

China Business

Dec 5, 2006

WAL-MART
SHOP NOW
SAVE WITH THE
WAL-MART PRICE.

China's virtual currency threatens the yuan

By Kent Ewing

HONG KONG - As if Chinese leaders did not have enough of a headache trying to manage the country's rising but still undervalued currency in the testy world of international trade, now the growing popularity of virtual money enters the already complex equation.

The so-called "QQ" coin - issued by Tencent, China's largest instant-messaging service provider - has become so popular that the country's central bank is worried that it could affect the value

of the yuan. Li Chao, spokesman and director of the General Office of the People's Bank of China (PBOC), has expressed his concern in the Chinese media and announced that the central bank will draft regulations next year governing virtual transactions.

Public prosecutor Yang Tao issued this warning: "The QQ coin is challenging the status of the renminbi [yuan] as the only legitimate currency in China." In an article published recently in the Nanfang Daily, the prosecutor wrote that the central government would act to "limit the application of QQ coins" and assure that their use is restricted to the virtual world.

Tencent argues that Yang and the PBOC are overreacting, and some Internet analysts agree. Nevertheless, there is no question that the virtual-currency trend is catching on in China, and the endgame is unclear.

Tencent boasts more than 220 million users, and its QQ coins can be purchased with a bank, telephone or "QQ" card at an official price of 1 yuan (12.5 cents) per coin. Originally, the virtual coins were designed to pay for Tencent services such as electronic greeting cards, online games and anti-virus software. Now, however, they have reportedly developed into an alternative currency traded on the black market and used for other, less savory services, such as online gambling and private chats with "QQ girls".

Xinhua, China's official news agency, reports cases of people earning thousands of yuan per month trading in QQ coins, which they can win by playing online QQ games that pay out one coin for every 10,000 points earned. Xinhua also reports that the operators of some Internet forums are now paid in QQ coins rather than the official currency. And there is evidence that other online sites not associated with Tencent also accept QQ coins.

In addition, unofficial online vendors have sprung up to take advantage of QQ fever. They accumulate large numbers of coins by hiring professional game players to win them and also through gambling ploys, inside connections at entertainment companies and even by hacking into user accounts and simply stealing them. Then they sell the virtual currency below its official value, at a rate of 0.4-0.8 yuan per coin.

Tencent introduced the coins in 2002 as tokens to pay solely for

Print this article

Email this article

Currency converter

Comment on this article: Go to



RELATED ARTICLES

[The perils of yuan parity](#) (Dec 1, '06)

Ads by Google

[China Currency](#)
Safe, Fast Online Money Transfers. MoneyGram eMoney Transfer. eMoneyGram.com

[Free Currency Quotes](#)
Free Premium & Custom Charts
Free Real-Time Charting
www.futuresource.com

[China Currency Report](#)
New report on China's currency, and where investing opportunities lie
www.investmentu.com

[Collectible Coins](#)
Searching for collectible coins? See our collectible coins guide.
CollectibleCoinDirectory.c

free
is the
key!



Select Your State :

Select...

A Free Online Instant Quote Can Save You up to 25% On Your Auto Insurance.

Over 200 companies. Point, click, buy, save.

OPEN FOR BUSINESS

AN OFFER AS GOOD AS GOLD

AMERICAN EXPRESS BUSINESS
3782 456789 01017
J.J. MILLER
MILLER & ASSOCIATES

APPLY NOW

its online services and disavows any connection with this illicit trade

"We do not have a mechanism to transfer unused QQ coins back to the yuan," the company said in a statement, "and we do not support transactions made with QQ coins via dubious means."

While there is no reason to doubt the Tencent statement, it is also true that the booming business in third-party sales of QQ coins clearly benefits the company. As there is an official premium on the number of available coins, a certain number of them are regularly removed from circulation, ensuring that new coins are always in demand from Tencent.

Tencent's service operates much like MSN Messenger, except that it is part of a virtual economy whose currency is the QQ coin. Its users tend to be high-school or university students who spend an increasing amount of their time in cyberspace. And they are not just playing games and listening to their favorite music; many are also living alternative lives that can lead to the purchase of anything from virtual clothes to virtual pets to virtual automobiles.

A small purchase - say, a pair of virtual Nike sneakers - may not cost much, but a whole wardrobe can add up. And don't forget the decorations for your chat avatar (a digital representation of a user in virtual reality) - that, too, will cost you.

QQ coins also allow Tencent users to flout China's tough anti-gambling laws - which, despite more than 50 years on the books, have largely failed to curb the Chinese desire to place a bet. The company's game platform offers mahjong and a variety of card games with betting options, and Tencent takes a 10% cut from all bets.

In the end, it's hard to know whether Tencent will have to face the regulator's music on the moral or the economic question or both. But it's never a good sign when the central bank lines you up in its sights.

The PBOC has vowed to keep a sharp eye on the QQ phenomenon lest the coins enter general circulation, influencing the already internationally sensitive value of the yuan. At present, sales in virtual money are estimated to add up to billions of yuan annually and to be increasing 15-20% each year.

Some US lawmakers - including Nancy Pelosi, soon to become Speaker of the House of Representatives for the 110th Congress - have accused Beijing of currency manipulation to keep the yuan at an artificially low rate against the US dollar and other currencies. They threaten trade sanctions unless China acts to allow the yuan's value to appreciate more rapidly.

The yuan has appreciated 3.56% since it was revalued by 2.1% in July last year, and the currency reached a post-valuation high of 7.8313 to the dollar last week. But US Treasury Secretary Henry Paulson, who is to visit Beijing this month, is pushing for a much faster rate of appreciation.

So far, virtual currency has had no perceptible impact on the yuan. But the central bank is worried about a future in which the popularity of virtual money grows to the point where it jumps from virtual to real goods.

But this possible scenario has drawn skepticism from many analysts - primarily because true convertibility between the yuan and the QQ coin would expose Tencent to enormous financial risks. It's unlikely the Internet company will want to embrace the role of the Virtual Bank of China.

In the end, it's more likely to be the morality police than the financial regulators who come knocking at Tencent's door.

Kent Ewing is a teacher and writer at Hong Kong International

GET A DECISION
IN 60 SECONDS

- GET A \$100 STATEMENT CREDIT WHEN YOU SPEND \$100
- EARN 100,000 POINTS OR MORE IN YOUR FIRST YEAR
- FIRST YEAR FEE-FREE – A SAVINGS OF \$125

click to apply now

School. He can be reached at kewing@hkis.edu.hk.

(Copyright 2006 Asia Times Online Ltd. All rights reserved.
Please contact us about [sales syndication](#) and [republishing](#) .)

[Ads by Google](#)

University of Wales MBA

online Executive MBA at Robert Kennedy
College Zurich

wales.college.ch

All material on this website is copyright and may not be republished in any form without written permission.

© Copyright 1999 - 2006 Asia Times Online Ltd.
Head Office: Rm 202, Hau Fook Mansion, No. 8 Hau Fook St., Kowloon, Hong Kong
Thailand Bureau: 11/13 Petchkasem Road, Hua Hin, Prachuab Kirikhan, Thailand 77110