Alibaba's $2 billion gaming exit signals where Beijing wants its money

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Alibaba is getting rid of its video game development arm for more than $2 billion, removing the Chinese tech giant from the in-house game development space entirely as it looks to double down into the AI sector.

Alibaba has agreed to sell Lingxi Games, the studio behind the mobile hit *Three Kingdoms: Strategy Edition*, to private-equity firm Trustar Capital, *Bloomberg* reported. While the studio is reportedly valued between $1.5 billion and $2 billion, the companies have not publicly disclosed a price.

"Alibaba is handing Lingxi to Trustar due to better focus on its strategic priorities," Lingxi CEO Zhou Bingshu wrote in an internal staff memo according to *Reuters*.

Some of those strategic priorities for Alibaba include AI and cloud computing, which currently sit at the center of Beijing's economic strategy.

"It's just cleaning up the cap table," Rui Ma, a China tech analyst and founder of China-focused research platform Tech Buzz China, told *Fortune*.

In February last year, Alibaba pledged about $53 billion over three years on AI and cloud infrastructure, more than it spent on those areas over the previous decade. In May, CEO Eddie Wu told analysts the company would likely exceed that figure thank to increased data center buildout costs. The company is targeting $100 billion in AI revenue by 2031.

From having 'many pieces on the board' to AI and cloud

Alibaba's sprawling strategy made more sense when its dominant e-commerce business was throwing off enough cash to fund bets across a wide range of industries.

"It's just purely them executing on their plan of cleaning up non-core assets, making returns higher," Ma said.

But domestic competition from companies including Pinduoduo and Meituan changed that equation.

"They couldn't just kind of ride the cash flow from e-commerce and then just invest in whatever is interesting," she said. "They had to really focus." Ma described Lingxi as a remnant of an earlier Alibaba that tried to put "many pieces on the board."

Gaming was also never one of Alibaba's strongest businesses, according to Ma, with rival Tencent being a global gaming powerhouse—but AI offers a different proposition.

Alibaba entered the AI boom with one of China's leading cloud businesses already in place, giving it both the infrastructure needed to build AI products and a potential way to monetize them. Ma said Alibaba has maintained a strong position in Chinese cloud missing word while developing a credible model strategy, although competition remains fierce.

Beijing's playbook

The commercial logic is only part of the picture, according to Usha Haley, a professor at Wichita State University who has researched Chinese state support for domestic companies and testified before Congress.

For Haley, strategic decisions by large Chinese companies cannot be neatly separated from Beijing's industrial priorities. Chinese companies, she said, have strong incentives to put resources into sectors the government has identified as strategically important like AI and cloud infrastructure.

"Alibaba–and this is all like all the private companies that we've spoken to in our research–it just has to see where government interests lie, and the government interests are clearly communicated," Haley told *Fortune*.

Alibaba’s Qwen models have pushed the company into the global AI race. Users downloaded Qwen’s open-weight models more than 3 billion times over the previous six months, putting Alibaba ahead of Meta and Google by that measure.