


March 30, 2007

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

QQ: China's New Coin of the Realm?

Officials Try to Crack Down As Fake Online Currency Is Traded for Real Money

By **GEOFFREY A. FOWLER** and **JUYING QIN**

March 30, 2007; Page B1

HONG KONG -- China's fastest-rising currency isn't the yuan. It's the QQ coin -- online play money created by marketers to sell such things as virtual flowers for instant-message buddies, cellphone ringtones and magical swords for online games.

In recent weeks, the QQ coin's real-world value has risen as much as 70%.

It's the most extreme case of a so-called virtual currency blurring the boundaries between the online and real worlds -- and challenging legal limits. A Chinese Internet company called **Tencent Holdings** Ltd. designed the payment system in 2002 to allow its 233 million regular registered users to shop for treats in its virtual world. Virtual currencies are in use in many countries -- but nowhere have they taken root more deeply than in China.

Selling virtual amusement to China's Internet community, the world's second largest, is big business. Tencent, a company listed on the Hong Kong stock exchange and famous in China for its penguin mascot, retails QQ coins for one yuan (13 cents) each, and also awards them for free to top-scoring videogamers to keep them playing. QQ's virtual universe is a marketing tool too -- used by the likes of **Coca-Cola** Co. for promotions.

According to one government estimate, the total volume of trading in virtual items in China last year was worth about \$900 million. About 45% of that went for items in the Tencent world.

Then last year something happened that Tencent hadn't originally planned. Online game sites beyond Tencent started accepting QQ coins as payment. The coins appeal as a safer, more practical way to conduct small online purchases, because credit cards aren't yet commonplace in China.

At informal online currency marketplaces, thousands of users helped turn the QQ coins back into cash by selling them at a discount that varies based on the laws of supply and demand. Traders began jumping into the QQ coin market as an opportunity to make a quick yuan off of currency speculation.

State-run media reported that some online shoppers began using QQ coins to buy real-world items such as CDs and makeup. So-called QQ Girls started accepting the coins as payment for intimate private chats online. Gamblers caught wind, too, and started using the currency to get around China's anti-gambling laws, converting wins in online mahjong and card games back into cash. Dozens of third-party trading posts sprouted up to ease transactions, turning the QQ coin into a kind of parallel currency.

Here's how the transactions work: A small-time retailer offers QQ coins for sale at her online shop at a discount price -- currently about .8 yuan. Customers then pay the seller yuan through a debit card, money-order transfer or special online payment systems such as Paypal. The retailer then transfers the QQ coins to the buyer's account, like one might do with air miles, or even just gives the buyer access to her own QQ account (including username and password) where QQ coins are stored.

David Liu from Liaoning province started an online shop selling QQ coins a few months ago. He hasn't earned that much off his new side business yet -- "I only make several yuan a day" -- but for now, he's going to keep going. "It's fun and it doesn't hurt to get some pocket money if possible," says Mr. Liu.

The rapid rise of the QQ coin has caused angst for the government in China, where circulation and trade of the real currency is strictly controlled. Last month, 14 Chinese ministries and China's central bank together waged a QQ coin crackdown of sorts, calling on companies to stop trading them in order to prevent money laundering.

"The People's Bank of China will strengthen management of the virtual currencies used in online games and will stay on the lookout for any assault by such virtual currencies on the real economic and financial order," the ministries and bank said in a joint statement.

Without mentioning QQ coins specifically, the statement said that the government will bar users from trading virtual currency for real money, and ordered sites to make a distinction between online credits (like QQ coins) and real money used for e-commerce.

Tencent says it never aimed to mint money and says the company doesn't consider QQ coins to be virtual currency. "We agree that we should prevent online virtual money from being used illegally, such as for money-laundering. But QQ coins are not anything like that," says a company spokesman.

Nonetheless, Tencent is stuck cleaning up a very real mess. It sued one of the country's top online auction sites, [Taobao.com](http://www.taobao.com)¹, for allowing the sale of QQ coins on the Web site at market prices. The case has been

accepted by the court and is now being considered.

Tencent also responded to the government pressure by cutting the amount of coins users can transfer from one person to another, and shutting down its service for exchanging game wins into QQ coins, drying up liquidity in the market.

Around the globe, a real-world trade has emerged around virtual assets. Estimates vary wildly, but some analysts put the world-wide real-money trade in virtual assets at more than \$2 billion, most of which changes hands in South Korea and China.

Some virtual currencies are used to buy property, tools and other assets in virtual reality worlds, such as Second Life. Most, however, have been designed to reward gamers and allow them to upgrade their play. Even though many game publishers technically forbid trading their online currencies for real money, gamers dubbed "gold farmers" try to make money by winning online assets and selling them for cash to less successful players.

In January, **eBay** Inc. banned gamers from selling virtual game assets. But a thriving industry of virtual trading sites has filled the vacuum. One of the largest, IGE.com², beckons on its site: "Virtual currency burning a hole in your pocket? Make some real life money selling your currency to the safest and most reputable trading company in the industry." There, a "Level 75 Tarutaru," an advanced character in the game Final Fantasy XI is selling for \$599.99.

Economists say virtual currencies work like any other currencies, so long as people trust the institutions behind them. The U.S. dollar, which lost its gold backing in 1971, survives because people trust the U.S. government.

The trouble starts when a virtual currency that isn't backed by a trusted government, becomes linked to a real one that is through an exchange rate. Virtual currency brokers call that RMT, or real-money trade. When that happened to the QQ coin, it effectively turned into a parallel currency operating alongside the yuan, says Yiping Huang, the chief Asia economist of Citibank.

The creation of too many QQ coins, he notes, could, in theory, create a surge in China's total money supply, leading to inflation. While few think a QQ monetary crisis is likely, assessing the economic impact is difficult because Tencent won't say how much QQ coin is in circulation.

"If I were a policy maker, I would certainly be very cautious," says Mr. Huang.

But so far, though, regulations -- or even legal protections -- for virtual assets are scarce around the world. This week, a Chinese court sentenced a former executive at Chinese online gaming company **Shanda Interactive Entertainment** Ltd. to five years in prison for virtual embezzlement. Along with two accomplices, the programmer who was in charge of creating assets for the game Legend of Mir II created his own virtual assets without permission and then sold them for \$260,000. He says he plans to appeal since there aren't any laws in China covering virtual assets.

In February, five Chinese Internet companies including Tencent issued a joint statement urging the government to regulate the game-credit and virtual-property trade. "The problem is that the auction sites

sometimes serve as channels for the sale of stolen game and instant message accounts," the companies said.

Tencent estimated that they could lose tens of millions of yuan every year due to stolen QQ coins and other crimes.

"One thing for sure is that the regulators want to control the impact from virtual currency, but in the meantime, they don't want to hurt outstanding companies like Tencent, who have been running really well in all other sectors and have been contributing to the economy," says Liu Bin, an analyst at BDA China, a market research firm, "but it could take the policy makers and legislators years to enact a law."

Despite the Chinese government warnings, people continue to trade QQ coins. The new capital controls, in fact, have given them new scarcity value, driving up the price by 70% in recent weeks, says Milly Chen, who trades QQ coins.

"Over the past months, the system has been getting more complicated to transfer credit, and there is less supply" she says.

--Lina Yoon contributed to this article.

Write to Geoffrey A. Fowler at geoffrey.fowler@wsj.com³

URL for this article:

<http://online.wsj.com/article/SB117519670114653518.html>

Hyperlinks in this Article:

(1) <http://Taobao.com>

(2) <http://IGE.com>

(3) <mailto:geoffrey.fowler@wsj.com>

Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.