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Abstract

The rise of the platform economy has triggered regulatory responses globally (Kenney and Zysman 2016; Kenney et al. 2021). In the last year, China has taken a leadership role in imposing regulatory limits on its domestic online platforms. The regulatory change is affecting the platform management strategies as well as the globalization investments of Chinese online giants. Using Tencent as an example, this paper illustrates the relationship between the regulatory change and shifts in platform expansion strategies. As gaming and social networks are increasingly regulated in domestic China, Tencent is turning to the global market to grow. Two distinguishing characteristics are identified in our paper. First, Tencent’s investments in the gaming industry have shifted from mobile games to PC and console games, suggesting a shift from importing global games to satisfy domestic demand to a model that emphasizes serving international consumers. Second, Tencent has accelerated the building of data centers internationally, providing cloud services to game producers, nearly all of which have received investments from Tencent. Interestingly, the preponderance of the new investments has been in Europe, suggesting a geographic change of Tencent’s global expansion due to the deepening rift between the US and China.
I. Introduction

During the last approximately 18 months, there have been significant macro-political events. First and foremost, the trade war with the US has grown in intensity. Regulatory uncertainty had already affected global investments and transactions. More recently, the Chinese government has dramatically shifted its stance toward its platform firms towards one within which there will be far more regulatory oversight (McKnight et al. 2021). While the emergence of this new regulatory regime is still underway, it already appears to be having an impact as Chinese platform business groups (PBGs) are reconsidering their domestic businesses and their overseas investment strategies. In this paper, we explore the reactions of one of China’s two largest PBGs, Tencent, to this rapidly evolving environment.

Chinese firms have developed an alternative industrial structure to that of the US West Coast firms (Jia and Kenney 2021). This PBG model evolved in the unique Chinese market and regulatory environment. However, given the unique character of the model, Chinese firms have found it difficult to achieve significant traction overseas with the possible exception of Southeast Asia where, using joint ventures and acquisitions, Chinese firms have had significant success (Jia et al., 2018). More recently, there have been exceptions, in particular, the global success of TikTok suggests that their previous inability to appeal to consumers outside Asia may be changing.

One of the most important reasons for the rise of the PBG model in China is because of the loose domestic regulatory environments where mergers, acquisitions, subsidies, etc., were largely tolerated. However, since 2020, as China intensified its regulatory burden on online platforms, whether the PBG model would remain unchanged or be modified becomes a new question. Additionally, the regulatory changes in the domestic market is affecting the Chinese online giants’ global expansion strategies. Tencent is an iconic example. According to Refinitiv, for the first six months of 2021, Tencent has consummated a record of 16 deals in Europe and 34 globally in sectors such as social media, gaming and fintech. This is compared with four overseas deals in the same period in 2020 and three in 2019 (Ruehl and Riordan, 2021). Similarly, Niko Partners reported that Tencent has closed 51 video game-related deals as of May 10, 2021, of which 39 were domestic companies and 12 were foreign. The total
The number is already greater than the 31 deals closed in the whole of 2020 and over five times more the number closed in 2019. More interestingly, none of the 2021 Tencent investments are located in the US, while Europe and Southeast Asia are now the main targets (Niko, 2021).

The domestic regulatory change and global expansion strategy transition of Tencent provide some insight into how the PBG model might evolve in the new geopolitical and regulatory environment. This will also provide insight into how Chinese platform firms are reacting to a changing domestic and global political economy. Additionally, our research suggests the ways by which western incumbents may be challenged in the near future.

The paper is organized as follows. The next section describes the Chinese platform economy and the emergence of the PBG model. Section Three describes the recent changes in the Chinese regulatory regime and its impact on Tencent’s key businesses in fintech, games, and social networking. Section Four briefly describes some of the recent changes in Tencent’s global expansion strategy and compares this with previous strategies. In the concluding discussion, we explore the implications of these changes in terms of global expansion and the development of the PBG model.

II. Contexts for Chinese Platform Economy

The Heterogeneity of Online Platforms

The platform economy is now impacting countries and businesses globally (Nambisan et al. 2019). The general tendency has been to focus on the supposed universal characteristics, nearly all of which were drawn entirely from the US experience and, in particular, the Silicon Valley ideology (Kenney and Zysman 2020). Previous research on platform characteristics is drawn from a long-standing tradition in economics that identified the following features of successful platforms, which suggested that they exhibited the following phenomenon: lock-ins (Arthur, 1989), winner-take-all markets (Arthur, 1996), network effects (Parker & Van Alstyne 2005), long-tail distributions (Brynjolfsson et al. 2006), etc. While these characteristics are not exclusive online platforms, they seem to exhibit the outcomes of these markets. More specific research on online platforms has remarked upon how they organize
multisided structures (Rochet and Tirole, 2004) and exhibit a modular architecture (Baldwin and Woodard, 2009) that requires the provision and management of boundary resources (Eisenmann et al., 2010). These studies have explored intra and inter platform competition dynamics (Gawer, 2014; Eisenmann et al., 2011), as well as the platform’s growth and expansion strategies (Aversa et al. 2020; Hagiu, 2009).

Because of the dominance of the US West Coast online platform firms, until very recently, researchers have largely ignored the fact that different political economies might be able to generate varieties of platform economic arrangements (Wang and Coe, 2021). The lack of attention to the impacts of political context on online platformization has been hypothesized to be related to the scientific management approach since the 1950s (van Tulder et al., 2016). Focusing on factors like firm-specific capacity, market mechanisms, and industrial architecture, management researchers overlooked the political economic factors that might cause differences in the platform structures and strategies. As we indicated previously, the Chinese case shows that a global-class industry with quite different organizational characteristics could emerge (Jia and Kenney, 2021). Globally, five platform firms, Amazon, Apple, Facebook, Google, and Microsoft appear to have achieved dominance. Chinese online platform leaders, Alibaba and Tencent, were, until the Chinese government’s crackdown on platform giants in 2021, also listed in the world’s ten most valuable firms due to the remarkable power in the Chinese economy. Alibaba, Tencent, and the other Chinese platform firms have been developing global-class competencies in a number of software-based and other online technologies. Given the enormous but largely protected market, online platforms in China were confronted with a different political economic context within which they could evolve and develop competencies. However, only a few, thus far, such as, Tiktok and Shein, have been adopted by consumers outside of China. In other words, though the US West Coast model was not the sole way of organizing the platform economy (Kenney and Zysman 2016; 2020), until recently, it was the undisputed dominant one.

Platform Business Group Model of Chinese Online Platforms
Business groups are “firms which though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to take coordinated action” (Khanna and Rivkin, 2001). Of course, business groups are not a new organizational form and have been common in emerging economies (Carney et al., 2011; Yiu et al., 2005). They are composed of a population of firms that are independent but linked together through equity holdings, cross-marketing their various products, purchasing from each other, and directing commerce to their various constituent members (Khanna and Rivkin, 2001). The difference between a platform business group (PBG) and traditional business groups is that the platform firm is the linchpin, not, as in the case of the Japanese keiretsu, the main bank. Moreover, though there are a few exceptions, the crossholdings are not a network with each of the firms in the PBG owning stock in the others, but rather a hub-and-spoke design with the platform firm having bilateral relations with other members (there a few exceptions such as JD.com, Tencent, and VIPshop’s arrangement). These online firms created the PBG model because of the unique problems they faced in the domestic market (Jia and Kenney, 2021).

In contrast to the US online platforms that only used acquisitions and organic expansions as a growth model, Chinese firms developed two other expansion strategies: joint stock cross-holding arrangements with other internet and non-internet firms and spinning-off divisions through sale of partial ownership in public or private markets -- the classic case of this was Alibaba’s failed spinoff and listing of its financial operations, Ant Financial. In addition, the Chinese platform giants used open source software, commoditizing the operating system and introducing higher-level services, such as super apps and payment services that they leveraged to privilege their PBG partners.

**Regulatory Contexts and Chinese Platforms’ Global Expansion**

The differences between Chinese online giants and those in the US highlighted the neglected importance of political economic context in framing the structure and strategy of online platforms. Despite the extremely rich ecosystems of the PBG model in the domestic market, Chinese online giants still have much difficulty expanding globally.
As we stated, one of the critical reasons to explain the rise of the PBG model of Chinese platform firms was the loose domestic regulatory environment (Jia and Kenney 2016). Clearly, US firms expanded horizontally and channeled traffic; there were regulatory limits. Moreover, the structure of the PBG model has proven to be difficult to export. The great Chinese overseas successes, TikTok and Shein, did not even try to export the PBG model globally. The US platform giants are built upon controlling layers in the stack to capture value from the entire industry, like Google owning Android while Apple benefits from the AppStore (Kenney and Pon, 2011) or vertical applications such as Search. The Chinese online giants had lacked the bottlenecks in the stack that their US analogues had developed, thereby making it challenging for them to compete in the global market. In contrast, they developed “killer” services such as Alipay or WeChat that became their own bottleneck services. However, due to the nature of these applications, their customer base was largely confined to the domestic market. Given the huge scale of the Chinese market, they could still enjoy impressive growth that during the early period may have impeded their motivation to go abroad. For example, after a series of unsuccessful globalization efforts, Baidu finally withdrew its overseas operations to concentrate on the domestic market.¹

However, the rise of the platform economy has triggered regulatory responses globally (Cioffi et al., 2021; Van Dijck et al. 2018). Influenced by Karl Polanyi’s concept of the double movement, societies globally are reacting to the power of the platforms and thus the domestic environments for which platforms are evolving (Kenney et al. 2020). This tendency has also affected China. Therefore, the impact of the domestic regulatory environment change on the globalization strategy of Chinese online platforms is interesting to explore.

III. Regulatory Change in China

The Chinese government was considered to be a loose regulator concerning online firms. Not only were mergers between leading companies broadly permitted, but also there were rarely anti-trust or anti-unfair-competition investigations against online platforms. One milestone case illustrating the relatively weak position of regulators was the disputes between

¹ One of the typical incident was Baidu closed down its Japanese search engine in 2015, after 8 years muddling through in Japanese market.
the State Administration for Industry and Commerce (SAIC) and Alibaba at the very beginning of 2015. The SAIC announced that in a sampling inspection, 63% of the products sold on Alibaba’s online Taobao marketplace were found to be “inauthentic”, meaning they were fake, discredited or came through unauthorized channels. However, Taobao responded to the SAIC, questioning the validity of the sampling methods. In response to the accusations, the SAIC released a white paper demanding the reforms of Taobao. Although Alibaba agreed that the platform should be responsible for the governance of inauthentic goods, the group insisted that the regulator’s law enforcement was “emotionally charged” and the procedure was illegal, therefore Alibaba filed a complaint against the SAIC department that was in charge of the investigation. Later, the SAIC announced officially that the white paper had no legal effect and Alibaba withdrew the complaint. As an article reprinted by Xinhua News Agency stated, this incident is “the most heated confrontation between the government and an enterprise in the era of Internet economy” thus far.

However, five years later, the regulators initiated far more stringent actions against the Chinese online platforms. In November 2020, the Ant Financial Hong Kong IPO was halted by domestic regulators, due to what they said was the potential systemic risk Ant might cause to the financial industry. Few people realized that the investigation against Ant Financial would initiate the promulgation of a series of regulations and investigation of the whole Internet industry, especially on the large online platforms. Since the end of 2020, the anti-trust investigation, for a variety of reasons, were initiated against the platforms. These included illegal requirements that customers must maintain exclusive relationships with one or the other of the e-commerce platforms, a lack of labor protection in the operations of gig economy platforms, and lax data security on ride-hailing platforms. Finally, new regulations were promulgated regarding platform news-feed algorithms. In other words, the investigation included a whole range of issues ranging from technologies to business models. Interestingly, the regulatory pressure was largely imposed exclusively on the online giants that had benefited most from the previously loose regulatory environments.

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In the case of Tencent, three related fields came under regulatory pressure, each of which was one of its main revenue sources. In Table One, we present the main sources of revenue and growth in 2020 for Tencent.

**Table 1: Tencent Revenue Sources and Growth from 2019-2020**

<table>
<thead>
<tr>
<th>Business</th>
<th>Percent of Revenue</th>
<th>Growth (yoy)</th>
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<tbody>
<tr>
<td>Value-Added Service</td>
<td>55%</td>
<td>32%</td>
</tr>
<tr>
<td>Games (included in Value-Added Service)</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>Online Ads</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>FinTech and Business Service</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Tencent Annual Report 2020

**Fintech and Mobile Payments**

As we discussed in Jia and Kenney (2020), Tencent was most successful in strengthening its PBG model in mobile payments by embedding it in its super instant messaging apps, WeChat and QQ. Introduced in 2014Q2, WeChat Pay enjoyed the benefits of the existing user base of WeChat while it strengthened WeChat’s network effects in turn. Until 2017Q4, WeChat Pay had accounted for 38.15% of all domestic online payments trailing only Alipay who occupied 54.26%.³ Together, they control the overwhelming share of the online payment market.⁴ Based on payment service and the transaction data accumulated from the users, Tencent developed the credit-rating scheme that allowed it to expand to other financial services like providing micro-loans, selling mutual funds, etc., thereby competing with the Alipay-Ant Financial services.

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³ China third-party mobile payment market up 27.9 pct in Q4. See [http://www.xinhuanet.com/english/2018-04/03/c_137085461.htm](http://www.xinhuanet.com/english/2018-04/03/c_137085461.htm)

⁴ China third-party mobile payment market up 27.9 pct in Q4. See [http://www.xinhuanet.com/english/2018-04/03/c_137085461.htm](http://www.xinhuanet.com/english/2018-04/03/c_137085461.htm)
Most of these platform firms had experienced very little regulation-- in fact, the government was very supportive of their growth (McKnight et al. 2021). One of the few enforcements were in 2015 and 2017, when Tencent was investigated by the Central Bank and State Administration of Foreign Exchange for violating the financial regulations. However, the penalty of less than 1 million RMB was minimal. At this time, Tencent was judged to be a neutral intermediary and not a financial institution. However, in 2021, similar to Alibaba, the government’s view changed and Tencent was required to separate financial services from the payment service. The payment systems were not considered to be financial institutions that should be put under the much tighter financial market regulations. Regardless of penalties, the modification of the regulatory oversight of its business model had a far more serious impact on Tencent’s revenues and ability to make decisions.

**Gaming Industry**

The global gaming industry grew rapidly during the pandemic. Tencent’s gaming business is an iconic example of the PBG model (Coe and Wang 2021). However, the Chinese gaming platforms now confront far more regulatory scrutiny in their very lucrative domestic market. In 2021, the Ministry of Education initiated a nationwide reform aimed at developing what it believes is a healthier and more active environment for students. One of the most surprising new policies was to ban the after-school tutoring industry. This was implemented to limit the pressure on students to constantly prepare themselves for examination, thereby providing more time for exercise. The result of these sweeping new rules that the entire, largely online, private education industry business model, the largest firms of which had been listed on US markets, were put at risk of becoming defunct.

The reforms were not limited to education. The gaming industry was affected when the National Press and Publication Administration (NPPA) issued a policy requiring that minors under 18 be blocked from playing video games for more than three hours a week with a maximum of one hour a day. Although Tencent declared that minors were not a significant source of revenue, as they made up only 2.6% of its total in 2021Q2, the investors still expected a negative impact on the future growth of the gaming industry.
Still other regulatory challenges to the gaming industry came from antitrust investigations. For example, Huya and Douyu, the two largest live game-streaming firms in China, which are listed on the US market, had planned to merge, but the merger was vetoed in July 2021 by the State Administration for Market Regulation (SAMR). This affected Tencent because it is the largest shareholder of Huya and holds more than 1/3 of the shares of Douyu. This merger was in keeping with the previously accepted PBG model. This contrasted with 2015, when four large mergers between DiDi and Kuaidi, Meituan and Dianping, 58 and Ganji, and Ctrip and Qunar, all leading companies in an industrial vertical, were approved with no questions asked.

Social Networks
The social network industry of Tencent is built around two super apps, WeChat and QQ. In contrast to western counterparts that are focused on vertical markets, Tencent leveraged its social network platform to expand horizontally to other industries, thereby strengthening its PBG model. In previous years, Tencent had invested in travel (Tongcheng-Yilong⁵), ride hailing (DiDi⁶), e-commerce (JD⁷, VIPShop⁸, Pingduoduo⁹), local delivery services (58.com¹⁰, Meituan-Dianping¹¹), a search engine (Sogou¹²), telecommunications (China Unicom¹³), a short video platform (Kuaishou¹⁴), an online car retailer¹⁵ (Guazi, Renrenche),

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¹³ Alibaba and Tencent among investors in China Unicom. See [https://www.ft.com/content/cf5d76ca](https://www.ft.com/content/cf5d76ca)
live broadcasting (Huya\textsuperscript{16}, Douyu\textsuperscript{17}), news (Qutoutiao\textsuperscript{18}), and other services. Receiving Tencent’s investments gave firms the ability to secure traffic driven by Tencent’s services such as WeChat. These alliances increased data sharing and through analysis of the data could allow a more complete picture of users to target advertising. For example, almost immediately after the Tencent-JD cross-investment in 2017, the two firms announced the launch of the JD-Tencent Retail Marketing Solution that was meant to integrate “insights on consumer behavior from Tencent’s social platforms with online and offline shopping data from JD and its brand partners.” With this they claimed to have developed “the industry’s most comprehensive toolkit for understanding consumer shopping behaviors and enable more precise target marketing and greater impact for brands”.\textsuperscript{19}

The PBG model that was central to Tencent’s business model is now receiving regulatory scrutiny. The current concerns for regulators are data security risks and the anti-competitive practices. In 2021, two important laws, <Data Security Law> and <Personal Information Protection Act>, were passed establishing a comprehensive and strict regulatory environment concerning the individual data rights and collective data security. However, these directly affected the existing business model practices of the platform firms as their current practices likely do not comply with the new rules. For example, the Ministry of Industry and Information Technology (MIIT) announced in August 2021 that WeChat illegally utilized the users’ contacts information and location data for commercial purposes and demanded modifications of the super app.

This is difficult because the PBG strategy depends upon the super apps channeling traffic to other services that Tencent invests in. Further, Tencent had closed its ecosystem to competitors thus forming a “walled garden” that excludes competitors, but this is violating the new competition laws. In September 2021, the MIIT demanded that online platforms should stop blocking competitors’ links and to open those links to each other’s instant

\textsuperscript{16} Chinese gaming firm Huya prices IPO in New York at $12 per share. See https://www.reuters.com/article/us-huya-ipo/chinese-gaming-firm-huya-prices-ipo-in-new-york-at-12-per-share-source-idUSKBN1IB37F
\textsuperscript{17} Tencent Invests $632M In Chinese Online Game Streaming Platform Douyu. See https://www.chinamoneynetwork.com/2018/03/08/tencent-invests-632m-chinese-online-game-streaming-platform-douyu
\textsuperscript{18} Tencent-backed Qutoutiao files for U.S. IPO. See https://www.reuters.com/article/us-qutoutiao-ipo/tencent-backed-qutoutiao-files-for-u-s-ipo-idUSKBN1L22BV
\textsuperscript{19} JD and Tencent Change the Game Again for Big Data Marketing. See http://ir.jd.com/phoenix.zhtml?c=253315&p=irol-newsArticle&ID=2309340
messaging platforms in an effort to create a fair and open competitive environment. As a result, WeChat and QQ had to drop their traditional practices that blocked external links from apps like Taobao or TikTok.

The result of all of these Chinese regulatory changes has been that the PBG model is now being forced to evolve in new directions. In the next section, we will explore how this might be change their strategies regarding overseas markets.

IV. Tencent’s Global Expansion Strategy Shift

We once argued that despite the extremely rich ecosystems within the protected Chinese market, the PBG model that Chinese online giants formed would be difficult to transfer to global markets (Jia et al. 20218). At the time, we argued that there was little evidence that they posed a significant threat to West Coast platform firms outside of the gaming industry. One of the important reasons is that the regulatory environment in global markets would be less likely to accept the horizontal expansions and acquisitions that allowed the creation of the PBG model. Of course, the relatively large domestic market in China also weakened the motivations of online platform firms to expand internationally where they normally had to compete with West Coast incumbents. For example, in late 2000s, Baidu once had ambitions to expand its search engine service globally. After experiencing limited success, Baidu withdrew from most of their oversea businesses and refocused on the domestic market. Even for Tencent, despite enormous investments on the globalization of WeChat, the super app still was unable to challenge the incumbents like the Japanese messaging app, LINE, and the US messaging app, WhatsApp.20

However, as domestic regulatory pressure increases, it has become difficult for Chinese platform giants to continue benefiting from the domestic institutional voids that helped establish the PBG model. As a result, these firms have been forced to invest overseas to compete with local incumbents instead of staying in the domestic market. The accelerated global investments of Tencent in 2021 illustrate this response to the domestic regulatory changes.

Tencent’s overseas investments have increased in 2021 (see Table 2). This is particularly evident when comparing 2016 to 2020 investments to those in mid-2020 and mid-2021, after the change in the Chinese regulatory regime. In the first half of 2021, Tencent made 163 investments with a total sum of 93.1 billion RMB domestically and globally (Qichacha 2021). In contrast, in the first half of 2020, Tencent only made 60 investments. Moreover, Tencent’s investments were concentrated in games and business services. In the first half of 2021, Tencent had 50 investments in the gaming industry and 33 in business services. Many of these investments were in the domestic market, however, it is the oversea investments that were more salient, both for Tencent and the understanding of the future expansion strategy of Chinese platform firms. Gaming and business services are critical for Tencent’s overseas expansion strategy shift. Further, due to the US-China trade conflicts, Tencent has halted investing in US companies and shifted toward Europe.

**Table 2: Total Sum of Tencent’s Investments (2016H-2020H)**

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<tbody>
<tr>
<td>Sum/Billion RMB</td>
<td>80</td>
<td>146</td>
<td>354</td>
<td>417</td>
<td>540</td>
<td>844</td>
</tr>
</tbody>
</table>

Source: Financial Reports of Tencent

**A Shift to PC and Console Games in Europe**

With the deepening rift between the US and China and the implementation of new regulatory regime in China, Tencent’s investment geography has changed significantly. To illustrate, in the first half of 2021, of the 12 overseas gaming investments by Tencent, seven were in Europe (see Table 3).

**Table 3: Investments in Gaming Industry of Tencent in Europe**

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumo Group</td>
<td>UK</td>
<td>PC, Console and Mobile Game Developer and Distributor Support</td>
</tr>
<tr>
<td>Dontnod Entertainment</td>
<td>France</td>
<td>PC and Console Game Developer</td>
</tr>
<tr>
<td>Bohemia Interactive</td>
<td>Czech Republic</td>
<td>PC Game Developer</td>
</tr>
</tbody>
</table>

*See https://www.yicai.com/news/101025473.html*
Coe and Yang (2021) showed that Tencent used mobile gaming production to increase their market power (Coe and Yang, 2021). Tencent had concentrated its investments in the mobile gaming industry, including some of its most important transactions like Supercell and Riot Games. It also invested in Epic Games, which is a multi-platform gaming firm. In 2021, Tencent appears to have pivoted to PC and console games.

There were two important reasons for Tencent initially emphasizing mobile games. First, Chinese access to the Internet was overwhelmingly through mobile devices. Second, as a large PBG Tencent had an organizational advantage by which it could utilize its powerful mobile distribution network to advertise and even persuade Chinese users to play mobile games. In other words, Tencent’s foreign investments were in mobile games that it could then introduce to domestic consumers. This can be seen by the fact that in 2020 only 21% of Tencent’s total games revenue was from outside China.22 Prior to the government crackdown, which recently extended to government-mandated hourly limits of gameplay per week for young persons, the Chinese gaming market was extremely attractive.

The “import-games-into–China” strategy changed in 2021, as can be seen by the fact that all seven of its 2021 investments in Europe were in PC and console game developers. In the global markets, mobile game profits are limited because the Google Play Store and Apple AppStore receive 30% of all revenues generated by a game, therefore capturing a large share of total profits. In contrast, in China the application store is controlled by Tencent.

As PC and console games are more popular outside of China and profits are higher, these investments indicate that Tencent aims to diversify its gaming revenue model by expanding beyond mobile games. Additionally, this shift might also be a shifting signature of Tencent to

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yager</td>
<td>Germany</td>
<td>PC Game Developer</td>
</tr>
<tr>
<td>Stunlock Studio</td>
<td>Sweden</td>
<td>PC Game Developer</td>
</tr>
<tr>
<td>Fatshark</td>
<td>Sweden</td>
<td>PC and Console Game Developer and Distributer</td>
</tr>
<tr>
<td>Remedy Entertainment</td>
<td>Finland</td>
<td>PC Game Developer</td>
</tr>
</tbody>
</table>

22 See https://nikopartners.com/tencents-silent-pursuit-of-global-gaming-domination/
be a real global game producer and distributor serving global consumers rather than just importing games for domestic users.

Another change of the expansion strategy is the geographic transition from the US to the EU. According to our database prior to 2020, of Tencent’s 30 oversea investments in gaming industry, nearly 50% were in US firms, while less than 20% were in EU firms. The EU investments included firms such as Supercell, Miniclip SA, Zam, Paradox Interactive, etc. (Jia et al., 2018). It can be hypothesized that the trade war between China and the US, and the regulatory uncertainty in both countries, has led Tencent to the EU as an ecosystem for investment.

The Expansion of Business Services Operations in Europe

While gaming has received the most investment from Tencent, it has also invested in business service firms, particularly in fintech, and been establishing data centers. In the first quarter, 2021, total business service revenues were 39 billion RMB (US $6 billion) and experienced an annual growth rate of 47%. Further, business service revenues were 27% of its total revenue and increased to the second largest source of revenues. The most important source of the increase in revenues was the payment platform embedded in WeChat. Tencent used the relationships with its affiliates to embed the WeChat payment function into all of its activities and those of its PBG partners, thereby directing payment to itself.

Strategically, Tencent has wanted to export its business model globally. However, it has very little success. For this reason, Tencent has invested in overseas payment service providers hoping it could participate in their success in their home markets. For example, in 2020, Tencent led Lydia’s $45 billion Series B funding round while Lydia’s executives say frankly that the company wants to create a financial hub within the payment app to offer customers a suite of financial services, a strategy very much similar to WeChat payment.²³

Given its increasingly large global footprint, Tencent has been establishing data centers overseas. Data centers are the core of cloud computing and for large firms establishing their own data centers provides independence from depending on a data center owned by a

²³ See https://techcrunch.com/2020/01/15/mobile-payment-app-lydia raises-45-million-round-led-by-tencent/
potential competitor such as Google, Amazon, Microsoft, etc. In June 2021, Tencent announced it had established four new data centers, three of which were in Asia (Bangkok, Thailand; Hong Kong and Tokyo, Japan) and one in Europe (Frankfurt, Germany). As of 2021, Tencent operates in 68 of what it terms “availability zones” globally. In Europe, it operates five centers located in Moscow (1), London (1), Amsterdam (1) and Frankfurt (2).

The increase of oversea data centers suggests that it is experiencing growing cloud service demand, much of which is driven by the gaming empire it has built. For example, prior to being acquired by Tencent, Supercell relied upon Amazon for cloud service, but it has since transitioned to the Tencent cloud.24 Further, some have suggested that in the future all of Supercell’s mobile games might be hosted by the Tencent Cloud.25 Given the difficulty of challenging Amazon or Microsoft or even Google on enterprise compute customers, the online gaming industry is likely the way Tencent can gain traction in the global cloud service market.

V. Discussion and Conclusion

Illustrated by the case of Tencent, we show that the changes in the domestic regulatory environment of China has driven the Chinese online giants to more actively explore the foreign market for growth. When the Chinese regulatory environment was supportive, the Chinese platform giants created the PBG model and exploited the rapidly growing and largely protected domestic market. After the regulatory regime shift, the PBG model itself has become a target of regulations, forcing them to accelerate the globalization strategy. However, this does not necessarily mean that the PBG will fail. More likely, it will evolve into a different configuration.

In 2021, Tencent’s overseas investments accelerated. Moreover, the expansions appear to be different from those undertaken earlier. Firstly, in the gaming industry, the expansion of Tencent from mobile games to PC and console games, whose investments largely located in Europe, suggest the possible shift from merely satisfying domestic demands to serving

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international customers. Secondly, it is accelerating the building of data centers internationally, but, in particular, in Europe and Southeast Asia. By providing cloud computing services to online games, Tencent could internalize its gaming industry traffic. It might even be possible to challenge the western cloud service incumbents, including Amazon and Microsoft. The equity investments in independent gaming firms that are then connected to Tencent cloud services is a typical strategy of the PBG model. This suggests a possible transitional form compared with the domestic model that is built on super apps and payment platforms. The next question would be whether Tencent could leverage payment provision or create a super app in foreign markets.

The US has traditionally been the market that received the most investments by Tencent. However, given the deepening trade friction with the US and regulatory uncertainty, Tencent’s investment patterns have changed. Tencent has ceased investing in US firms, while increasing its investments in Europe. Despite some critics arguing that gaming industry investments should also be under review for data protection and national security concern, most of the transactions were not being examined.\(^\text{26}\) It is possible there will be future investigations of Chinese gaming acquisitions, if it turns out that the gaming investments are judged to violate individuals’ data rights or somehow pose a national security risk.

Generalizing from a single case study with regards to the strategy impact of the emerging regulatory regime in China is risky and our results are tentative. The changing regulatory environment appears to have created an impetus for the Chinese platform firms to look abroad for new markets and Europe, with its strong gaming industry, has proven attractive for Tencent. Thus far, it appears as though in terms of gaming the European governments have not considered these firms of sufficient national security, technical know-how, or systemic importance to consider blocking Chinese investment. The future evolution of Tencent’s globalization strategy in Europe will, in part, be determined by the geopolitical conflict between China and the US and the domestic regulatory developments.

\(^{26}\) See https://www.politico.eu/article/china-tencent-video-game-industry-investment-europe/
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