及有关服务行为管理暂行办法	State Administration for Industry and Commerce	Introduces limitations on virtual currency trade
March 17, 2010 (effective August 1, 2010)	*Interim Measures on the Administration of Online Games* 网络游戏管理暂行办法	Ministry of Culture	Claims MOC jurisdiction for online game regulation. Clarifies management order of agencies &

[245] Translation of this regulation from LawInfoChina.com

			outlines licensing requirements.
February 17, 2011 (effective April 1, 2011)	Interim Provisions on the Administration of Internet Culture (Revised Version) 互联网文化管理暂行规定	MOC	
March 1, 2011 (full implementation)	*Notice Regarding the Implementation of the Parents' Guardian Project for Minors Playing Online Games* 关于印发《"网络游戏未成年人家长监护工程"实施方案》的通知	The Ministry of Culture (MOC), the Central Civilization Office, the Ministry of Education, the Ministry of Industry and Information Technology (MIIT), Ministry of Public Security (MPS), Ministry of Health, the Communist Youth League Central Committee (CYLCC), the National Women's Federation	Announces that increased security for Real ID system will be developed, implementing a system for checking ID numbers against the government database
March 18, 2011	*Notice on the Implementation of the Newly Revised "Interim Provisions on the Administration of Internet Culture"* 關於實施新修訂《互聯網文化管理暫行規定》的通知	MOC	Announces that the authorities will temporarily not accept applications by foreign-invested Internet content providers for the operation of Internet culture businesses that are not online music businesses
May 4, 2011	*National Internet Information Office Established* 国家互联网信息办公室设立	General Office of the State Council	Establishes the State Council Internet Information Office (SIIO) as the guiding authority for online games and internet culture products

June 2011	*Measures for Managing Internet Information Services (consultation-revised draft)* 互联网信息服务管理办法（修订草案征求意见稿)	State Council Internet Information Office	
December 28, 2012	*Decision on Strengthening Network Information Protection* 全国人大常委会关于加强网络信息保护的决定	Standing Committee of the National People's Congress	
December 2012 (Effective 2013, replaces the 2002 "*Interim Measures for Administration of Internet Publication (互联网出版管理暂行规定)"*)	*Provisions for the Management of Internet Publishing Services (Revised Draft)* *网络出版服务管理规定(修订征求意见稿）*	GAPP	Establishes games as "internet publishers", makes no distinction between operators and content producers
December 3, 2013	*Notice on Precautions Against the Risks of Bitcoins* 关于防范比特币风险的通知	The People's Bank of China, MIIT, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission	

Appendix II: Interaction Types from Case Study (Chapter IV) & Case Examples (Chapters II-IV)

Interaction Type	Case Example: World of Warcraft Suspension	Case Example: Online Protest	Case Example: Gold Farming
Within Group: Producers	Interaction between foreign game company (Blizzard), and local operators (The9 & NetEase)		Interaction between game developers and game operators to prevent bots & ban accounts
Within Group: Regulators	Interaction between government stakeholders in jurisdiction competition (MOC & GAPP)		Interaction and collaboration between government stakeholders (MOC & MOFCOM) to regulate virtual currency trade (The Notice on Strengthening Administration of Virtual Currency in OnlineGames (关于加强网络游戏虚拟货币管理工作通知))
Within Group: Users	Interaction and collaboration between individual users to protest the World of Warcraft suspension	Interaction and collaboration between individual users to produce the machinima video. Creation of stakeholder subgroup: "Oil Tiger Machinima Team"	Interaction between recreational players and gold farmers (eg, virtual property theft; symbiotic relationships (Arnason 2008))
Between Groups: Regulators & Users		Regulators attempt to implement regulation (Green Dam software) which affects users on a large scale. Users react through machinima video in protest against regulators.	Interaction between courts and users seeking redress for virtual property theft
Between Groups: Regulators & Producers	Regulators demand licensing procedures and content changes from Producers; Producers interact with disparate stakeholders in regulator group to obtain compliance and resume operation		Interaction between game operators and courts (eg., court ruling against bot-assisted gold farming in response to Shanda complaint (*Globalvoicesonline*))
Between Groups: Users & Producers		Users interact with producers through game play while producing machinima video	Interaction between gold farming agents and game developers/operators (ie. game play, account banning)
Between Groups: All			Interaction between courts, games companies and users in 2009 trial of bot-assisted gold farming (Globalvoicesonline; Lin T.). Trials prosecuting virtual property theft in gold farming cases (eg., Yan Yifan case (see section 2.2.1)).

Appendix III: Interview Structure

Current State of Online Games Policy & Practice

1. How would you describe the current state of media policy in China?
2. What about policy regarding the internet and online games?
3. What do you see as the most important issues related to media convergence?
4. What areas need policy development/regulation?
5. Who would you think might be the main stakeholders in China's new media policy?
6. Do you know of any connections between these stakeholders and key policymakers in the government?

Issues Relevant to Emerging Practice

7. With media convergence (eg., multiple forms of media use on single platforms), some people are starting to identify some arising issues that may be important for future regulation. One example of this is the market and jurisdictional overlap between telephone and internet regulation; VOIP technology has allowed internet service providers to provide telephone services, and increasingly, internet access is being provided by telephone companies (via 3G & 4G technology. Are there any issues raised by this general trend of media convergence or specifically by the convergent media of online games, that you see as potentially important for future regulation?
8. Are you familiar with the practice of Real-Money trading? Do you see any potential regulatory issues for China that this practice may raise?
9. Gold farming is a popular form of RMT and reputed to be widely practiced in China. Are you familiar with this practice? What have you heard about/what is your take on this issue?
10. What do you see as the potential benefits of economic activity in the virtual space?
11. To what extent do you think that the economic benefits of gold farming activity might be beneficial to local economies in China?
12. What do you see as potential drawbacks of economic activity in the virtual space?

Directions for Policy Development

13. Are you aware of any policies that either are in place, or are being planned in relation to these types of issues?
14. Are you aware of any other issues related to this area that may require policy responses?
15. What can you tell me about the potential use of online games for political activity/activism, and the current or potential policy responses to such activity?
16. What do you see as China's interests in this type of policy development?
17. What type of online gaming policy is likely to emerge in the international arena in the coming years? What do you see as China's interests in this type of policy development?

Appendix IV: Table of Results

	Regulators	Media Producers	Users
Structures	• Ministry of Culture and GAPP are primary regulators of online games in China (All respondents), with MIIT (nearly all respondents), SAIC (R3, 2;9) • The jurisdictional dispute between the MOC and GAPP was resolved with the MOC as the primary authority in charge of online games: *'the way I see it is they kind of agreed to disagree, they said, 'Ok, well this department is really in charge and you can have this piece'* (R1, 11). • Only one or two people inside the MOC office are responsible for online game regulations • The central bank was involved in the disruption of the Alibaba VIE structure. • Technically the NPC should be the most powerful department in China, but the Party is above it (R3, 9).	• Variable Interest Entity (VIE) structures are generally used (R3, 3). • VIE shareholders are Chinese nationals (R3, 4). • Game companies have special "Government Relations" (GR) departments for interacting with regulators. They are not specially trained but *'know how to deal with the relation with the government officers'* (R4, 11). • One way to ensure the GR department knows how to deal with officials is to hire blood relations: *'If I was a company I would hire somebody's – a son or daughter of*	• The international community and non-gamers are important stakeholders in China's online games policy (R1, 9) • Some gold farms are dormitory-style workshops (R1, 10). • Two categories of behaviour related to gold farming: "dajin" 打金 and "shuaqian"刷钱. Dajin is just hiring someone to play for you, shuaqian uses bots to gather virtual resources (R3, 7).

	• Just one department in the MOC is relevant to online games: the Department of Cultural Market (R3, 10).This is also the department in charge of in-game activity like gold farming (R9, 4). • *'A completely independent non-government official background organization cannot exist in China'.* This is one reason a rating system like the ESRB cannot exist in China • Dedicated enforcement teams exist for online games. These are: 1) The police, under the Ministry of Public Security (R3 & R4, 13) 2) A special team under the Ministry of Culture called the "文化执法大队" (R4, 12; R3, 13) • Within the small departments in charge, one or two individual people are in charge of decision-making (R3, 11). • The officials in charge of day-to-day decision-making in the MOC and GAPP are not necessarily the official bosses of those departments:	*some government officials'* (R3, 11). • Virtual goods trade occurs on platforms that are separate from online games companies, because Chinese law prevents online trade platforms from holding licenses to issue virtual currency. • Technical department of game companies responsible for addressing gold farming issues and plugins (R4, 7). • The most popular trading platform for virtual items is www.5173.com (R3) • Game developers, game operators, and shareholders are important stakeholders in the VIE structure. An example of shareholders suing Yahoo in the Alibaba case with Ma Yun was given (R3 & R4). • MOC grants licenses to virtual currency-real money	

	'it's the vice-director or the vice-deputy director' (R3, 11). • Gold farming would be regulated by the MOC enforcement team and the Ministry of Public Security (R3, 13). • So-called non-governmental organizations, including software associations and consumer associations, are actually the government: *'Basically they have the same government people who are in charge of this area and they call themselves non-government organizations'* • Regulatory structure has improved since 2009: it is clear the MOC is the main authority, but that the GAPP also must issue a license (R3, 19). • The State Tax Bureau and the Local Tax Bureau(s) are officially designated to collect 20% income tax from virtual property sales (R3&R4) (R2, 18).	trading platforms and virtual currency issuers separately; one company cannot hold licenses to do both (R4, 14).	

	• Virtual property sales tax applies for businesses, but not for individual players (R2, 19). • The central government, not local, is likely to be responsible for the technical blocking of access to foreign online games servers without a VPN (R3, 32). • Once a game is in operation, it is no longer the responsibility of the GAPP (R2, 11). • The responsibilities of MOC and GAPP overlap because they are both responsible for content censorship (R2, 14). • The State Internet Information Office is a key policymaker in this area, as outlined in Document No. 24 (R2, 14). • The heads of the MPS, Propaganda Department and News, and MIIT have been incorporated into the State Council Internet Office because they are the three most important players in this area among the whole Chinese governance regime (R2, 16). • The telecommunication carriers have already become national enterprises, confusing political and economic		

	interest and becoming the real monopolies in China (R2, 39). • MIIT is involved in the licensing process, but *'that's not the entity that anybody worries about, everybody's always very concerned what's the policy stance at MOC, what's the policy stance at GAPP' (R5, 2).* • Within the MIIT, the Office of Informatization leads the development of the internet (R6, 7). • The Ministry of Commerce is involved (R6, 3), but is lower-ranking than the other players in this area (R2). • The government sets up means to control users on the internet: 1) The ten commandments of user behaviour 2) Encourage users to report violations of these rules 3) Inform the users they bear liability for saying or sending anything that violates these rules (R6, 4-5) • The web police are used to enforce user behaviour on the internet (R6, 5) • Interest groups like the Internet Society of China can issue documents which *'do*		

	not belong to law and regulation but is quite influential of internet society' (R6, 7). • The PLA is definitely likely to be making use of online games to carry out monitoring activities. They use a model to predict new situations (R6, 13). • The China Securities Regulatory Commission and the Ministry of Commerce are key stakeholders in the future of online games regulation (Deutsche bank analysis excerpt provided by R13). • The *Wumaodang*[246] (五毛党） is a group of people hired by the state to monitor different forums in China, but it is unlikely they do this for games because it is likely to stretch the workforce too thin (R1, 16). • The China Consumers' Association may be involved in the new complaint resolution website that has been established to mitigate against violent		

[246] Note: This term means 5 mao or Fifty-cent Party and is a derogatory term used to refer to the state employees that monitor and manipulate the content on China's internet forums.

	real-life user protest against game companies (R1, 14). • The People's Bank of China is newly concerned with policy in this area because of real-money trade (R8, 3). • The firewall grants China a form of border control over the internet (R5, 10). • There is no infrastructure available to enforce games regulation where players act in servers outside their country: *The rules, to the extent that there are any, are going to be jurisdiction-bound. But, if the operator itself is not within that jurisdiction, then…how does the authority in that jurisdiction exercise any power over that operator? If the servers aren't in China, and somebody's operating WoW servers in simplified Chinese characters from Laos, and they don't have an anti-fatigue system baked into the game, as required by GAPP, what's GAPP gonna do? March the troops*		

	down to the Laotian border and go invade? You know, it doesn't happen (R5, 10).		
Stakeholder Interests	• Regulators need to protect domestic industry (R3, 3) • Many authorities want to be involved in this industry because it produces a lot of revenue (R3, 20) (R2, 10). • Many authorities want to be named as issuing parties to notices relevant to this industry because it declares their authority and gives them power to potentially shut down these operations, and potential profit: *'It's quite often that you see fourteen different government departments issue one notice…the first, the second, the third, and the last three are completely useless so the only thing effective is maybe just five or six…if they issue this notice and somebody do violate this notice, they have the power*	• Chinese game companies are driven to make deals quickly • Local VIE holders are interested in compliance with regulators, demonstrated by Ma Yun's decision to sever connection with parent WFOE (R3, 5). • Online game companies are concerned with the following user behaviour: manual gold farming (打金) , machine-assisted gold farming (刷钱), creation and operation of private servers. • Game companies have limited capacity for action against user activity that contravenes its interests, so they need to gather the support of government regulators (R4, 17).	• In-game protests are definitely a potential threat to the government (R2, 13). • Users are interested in virtual property protection and this has gained traction in recent years as society attitudes about online games slowly change (R6, 11). • Gold farms are sometimes run directly by local governments: *'Local governments are really the bosses of a lot of these gold farms. Maybe not in the majority, but some of them' (*R1, 4). • Young people are willing to do gold farming work

	maybe to shut you down. So you have to say "oh I'm sorry" so that's power' (R3, 20). *'I think the only reason is profit' (R4, 21).* • VIE structure usage is well-known public information, so regulators know it is used. • VIE structures are a legal grey area: '*there's a conflict here, the law says you cannot use that way, but the practice is that all the companies use this'* (R4, 4). • Government stakeholders will not stop the VIE structure use because the companies that use it produce a lot of revenue for China: *'If they totally ban this structure, then these companies will die, it's quite obvious so the Chinese government says "well if you want to do this, we just don't care" ' (R3, 4).*	• Game companies face the same problems and have the same interests, but because they are competitors, this limits their cooperation (R4, 18). • Game companies will generally create EULAs that claim they own virtual property (R4, 26) (R2, 24), however this is just a measure to protect the company and does not have very good support from PRC law (R4, 26) • Game companies have *'got to find a fast way to balance the legal and the practice'* when it comes to virtual property trading & selling among players (R4, 27). • The approval process for licensing is too slow for online games companies • Industry has more incentive to implement the real-name system than the government because it creates an	because it is just gaming (R1, 7). • Most gold farmers don't perceive gold farming as a permanent job due to the low salary and lack of opportunity for advancement (R1, 9). • Some organizations seem to be involved in spreading their ideology in online games. A case example of participant observation was given where a racist organization was trying to influence World of Warcraft players (R1, 15). • Underground stakeholder interests include those of plug-in developers and sales people, gold farming workshops, and private servers (R11, 2). • Gold farming is strictly profit-driven, no one cares about labour laws

	Another reason is that the VIE shareholders are Chinese nationals (R3, 4).
	
	• Public statements of key officials are important:
	'if you want to know online game regulations sometimes you need to understand what these government officials say in public' (R4, 10).
	
	However, these statements may also be inaccurate, by failing to deliver on stated goals. An example was given involving the announcement of a game rating system in development that was never realized (R3, 12).
	
	• Local government agencies will often not shut down an unlicensed game if they can profit from it (R4, 13).
	• Regulators would only shut down gold farming activity if the gold farmer was under 18 or if plugins were involved.
		economic advantage (R2, 34).
		• Chinese game operators are interested in exporting games. The most successful places for them seem to be South East Asia, Eastern Europe, and Russia (R5, 1)(R10,3).
		• Media producers exist in an environment of legal uncertainty due to conflict between regulators (R5,)(R12, 2) and therefore must adjust to different pressure points to succeed (R12, 2).
		• Industry is concerned about the risk factors posed by VIEs (R13).
		• Pirating is more of a priority for game companies in China than gold farming activity. This is because the companies can mitigate gold farming in-game, but can only take legal measures
			or banking regulations (R11, 6).
			• Gold farming may provide an opportunity to make money, but because it has no social status it will not be considered a good career (R8, 7).
			• Gold farming has a positive impact on local economies because usually gold farmers are in backward locations (R10, 2).
			• There is a generation gap in technology use:
			  ○ Children and teenagers are interested in playing games
			  ○ Adults are still interested in watching TV
			This causes opposition within the family (R9, 1).
			
			• Parents are concerned that young people spend

	Otherwise gold farming is not illegal (R3 & R4, 13-14): *'[One] Should say it's not illegal' (*'应该说不是违法的*)* (R3, 13) • Deciding how industry profits will be divided between the central government and the other government agencies is a cause of conflict (R3, 21). • The Chinese government is concerned that virtual currency will affect the real currency, because of the potentially unlimited supply that game companies can provide (R3, 27-28). • Virtual currency is an issue not only in China but worldwide (R4, 28). • The State Tax Bureau wants to tax virtual property sales, but this is not yet enforceable (R4, 29)(R8, 3). • The government will work to simplify the approval process for licenses because it is too slow (R3, 31). • The major concern for online games regulation is content censorship (R2, 12).	against pirate servers (R7, 13). • Online companies only consider how to maximize profits (R11, 2). • PC hardware and software vendors are additional stakeholders in this area (R11, 2). • The virtual economy and real-money trade benefit developers because it establishes an independent economic network where the government is helpless to intervene (R10, 2). • The game industry does not want users to have legal rights to virtual property in their games because this would require them to keep the game going, legally: *If a user actually has an ownership interest in any item that exists within your game, then you would technically need to keep that*	too much time on online games and not enough on academic learning (R1)(R9, 2) (R5, 3).This contradicts with the simultaneous recognition that technical industry growth is valuable to the country (R5, 3). :

	• The whole policy is still propaganda-oriented, not just economic-oriented (R2, 17). • There are some worries about anti-trust for cross-subsidiary companies like Tencent, because it is difficult to calculate their market share since they compete in so many markets: *'In traditional companies…the proportion of the market share could be calculated. But among [cross-subsidiary companies] they have many, many markets, so it's hard to see whether such a company is a monopolist' (R2, 21).* • The government does not want QQ to be exchanged for real money because it could produce unlimited coins (R2, 24). • The government wants to create more and more cultural products with so-called socialist ideology. (R2, 35). • The government has no productive goal to achieve besides a vague idea that it should improve the cultural industry:	*game going. But that just doesn't work from a commercial perspective, you have to be able to shut down a game if it's not profitable. You can't keep running these servers to keep somebody's property interests alive (R5, 9).* Game operators would therefore try to take the position that virtual property rights are a matter of contract law (R5, 9). • Chinese online game developers are short-sighted and impatient, so big international games will continue to emerge from European countries (R11, 8).	

	'So it can only follow a political logic, it can only ban to prohibit something, but it cannot propose something' (R2, 37). • Government discussion around policy development in this area is focused on virtual property rights and whether they should be protected (R6, 5). • The government would be very interested and sensitive about protests in online games (R6, R5): *'The state simply needs to be very careful about minor events. Some small events can lead to big turbulence' (R6, 12).* • Within the central government there are different policy approaches: 'The foreign ministry and the foreign trade department are always more dove-ish towards the United States. And the central Propaganda Department and the military are more hawkish' (R12, 2).		

	• The government is concerned primarily with overt compliance (R12, 1). • The MIIT interest in online games regulation is not administrative, but they have vital economic and political interest in this industry (R12, 2). • The Provincial Propaganda Departments are motivated to do a good job because if they don't, they will be politically responsible. However, they are allied strongly with the telecommunications operators, whose interests are economic: '*it boils down to a conflict, you know, the tension between economic development and political control. Just like in everything, that's really the source of tension in China. You have to use the new media to enhance economic development. On the other hand, if it's only direct to the economy that's fine. But, what about political ramifications' (R12, 2).* • The CSRC's apparent interest in banning VIE structures outlined in its submission		

	to the State Council is likely related to its underlying interest in augmenting its authority *'both over China's overseas listed internet names, and more broadly within China's government ministerial ranks'* (Deutsche Bank analysis, R13). • The Ministry of Commerce is reluctant to dismantle the VIE structure because doing so would entail great economic risk, including damage to *'China's employment ranks, to one of its most generous corporate tax bases, to China's accomplishments in internationalizing its financial markets'* (Deutsche Bank analysis, R13). • Major measures to change VIE structure usage are likely to be delayed and watered down (Deutsche Bank analysis, R13). • The central state is not really concerned about gold farming: 'There still aren't any policies on gold farming but there are policies on virtual currencies. So I guess it really reflects the interests of the state, especially the central		

	state; they are not really concerned about gold farming' (R1, 4). • Local governments support gold farms because they provide jobs and because it is semi-legal: *'Nobody thinks that they are in danger of being closed down or whatever because local governments are either protecting them or a few that are receiving money from them or even think they benefit the local economy...* *I guess it's not accidental that there's no policies on gold farming; they might want to keep it that way' (R1,4-5).* • Some leaders of non-profit organizations have an impact on the game industry (R8, 3). • The government is not interested in developing regulations for something that will not have a big impact. A case example was given about access to the American version of Second Life (R8, 5). • Policymakers are generally not even aware of the gold farming industry;		

	they just know there are some big enterprises and they are willing to support their development (R8). • It is technically difficult to regulate virtual property trade for real money because there is a large amount of data needed and this would need many people (R10, 1). • China's general interests for online games policy are on one hand to encourage its overall healthy development, on the other to limit the use of online games by children (R9, 1). • Policymakers are focused on limiting game play for young people and controlling all content, in part because the rating system is underdeveloped (R9, 2). • One policymaker says that gold farming is very damaging to health and that it is prohibited by financial regulation and in some general regulations (R1, 3). The respondent reported that the income was too little to be worth the cost to health (R9, 3). • Social stability is a key concern because China has a large population. This is the		

	main reason for the focus on internet content management (R9, 3). • The content review process means the state acts instead of parents to ensure health of young people: *'Somewhat like parents, since family supervision has still not fully kept up, [the state] needs to carefully consider the physical and mental health of young people' (有点像家长，因为家庭管理还没有完全跟得上，需要谨慎考虑青少年的身体和精神健康) (R9, 6).* • Regulators need to balance the contradiction of societal interests, between developing valuable technical industry and protecting the minds of young people (R5, 3). • Regulators have so much to worry about, Real-money trade is unlikely to be a priority (R5, 6). • As a general policy, China is trying to move up the value chain from manufacturing to service industries.		

	This could influence policy decisions relevant to gold farming (R5, 9). • The online games industry is important for China's development because it relieves the pressure on resources but develops many income opportunities for related businesses and individuals: '		
Interactions (examples and types)	• Laws that restrict VIEs have existed for ten years or so, but are not enforced (R4, 4). • There has been one high profile exception to the tacit approval of VIE use: the case of Ma Yun and Alipay. This case example was described. • Two pathways for enforcement: • Dedicated enforcement team(s) (R3 & R4, 12-13). • Contact between relevant individuals, ie. officials and employees or high-level managers. An example was given from the Alipay case (R3, 5). • General procedure for involving online games companies is that some of the big companies are invited directly to the office of the MOC cultural market	• Two styles of legal operation: ○ American style: Very detailed and involves many stakeholders from different departments (eg., legal, design, tax). This complicates and prolongs the process for making deals (R4, 2). ○ Chinese style: Very little attention to detail. Companies transition from IT to the online games business quickly.	• Users accept the End User License Agreement (EULA) when they play online games, thereby agreeing to not trade outside the game (R3, 14). • Gold farming transactions occur on the trading platforms, not within online games. • There is often a large mark-up for virtual items that are rare (R4, 15). • Should online protests occur, the government

	department to discuss some issues (R4, 10)(R7, 3): *'Because it is so new, they…cannot totally understand how to run a business and all the issues for this industry, because there are a lot of issues…some of the technical issues, yeah so all their information comes from the local gaming companies' (R4, 10)* • Game companies are called to meet with regulators in 2 situations: 1. A new issue needs to be addressed and a policy needs to be adopted. The government will call the companies in and raise the issue to say it's not going well, convey guidance. 2. To provide guidance on implementation of a policy (R7, 3). • Pathways for communication with industry: 1. In person through meetings (R4, 10)	Companies cannot afford to pay attention to details or they will lose deals (R4, 2). • VIEs comply with foreign investment restriction laws, but violate others (R4, 4). However, the regulations they violate are not enforced. • Conflict between game developers and operators can occur in response to user behaviour (eg., blame for leak of source code that allowed users to operate private server for the Legend of Mir (传奇) (R3, 8) • Game companies are heavily involved in policy development (R3, 8)(R7, 2)(R5, 3). • Cooperation between game companies does happen, but usually takes place unofficially, eg., between individuals in smaller	*'can easily order all the operators to shut down' (R2, 13).* (R6) (R4) • Gold farming companies communicate with customers through email, telephone, or QQ: *'They will leave an email, or leave a QQ number, or telephone; if you want to trade such items, you will contact them' (R2, 23).* • Both individuals and enterprises have trading rights for audio, video, and cultural products, since a 2004 revision to foreign trade law. This may be relevant to international virtual property and real-money trade (R6, 1).

	2. Through publications, eg., a White Paper issued by the MOC annually (R4, 10). • Government actors are unlikely to enforce the EULA that restricts gold farming unless game companies lobby for action: *'I think only in the situation that gold farmers affect the interests of the gaming company and the gaming company will raise this problem to the government, then the government will do something' (R4, 17).* • If the State Council Internet Information Office wants to issue a notice related to online games, it cannot issue it itself, it will be issued under the name of one of the ministries. This makes it difficult to accomplish anything substantial because coordinating different ministries is difficult (R3, 20). • Processing time for online games approvals is delayed by lack of manpower. The process is described as follows:	departments who are friends (R3 & R4, 18). • Different licensing standards of practice give domestic games an advantage over foreign games: ○ Local games can operate with only the GAPP license and apply for a local MOC license afterward (R4, 19). ○ Foreign games need both licenses. This delays operation by half a year. • When companies do not know how to deal with something, they will ask the local authority (R4, 29). • Some regulations lack infrastructure for implementation. The virtual property sales tax is one of these (R4, 29) (R1, 17) (R5): *'Everybody knows that it can't be really administered' (R1, 17).*	• Many gold farms in China shut down in response to Blizzard's attempt to deal with them in the 2007 expansion pack. Those that remained turned to the domestic market because the virtual goods had become less valuable in the international market (R1, 1). • Gold farm entrepreneurs arrange for protection from local governments (R1, 4). • It is likely that the reports of gold farm labour in prisons are true, and this is an example of how the state is involved in gold farming: *'I'm sure it's true...you expect these kinds of things to happen in China and it's much less shocking than things like forcing inmates to become sex workers. So*

	'First…the central government try to control everything, like the one department like MOC, later on it finds it just doesn't have the manpower…will issue some new notice and authorize the local department to do this…he will say "well, you need to approve first, then the final approval will come from me". So that's some trouble, you need to get approval for about half a year' (R3, 21). • The SIIO cannot issue its own notice for online games, it must do this through the ministerial-level organizations. The lack of ability for these organizations to co-ordinate means it is difficult for the central government to accomplish anything big (R3, 20). • In response to in-game protest, the government would just shut down the servers and communication. An example from an online protest outside of games was given: *'Everything that has something to do with [the protest] would just be deleted or just find*	• Lots of virtual property trade is occurring because they do not need to pay tax (R4, 30). • Industry technology is used as an enforcement mechanism to compensate for lack of government infrastructure (R2, 2). • Companies use End-User License Agreements to avoid liability for virtual property (R4)(R2, 25) (R5). • Lawyers must have close contacts in government in order to advocate for client interests (R5, 3). • Internet company operators use three legal means to try and control users: o Outline user behaviour with several rules called the *Ten Commandments* o Encourage people to report if they find rule violations	*I am sure it's going to happen...I take this as another example where Chinese government is involved in gold farming' (R1, 6).* • The salary for gold farming plummeted between 2005-2008: *'it's like a race to the bottom sort of industry. So the salary was kind of decent, really big, in '05, '04, but then by '08 it's like factory workers' kind of wage' (R1, 9).* • There have been instances of real-life violent protest by users to the game companies. An example was given from an unpublished paper: *'Chinese gamers organize themselves for activist cause against the virtual government by*

	a way to crash it…that activity caused Baidu to shut down their server and forbid the chatting function for several hours' (R3 & R4, 22). • While some game companies that operate without a license are shut down, most are allowed to operate despite not having the required licenses (R3, 23). There are three reasons for this: 1. MOC and GAPP don't care 2. They are still in the queue, the agencies don't have the manpower to deal with them all (R4, 23). 3. Game expansions are not noticed by the government and the companies do not inform them (R3, 23). • Information about requirements for game companies that is not listed in the policy texts is transmitted from the State Council level through the Government Relations Department. The GR staff will then transmit the information to the company staff:	○ Inform the users that they bear some liability for seeing violations: *'So some rules are clearly you can see that strict liability will be there, and you can frighten people not to surf on the internet' (R6, 5).* • Games operators in China use software to technically censor key words in user conversations that occur in online games (R13) (R1, 15). • Some games companies in China have people monitor data for abnormal activity to prevent in-game protests or similar activity (R7, 11). • The general approach taken by game companies in China is that if it is not forbidden, they will do it (R7, 1). • In response to real-life violent protest by users, game companies have adjusted to be more	*the game companies. And it used to be-they are violent. There were violent instances and then occupation of the offices' (R1, 13).* • Users may be reluctant to use games to organize illegal political activity because the key word censorship alerts them to the fact that games are monitored already just like the rest of the internet (R1, 16). • Virtual property sales occur outside of the gold farming industry: recreational players sometimes organize raids and sell the equipment. These "gold raid" were likely comprised of elite players from various guilds (R1, 18). • Users purchase in-game items without knowing exactly what they will do (R1, 19).

	'For example, the technical staff designs some program in the game and after they deliver to the authority and the authority say "no no you cannot do that"' (R4, 24). • The government cannot find a fast way to deal with the jurisdictional issues raised by media convergence (R3 & R4, 25-26). • The government cannot enforce the taxation of virtual property sales because no one knows how to find both the original price and the selling price to be able to measure the profit. A first-hand account was given where both the local authorities and the State Tax Bureau, when asked for implementation advice by a game company (through phone calls), apologized and said they don't know how to do this (R4, 29). • The government strategy for online games is to control it without destroying it (R2, 12). • High-level instructions to coordinate new ministries have been issued in the form of internal documents which are	conciliatory toward users that try and revolt, and to establish alternate forums for complaints, such as complaints websites (R1, 13). • Game companies that operate in China keep the details about in-game equipment secret from the players, which stands in stark contrast to Western servers. The respondent remarked that users accepted this but it impacted the game dynamic significantly (R1, 22). • Game companies have very little opportunity for policy input, but must often enforce unreasonable policies created by those that do not understand the games (R11, 3). • Some game companies eliminate specific problems with gold farming (using bots or not) by contacting the local public security and	• Users can access foreign games in Chinese internet cafes if they have American accounts (R8, 4). • Virtual property claims can be very difficult to pursue because the game companies can decide everything (R10, 2). • Both gold farm workers and game players are being exploited for labour: *'The results are the same. They are like the bees. The honey will be taken away' (R2, 30).* • Gold farming is likely to help the economy (R8, 7). • After 2008, gold farming has moved out somewhat from China to places like Russia (R1, 8).

	issued to every level of government, each with its own version. These are very detailed documents (More than 10 pages) (R2). • The most recent internal document was issued in 2010 and contains detailed instructions about the division of labour among different government departments. Within these instructions, the creation of the State Internet Information Office is outlined (R2, 16). • The SIIO was designed to be a coordinating body between the central government and the ministries below it (R2, 16). • The government subsidizes the production of Red Games. These use socialist ideology because it is safe content that is safely different from Western culture: *'The government's intention is that it wants to develop more and more cultural products with the so-called socialist ideology. But nobody knows what kind of ideology it is…They believe that the real practice will be back to the …revolution tradition. That's*	asking them to shut down the studio involved. The illicit money is all given to the public security authorities and the studio is no longer a problem for the game (R11, 5): *Our company's boss gets in a bad mood, sends someone to contact the local public security and shut down the underground studio; we give all the stolen money to the public security the studio doesn't influence our game, all is well (比如我们公司老大心情不好了，派人联系某地公安，打掉当地黑工作室，赃款都给公安没工作室影响我们游戏就行了) (R11, 5).* • The fact that underground workshops do not pay tax puts them at risk for being shut down by game companies:	

	ironic, actually. Because normally, on the one hand, nobody believes that…but the CCP …is not currently able to reproduce a new kind of culture which is much different from Western culture or from revolution culture. So they will not do it' (R2, 25). • High-level involvement is likely the only way the dispute between MOC and GAPP can be resolved (R5, 2). • Interest groups like the Internet Society of China are officially independent but are in fact closely connected to government: *'The chairman of the society or whatever is possibly some retired officials' (R6, 7).* Informal relationships with current regulators possibly exist: *'We can still see some kind of current people still work on some things for interest groups' (R6, 8).*	*'In China, paying taxes is legitimate and someone will protect you. If you don't pay taxes, this is illegal, business activities cannot go on' (在中国，交了税就是合法的，会有人保护你。不交税就是非法的，商业活动做不下去的) (R11, 5)* • Game companies can develop successful policy input through the following paths: ○ Through the relationships forged between the owners of large game companies and the government department officials (R8, 3). ○ Apply for preferential conditions such as	

	• Self-regulation is one relevant means of policy development, which allows interest groups like the Internet Society of China to function as issuers of policy: *'In China they also believe in self-regulation. So I think the Internet Society of China and also individual groups, they're also able to make some kind of new rules' (R6, 7).* • The courts are officially independent, but inevitably is subject to external influence (R6, 8). • The CCP always uses moralistic terms as a pretext for action: *'The Communist Party being a very moralistic, at least, rhetorically moralistic regime, always trying to clamp down on something like [online protest] in the name of protecting the children. And you can always use that as a pretext' (R12, 2).* A case example from was given where moral pretext was used to	subsidy. This would increase the opportunity to be in contact with the government, thus affecting the formulation of government policy in this process (R8, 3). ○ Companies contact government departments ○ Companies participate in meetings (R8, 3). • Interaction between the regulator and the companies is the process for creation of rules that make sense (R5, 4). • Game companies try to create as direct access to the regulators as possible. This access is based on personal contacts. This is because the policy texts do not reflect practice:	

	punish a media executive from the Southern Metro Daily. • In general, demonstrations are managed to take advantage of supportive sentiments while preventing protests from turning inwards against the authorities (R12, 1). • Policy for emerging media is kept very general in order to not leave any uncovered holes in the regulation as new issues emerge (R7, 1). • Some local governments actually set up gold farms and recruit entrepreneurs to run them in order to generate local economic benefits. The respondent described interviewing gold farming bosses and others familiar with the industry: *'Some of the operations were set up by local governments inviting these gold farming entrepreneurs there to run the gold farm. So, organizing employment for the local village or small town' (R1, 7).*	*'When you're looking at your average regulatory documents or notice or whatever it is for the regulator, it might raise more questions than answers, or there might be rules in the book that no one pays any attention to, or there might be a rule somewhere that's just not written down anywhere' (R5, 5).* • Game companies *'draft their terms of service and their End User License Agreements in such a way that it lets them do whatever they want to do, for the most part' (R5, 7).* • The development of games in China that operate primarily on microtransactions represents a co-opting of the gold farming industry:	

	• The 执法 department has ultimate capacity to force game companies to implement policies (R11, 3). • Court rulings about virtual property rights supported gamer interests over game company interests initially because the games industry did not have very good connections to the Chinese government. Now they do, but they are hesitant to let cases go to court in case there is a ruling against them (R1, 21). • Political problems on the internet can now be solved through technical control. A case example was given where technology was used by the USA to find Osama Bin Laden (R8, 9). • Corporate influence on China is limited by two key factors: 1. The institutional set-up of China's government 2. Intense market competition prevents the industry cooperation necessary for successful lobbying (R9, 4). • State-sponsored organizations like game industry groups *'serve as a way for the industry companies to*	*'In places like China, the game publishers and designers...would think about ways to incorporate the gold farming industry into their own design...that's exactly what they did, you know, for a lot of Chinese games, domestic games. So why not sell virtual property directly to gamers? Why do they have to go through a middle man...So, a lot of games did that and then there's this term "Asian games"' (R1, 21).* • Some of the profit made by the VIE are not transmitted to the Wholly Foreign-Owned Entities (WFOEs). This is because some of the revenue must be kept inside the country for tax reasons.	

	communicate with the state and try to come up with policy' (R5, 4). • Self-regulatory initiatives are government-driven (R5, 4). • The drafting process for regulation does not permit for much feedback from stakeholders (R5, 5). • Policy texts are only part of the legal framework: *'The legal system is not, for lack of a better word, as legalistic as the Western system where the rules are written down in a very clear fashion' (R5, 5).* • There are many internal documents at all the different regulators and government organizations that are not shared with the outside world (R5). • The GAPP power over online games depends on the definition of publication. This is very vague because of media convergence. Shanda was identified as an example of a games company that overlaps into other media traditionally considered publication:		

	'*It operates the online games and it also operates the literacy website…So you cannot clearly define what kind of behaviour is a publication' (R2, 10).*		
Critical Issues raised	• Gold farming may technically be illegal because the gold farmers have agreed to the EULA, which applies to them through the "governing law" where the agreement was made. If this is on an American server, this is American law (R3, 15). • The regulations for virtual currency do not strictly apply to gold farming. This is because the text does not include, in its definition of "virtual currency", the currency that is accumulated in and traded by players in online games. The regulations instead define "virtual currency" to only be the currency that is bought with real PRC renminbi and that can only be used to purchase in-game items or services (R3, 29). • The lack of capacity for enforcement is not always a legal issue, sometimes it's a technical issue (R3, 31). • The incorporation of enterprise and government may happen in the case of big companies like QQ and Baidu, just as it happened with telecommunications corporations. This would steer the government in the direction of economic over political logic, which is dangerous: *'All their information and their lives will be controlled by the [only] companies. That's the most – and people are willing to accept that- that's the most dangerous' (R2, 40).*		

	• Decision-makers for online games policy in China are old and do not understand the essence of online games or their user base. As a result, they do not think carefully about the game policies but just want to encourage economic development while preventing children from playing: *China's decision-makers in this area are 40 or 50 years of age, their children are in middle school, they could all easily be going to play online games, so they don't think carefully about the laws of these games, they just want to allow the game companies to make money - it's useful for economic development, they want to allow the game companies to make money, but they don't want a lot of students to go and play, they think students still need to go to school, so they want to restrict the groups that play the games' (中国做决策的这部分人都是 40 或 50 岁的人，他们的小孩都在上中学，都很容易去玩网络游戏，所以他们并不会仔细思考这个游戏的规律，他们只是又想让游戏公司赚钱----对经济发展还是有好处的，他们希望让游戏公司赚钱，但是他们又不希望有很多学生去玩，认为学生还是要上学，又想限制玩游戏的群体。) (R8).* • It is very difficult to understand the size of the gold farming industry (R8). • The amount of data needed to regulate real-money trade of virtual property is large, so this presents a regulatory challenge (R10, 1). • Taxing the virtual economy presents a challenge because each company has its own tax model (R10, 1). • It is technically much too difficult to regulate the virtual economy, nationally or internationally. Critical issues include: 1. The tax rate: each developer has its own tax model for transactions, different countries have different business models (ie. free-to-play vs. subscription-based) 2. Some companies are licensed, but some (like gold farms) are not, so there is no way to implement taxation The respondent noted: *'The Chinese government is powerless in the face of the virtual economy' (对于虚拟经济，中国政府有心无力) (R10, 3)。*

	• Research is needed to determine how to solve problems of social unrest, as games are a likely venue for future popular unrest. This is difficult because researchers are told to focus on government problems rather than social problems: • There is a generational division of opinion on online games that currently prevents it from becoming a technology that, like tv, newspapers, and reading, can become something that brings families together. The use of internet cafes exacerbates this problem: • One respondent directly involved in policy development saw online games as the latest in a teleology of media that brings family together (R1, 1): *Just like television, it's at an early stage and also as a matter of fact influences family relationships. In the past, the whole family would read, read the newspaper, and chat together; Later on, television became the centre of family communication. Currently games are still not able to do this, children play in the house themselves while adults watch television. I think this is the future development direction for games. (就像电视，它早期实际上也是影响家庭关系的。以前，全家人一起读书、看报、聊天；后来，电视成为家人沟通的内容。游戏现在还做不到，孩子关在屋里自己玩，大人看电视。我觉得这是游戏未来的发展方向) (R9, 1).* • The current problem facing the Chinese government is how to adapt to a more effective and rational use of the internet (R9, 3). • There is currently no legal basis for how to handle virtual assets in China. A case example was given about splitting virtual assets in the case of divorce. There is therefore no legal basis for the potential development of international agreements related to virtual assets (R9, 5). • International agreement use to regulate something as large as the virtual economy would be very difficult because multi-lateral cooperation is difficult to enforce. Challenges to the use of international agreements to regulate this area include:

	1. There is no way to enforce them short of military enforcement, or an elaborate framework like the WTO. But even then, the 'enforcement mechanism …ultimately still comes down to nation-states themselves' (R5, 11). 2. Harmonization would be very difficult because the view taken towards the internet in different jurisdictions is vastly different. An example was given contrasting the US and China: *America is supporting transparency and the freedom of information and action, and China is recognizing the economic utility of the internet, but still wanting to maintain control over the means of disseminating information on a mass scale. That's a pretty different approach. So…what would be the scope for cooperation on harmonizing the internet regulatory policies between China and the US? (R5, 12).* • The jurisdictional issues raised by cross-border real-money transactions like gold farming are significant and highly complex. • A secondary reason the ESRB rating system cannot exist is because competitors are not willing to cooperate with each other to be voluntarily subject to such a system. • Should QQ decide to engage in Real-Money Trade, the government may not have the technical capacity to prevent it (R2, 23). • The server-side control of online games means that the power and control is moving from the end-user to the centralized control of media companies. This raises critical issues as media convergence causes information to be centralized and controlled in one place: *Respondent: What if the game industry is combined with other areas like news, e-banks, instant message? ..and that's like cloud computing. And people only need, only like a QQ account. They will log into the central server. Then, I think that's a problem. Because all my identity, all my personal information, will be analysed and predicted by the companies*

	Interviewer: And then use it to design games that will get you more addicted? *Respondent: Yes, that's the ideal picture (R2, 32).* • The online games industry creates many derivative industries, companies and jobs, so it has a great effect on the economy. Gold farming is one of these (R8, 8). • Game companies face two primary issues when navigating the regulatory landscape: 1. What is going to cause friction 2. What are the priorities of the person behind the rules (R5, 3). • Success for Chinese game companies in foreign markets is difficult due to the impatience and short-sightedness of Chinese developers (R11, 8). • Cognitive capitalism: online games and other new media companies exploit the labour of users to make money and do not compensate them. The players enjoy the game, but their enjoyment utility is highly disproportionate to the profits enjoyed by the game companies due to their time and their energy: *'There's an analogy…that the game players are like bees: they produce honey, but finally the honey is taken away' (R2, 26).* • An international labour union is very necessary to regulate cross-border virtual work (R2, 29). • There is a need for more theoretical research to provide solutions to cross-border labour exploitation (R2, 41). • There are no clear rules that allow for user property rights over virtual assets. Case examples of conflicting judgments over virtual property rights were given: in one case, virtual property rights were recognized, in the other, a spouse was unable to inherit virtual assets (R6). • Academic understanding of the issues needs to understand the economics, policies and communities (R1, 7). • The gold farming industry does not seem to be growing like other industries (eg., data entry), and therefore policy development may not be as important (R1, 7). • The gold farming industry is an ideal model for ICT *development 'because it's self-financing, self-sustaining financially' (R1, 8).*

	• *"The main social issue of gaming in China is different from that in the States of in the UK or in Europe...all games affect children's school work' (R1, 9)* • Gold farming poses a labour exploitation problem because it is unregulated: *'Anything can happen there, like rip-offs, exploitation, and like owing salaries. A lot of them when they closed down...the boss would disappear owing months of [salary]...There are no laws protecting these kind of people' (R1, 12)* • There are real life social and political implications of user activity in online games and these are not regulated. A case example of the deliberate spread of racist ideology was given. A second case example of real-life violent protest against game companies was given (R1, 15). • The only party that can advocate on behalf of the user regarding the contracts with games companies (and therefore the legality of gold farming) is the government. Market forces keep these contracts in check to some degree because the game companies don't want to upset their customers (R5, 8). • One tax issue raised by the gold farming issue is that the party that does the hiring in China is paid offshore (R5, 8). There would likely be the same kind of tariffs applied to any 'service industry that is happening cross-border where there is not actually manufactured products that are going across' (R5, 9). • People in authority in China, both state and non-state actors, have different instincts about transparency and participation than in the United States. This creates a challenge for potential collaboration for international regulation (R5, 5). • Virtual property rights in China are leaning toward company rights (R6, 11). • There are no enforceable regulations to tax gold farming transactions because evaluating income is impossible, since many of the companies are not registered or licensed (R5) (R10, 2). • Key decision-makers are not even aware of the gold farming industry (R8, 12). • Real-money trading outside the game rules allows the rich to do whatever they want in the games; this way, the government, businessmen, plug-in users and underground studios will benefit: *'Game culture is a microcosm of Chinese society ' (游戏文化其实就是中国社会的缩影)(R11, 5).* The disadvantage is that this destroys the balance of the game (R11, 5).

	• The primary stakeholders in gold farming are: *'The public sector, the government departments, and the private sector, the online game companies, and the users, I believe…these three players are involved' (R2, 8).* • There is legal confusion surrounding the legality of gold farming. Most respondents said it was not prohibited explicitly, so therefore it was not illegal, however one respondent directly involved with policy stipulates that gold farming is illegal and prohibited (R1, 2-3).
Directions for Policy Development	• Essentially, the gold farming business model is an outsourcing model (R5, 6) and would likely fall under the same law as any other outsourcing or manufacturing operation in China (8). Gold farming just forms part of the wider trend toward globalization of labour (R14). • Monitoring games and communication through converged media for sensitive activity should not be a problem. This is because:

	1. The government controls the network infrastructure and can know all information necessary through this channel, even with use of VPN. 2. The government can hire many people to monitor online games and to learn and understand the colloquialisms and abbreviations used. 3. When new software is used, the government will develop new software to manage it, the process is a technology race (R8). • The government does not have the ability to detect gold farming, because it's all underground, and therefore very difficult to detect or evaluate (R2, 27-29). • One respondent directly involved in policymaking saw online games as the latest in a teleology of media that brings family together (R1, 1): *Just like television, it's at an early stage and also as a matter of fact influences family relationships. In the past, the whole family would read, read the newspaper, and chat together; Later on, television became the centre of family communication. Currently games are still not able to do this, children play in the house themselves while adults watch television. I think this is the future development direction for games. (就像电视，它早期实际上也是影响家庭关系的。以前，全家人一起读书、看报、聊天；后来，电视成为家人沟通的内容。游戏现在还做不到，孩子关在屋里自己玩，大人看电视。我觉得这是游戏未来的发展方向) (R9, 1).* • Gold farming will never be illegal (R1, 28). • If large industries emerge based on real-money trade, the zhifa will intervene and tax them accordingly (R11, 4). • User activity in games will not affect policy development, because this can be address by the game companies and technical enforcement (R11, 7). • The future of online games development prospects will be like international stock or commodity exchanges. We must change the rules so that everyone converges. But because the whole world's online games development is not mature, the policy is not the same. There should be a reform process until it becomes the same (R8, 8).

	• The government should work to change the social stigma of careers related to online games play because it can be an economic revolution similar to the Stock Exchange, without any means of production that consumes no energy while creating unlimited value (R8, 9). • The government will not work to replace RMT mediating agents because they perform a function the government doesn't have the capacity for (R8, 12). • R3&4: likely to tend toward simplification and shortening of the license approval process • R2: Likely to try to maintain control without destroying the industry. Eventually, government seems to be moving more toward becoming corporatized and is likely to adopt corporate business models that centralize people's information. This is dangerous. But for now, it's still more propaganda-oriented and that is a good thing. • Political activity in online games is likely to be very closely supervised (R6) • An international approach will be more useful in the future (R6) • Second Life and other similar games will not be allowed in China: *'It's very easy to organize protests in some virtual environments, so I think the government will not allow such a possibility' (R2, 43).* • Policy should work to keep political logic separate from commercial logic in order to prevent the corporatization of government. Currently, revolutionary ideology is the only weapon currently available to the Chinese government: *'I believe that China is still a magic nation, a magic country. And it has many possibilities in the future…[a new socialist] theoretical tradition could provide some weapons to …provide some answers to questions like cross-border labour exploitation' (R2, 41).* A new theoretical framework must be developed, more research is needed. This research must take place in an environment that allows for government criticism (R2, 41).

Other/general observations	• The uncertainty about regulatory control is a characteristic of many areas of the developing economy in China (R5, 2). • Gold farming probably helps local economies in China (R6, 10; R1).

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