

VIRTUAL MONEY IN CHINA

by

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Information technology is developing at a thriving pace. This fact causes that the more traditional area of law is being outpaced by IT. Virtual money is just one of the proofs. The basic idea behind the virtual money is as simple as the real money – an exchangeable medium. But what is perfectly understandable for non-lawyers might sometimes come into conflict with the law.

Because the beginning of virtual money was more or less unrestrained the first problems began to emerge with the widespread of new technologies. The legal nature of electronic money is still unclear in many countries because the traditional legal doctrine does not have any appropriate terms for it. The analogy is sometimes very questionable and there are many possible solutions.

On the other hand there is little will to solve the problems of virtual currencies because it is not the primary field of interest of the legislature. This means that the problems are usually being solved by the national courts in separate cases. Different judge might have a different approach which implies inconsistency.

China as a very specific country nowadays has started to observe the IT trends. The result is that the Chinese started to adopt their approaches to the online property and have started to regulate virtual currencies. Even though we might disagree with the given arguments, it is interesting to analyze the current situation. This project reveals some of the regulation and cases that are present in China.

KEYWORDS

Virtual money, China, Q coins, gold farming, MIT BBS

1. THE CONCEPT OF VIRTUAL MONEY

Before analyzing the situation in China, it is essential to make a few remarks about the virtual money in general. This chapter describes the nature of vir-

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tual money which is considered to be a part of so called “virtual property”. It explains the basic concepts of the virtual money and virtual worlds with some of the legal implications that are to be observed. The term “virtual property” is also quite new to the world of law and not everyone uses the same definition of it.

1.1. VIRTUAL WORLDS AND VIRTUAL PROPERTY

The definition of a virtual world is not absolutely clear. They used to be called networked virtual environments. We could also somehow connect them with the term of virtual reality. Basically, they are computer programs that constitute an environment where users can interact with each other.¹

We can find two types of virtual worlds: gaming worlds and social worlds.² The former usually give the player control over so called avatar which is a representation of the player in the virtual environment. This group of virtual worlds could be represented for instance by World of Warcraft,³ EVE Online⁴ or Datang Online.⁵ Second Life⁶ for instance could be in the latter category. But that category might have a much broader definition and therefore could include almost any virtual community (forums, BBS, newsgroups etc.). These virtual worlds are used by millions of people so they are huge platforms for social interaction, trade and creativity.

As Duranske mentions, the term virtual property “simply refers to in-world objects that can be possessed by one user with the exclusion of others”.⁷ The virtual property should have these characteristics: rivalry, persistence and interconnectivity.⁸ However, these characteristics are still being discussed.⁹ The implication of these characteristics is that the virtual property does not have its value only in the virtual worlds but also in the real world.¹⁰ People demand the virtual goods and are willing to pay for it. And virtual money is along with other virtual items a part of the virtual property.

¹ Duranske, B. T. 2008, *Virtual Law: Navigating the Legal Landscape of Virtual Worlds*, American Bar Association, p. 4.

² *Ibid*, p. 5.

³ see: <http://www.worldofwarcraft.com>

⁴ see: <http://www.eveonline.com/>

⁵ original name: 大唐豪侠, see <http://dt.163.com/>

⁶ see: <http://www.second-life.com/>

⁷ Duranske, B. T. 2008, *Virtual Law: Navigating the Legal Landscape of Virtual Worlds*, American Bar Association, p. 86.

⁸ Fairfield, J. 2005, *Virtual Property*, *Boston University Law Review*, Boston University, vol. 85. no. p. 1054, <http://www.heinonline.org>, [Accessed 20 May 2010]

⁹ e.g. in: Carrier M. A., Lastowka, G. 2007, *'Against Cyberproperty'*, *Berkeley Technology Law Journal*, vol. 22. pp. 1484-1518, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=982026 [Accessed 12.5. 2010]

1.2. VIRTUAL MONEY IN VIRTUAL WORLDS

Virtual money has the same functions in the virtual worlds as the real money has in the real world. It is used as an exchangeable medium. Even though it is not a legal tender, it is also used in player-to-player trades. However, the virtual money and virtual property in general is not traded just in the virtual worlds but also in the real world.

At this point we can divide the virtual worlds into a few categories according to the connection between virtual and real money. The first type of virtual worlds is counting on the connection between real money and virtual money. The virtual currency is obtained by exchanging real money for virtual money. By doing so the conversion rate of virtual money is determined by the administrator of the virtual world. We could divide this category into two subcategories – the first would allow the users to exchange their virtual money back for real money while this would not be possible in the second subcategory. The other category would contain the virtual worlds which rely on the virtual world itself as a source of virtual money. This means that the virtual money is created in the world itself and the users cannot exchange their real money for the virtual money. However, even in these worlds, the administrators sometimes sell additional game items for real money. Similar division of virtual worlds is described by Jingzhi Guo and Angelina Chow.¹¹

The administrator of the virtual world usually determines the rules concerning the virtual money. This is usually done in the license agreements¹² of virtual worlds. The fact is that the virtual money is not traded just in the worlds where it is officially allowed but also in the other worlds.¹³ This business has been labeled as “Real Money Trading” or RMT. Not only single “items” or virtual money are commodities on this market. Even the whole accounts or avatars are being traded. The administrators are usually

¹⁰ An interesting example of this phenomenon has been recently shown in the World of Warcraft. New items called “Celestial Steed” and “Lil’XT” were created by the Blizzard Entertainment. “Celestial Steed” is a transparent Pegasus like horse that can be used by the player for quick travel and the “Lil’XT” is a robot “pet”. These items can be bought from Blizzard for \$ 25 or \$ 10 respectively. More than 140,000 players bought these items during the first day they were available. See Holisky A. 2010, ‘Queue for Celestial Steed and Lil’ XT is above 140,000’. wow.com, <http://www.wow.com/2010/04/15/queue-for-celestial-steed-and-lil-xt-is-above-70-000> [Accessed 10.6.2010]

¹¹ Guo, J., Chow, A. 2008, Virtual Money Systems: A Phenomenal Analysis [on-line]. Available from: <doi.ieeecomputersociety.org/10.1109/CECandEEE.2008.91> [Accessed 12.6.2010]

¹² e.g. Blizzard Entertainment 2008, World of Warcraft End User License Agreement, <http://www.worldofwarcraft.com/legal/eula.html>, [Accessed 25.4.2010] or Linden Lab 2009 Second Life Terms of Service, <http://secondlife.com/corporate/tos.php>, [Accessed 25.4.2010]

¹³ The World of Warcraft’s EULA is quite restrictive in this manner. Yet, there are still websites like <http://www.toonstorm.com/>.

trying to stop this trading because it could have some legal implications for them. These will be discussed in the next chapter.

1.3. LEGAL ISSUES OF VIRTUAL MONEY

When dealing with virtual money we should first try to answer one simple question. What is the legal nature of the virtual money? The virtual money has the same functions as the real money so it might lead to an answer that virtual money should be considered as real money. On the other hand – if you play a game like Monopoly, then the money there also fulfills the same functions but nobody would consider it real. The problem is that these games like Monopoly are not continual and there are not so many players as in the online game worlds. Casino chips would probably serve as a better example in this case.

The biggest problem of virtual money is the relation between the user and the virtual money he can control¹⁴ through his virtual world account. Does the user have any right related to this money? Actually he can operate with it when he is logged in the virtual world. But what happens when the virtual money he controls is “stolen” or when the game administrator decides to stop the operation of a virtual world? Does the user have a right to compensation? And what if a theft is made using a game mechanism? Can he sue the administrator or the thief?

The virtual world administrators are usually trying to avoid these situations. The Terms and Conditions or End User License Agreements usually deprive the user from any rights concerning the virtual property.¹⁵ This might be in conflict with the right to property of the users.¹⁶ But if we granted the user property rights it would constitute great responsibilities of the virtual world administrators and developers.¹⁷ For instance the players might demand some kind of compensation if their account is deleted.

Another issue is the public law regulation. From the point of the state, the virtual money could be viewed from many different ways. From the scope of administrative law there might be some duties for the issuers of the virtual money varying from the refund policy to registration. The issuers might also be under some kind of surveillance.

¹⁴ But even this kind of control is questionable. The user is always under administrator's supervision. See Nelson, J. W. 2009, 'Fiber Optic Foxes: Virtual Objects and Virtual Worlds Through the Lens of Pierson V. Post and the Law of Capture', *Journal of Technology Law & Policy*, vol. 19, pp. 14-17, <http://ssrn.com/abstract=1469532> [Accessed 25.4.2010]

¹⁵ See the End User License Agreement of World of Warcraft or Terms and Conditions of Second life mentioned in footnote 12.

¹⁶ Bellia P. 2004, 'Defending Cyberproperty', *New York University Law Review*, vol. 79, no. 6, p. 2176, www.heinonline.org [Accessed 12.5.2010]

¹⁷ Bartle, R., A. 2004, *Pitfalls of Virtual Property*, pp. 9-13, <http://www.themis-group.com/uploads/Pitfalls%20of%20Virtual%20Property.pdf> [Accessed 25.4.2010]

The virtual money might come into the scope of the central banks because they could be considered as real money and thus regulated in the same or similar manner. Another area of interest is the taxation of the virtual worlds. For instance in the world of Second Life the value added tax is being collected from EU users.¹⁸ But this applies only to transactions where Linden Labs as a company is involved. So the transactions between the users are free of VAT. But there are also other taxes that might apply to the virtual world transactions – for instance the income tax.

It is relatively easy to imagine a crime of theft in the virtual world. However, there are much more serious crimes that might be done using the virtual money. Virtual worlds seem to be a perfect place for money laundering. The lack of regulation might make it ideal for moving small amounts of money around the world without notice.¹⁹

There already have been some legal disputes in various countries of the world.²⁰ But China seem to be one of a very few countries that has reacted to the emerging virtual finance also in legislative way. The next chapters discuss the Chinese specifics.

2. CHINESE REGULATION OF VIRTUAL CURRENCIES

2.1. BACKGROUND

China is one of the biggest economies, but at the same time it is a country that has not fully developed the principles of free market. The official Chinese currency, yuan (元), is fixed to the US dollar and in view of many economists from the whole world, it's hardly underestimated (at least by 25%) to stimulate Chinese exporters and to give advantages to China in the international business.²¹ There are some plans on how to release the fixed exchange rate of yuan, but the Chinese government is careful about this step – step which can cause serious damages to the Chinese economy.

This situation is closely linked to the topic of this work – virtual money in China. The officials thought that uncontrolled virtual currencies (espe-

¹⁸ Linden Lab. 2008, Value Added Tax. <http://secondlife.com/corporate/vat.php> [Accessed 25.4.2010]

¹⁹ This might be used for instance in the low levels of Hawala. The concept of Hawala is explained in: Passas, N 2006, 'Demystifying Hawala: A Look into its Social Organization and Mechanics', *Journal of Scandinavian Studies in Criminology and Crime Prevention*. 2006, vol. 7 pp. 46-62. ISSN 1404-3858

²⁰ For instance the Dutch case where the court ruled that it is possible to commit a crime of theft by stealing virtual property. See Burns V., 2008, Ruling in the RuneScape Case 1 & 2. <http://blog.mindblizzard.com/labels/virtual%20law.html> [Accessed 10.5.2010]. Original text of the decision can be found at: http://zoeken.rechtspraak.nl/resultpage.aspx?snelzoeken=true&searchtype=ljn&ljn=BG0939&u_ljn=BG0939

²¹ Finance media. 2010, 'Američtí experti věří, že Čína letos povolí další posílení juanu.' *Financinovin.cz*. http://www.finance.cz/zpravy/finance/252922-americti-experti-veri-ze-cina-letos-povoli-dalsi-posileni-juanu/?id_tovar_2841=4073&t=1268923676 [Accessed 18.4.2010]

cially Tencent's Q coins) which were traded for the real world goods and services can widely harm Chinese economy – hypothetically in the same way as immediate canceling of the fixed exchange rate of yuan.

In an effort to eliminate (or to minimize) impact of virtual money to real state financial system, China officially banned using virtual money to buy real world services and goods. This new regulation took place in June of 2009, under the supervision of China Commerce ministry and China Culture ministry.

2.2. REGULATION SUMMARY

I will now try to summarize the Chinese regulation on virtual currencies with some possible consequences for users.²² First interesting thing is that this regulation doesn't involve the ingame money. One possible reason could be that the Chinese government don't have effective ways on how to regulate it. Second possible reason could be that operators of online games are against transfers of money between the characters, so it's not as serious threat for the Chinese economy as the other types of virtual currencies. There is definitely one problem: what if the operator allow the buying of items for the points and not the ingame moneys? That's quite a weakpoint of this definition.²³

In the second article, we can see the tendencies to build a shield between issuing the virtual currencies and providing exchangeable services (these two services can not be provided by one entity at the same time). This rule can be bypassed quite easily by running two subcompanies – one for issuing and one for exchanging. One thing, which is quite important, is that China finally recognized exchanging virtual currencies as a legal activity (before this regulation it was quite a grey, paralegal, zone).

The third article defines the “extra information” which will be needed to submit to the application documents for the registration (format of virtual currencies, unit price, termination method, payment method, technical security protection means, user right protection terms etc.) It is here to provide some basic rights to the user and to strengthen the whole regulation (you must stay within the conditions and means you provided at the beginning of your business).²⁴ Fourth article is quite similar to the third one.

²² Ministry of Culture and Ministry of Commerce of People's Republic of China. *Notice regarding online games virtual currency regulation* (original name: 文化部、商务部关于加强网络游戏虚拟货币管理工作的通知) Translations are taken from HORACE XIONG. 2009, *China Regulation on Virtual Currency*. <http://www.horacexiong.com/?p=777> [Accessed 24.4.2010].

²³ Ibid.

²⁴ Ibid. On this site are some rumors about the keeping the deposit reserve in the China Central Bank. As far as I am aware of it, it is still not confirmed.

There are definitions of the documents you need to add when submitting application documents. Fifth article is an administrative one (you need to submit information within 3 months).

In the next, the sixth article, it is noted that the operator should issue virtual currency strictly according to status and that it's not allowed to issue currency up to the limit (selling too many prepaid cards etc.) - this is one of the main aspects of the whole regulation: remove practically unlimited issuing of the currencies.

Seventh article is also one of the key articles – this one states, that the operators can provide virtual currencies to customers only for real money and not in the any other way (changing for real good etc.). Operators must also store transaction records for at least 6 months.

The eighth article, one of the most important one – currencies can be used only for buying services of the operator (issuer). This is the reaction for the fact, that Q coin became universal currency all over the Chinese Internet.

Ninth and tenth article are again about the rights of the users (customer service procedure, petition channel, duty to cooperate with the officials etc.).

Eleventh article is the first rule dealing with the termination of the operator's activity. When you want to terminate your business as the operator/issuer, you must publish the notice at least 60 days before the termination date. During this period, you must refund all the unconsumed currency by cash. It's also stated, that if your services are not accessible for at least 30 days, it's recognized as a "terminated" business.

Twelfth article – you can't change the unit price of your virtual currency. It has been determined since the beginning, you can't discount it or anything else. If you want to issue new currency, you must walk through the whole procedure from the beginning, as it's stated in article 3.

Article No. thirteen – if you're not planning to support virtual currency exchanging (or trading in general) you must technically ensure that transactions between accounts will be impossible.

Fourteen – when you're providing exchange services, you should require effective ID from the issuer. Issuer should bind the account with domestic real currency account under the same ID. Also you must store all the exchange and transaction record for at least 6 months.

Fifteenth article establishes duty of the exchange services provider to establish tracking system to search illegal operations. If there is any suspicious operation, provider must terminate or cancel it immediately.

In the sixteenth article it is stated that you cannot provide your services (as the exchange services provider) to people under the age of 18 years old.

Article seventeen – both of them, issuer and exchange services provider, should protect user's personal information security and provide cooperation and data to the government, if the government should do any investigation.

Article eighteen – if you are the online game operator providing the transfers of virtual money between the users, you also should keep your records for at least 6 months.

From nineteen to twenty-two – all service providers should not allow any gambling activities using their virtual currencies. If the user uses the real currency for buying virtual currency, game service provider cannot use random methods of distribution (betting, lotteries etc.) to give virtual currency to player. Providers of all services should cooperate with the officials to disallow any forms of game account thefts and similar activities.

Articles from twenty-three to twenty-six are about the punishments and market regulations. If you are running your business without appropriate government authorization, it will be cracked down immediately after noticing. If you violate any article of this regulation, you must fix it in the time given from the government or it will be cracked down. All providers should communicate regularly with the officials or together about the new methods of defense against game account thefts or similar activities. New methods should be shared between all of them, aside of the business confidentiality.

It is quite obvious that this regulation, even if it definitely isn't perfect, is quite revolutionary for the whole conception of the virtual currencies. China again shows an outstanding ability to find new ways of developing on the field of information technologies.

In this regulation, China is trying not to just protect their own economy (based on the underestimated yuan), but also to develop cyberspace into a safe world, where anybody cannot steal you or your account or use the Internet for money laundering.

So, to summarize, this regulation is not only to regulate virtual currencies, but to develop cooperation between providers in fight against cyber-crimes.²⁵

²⁵ Ibid.

3. CASE STUDIES

3.1. MIT BBS

MIT BBS was founded in 1996 by Chinese born MIT student Liu Jia. It's a Chinese language forum with more than one hundred thousand registered users and hundreds of discussion topics. Many of them are focused on helping Chinese people living in the United States and the forum is very popular among Chinese living abroad. Yang Wang conducted a two-year research of the forum with a focus on its virtual currency called new MB that we shall describe.²⁶

There are several ways of earning the virtual money. Since MIT BBS is a discussion forum, users are given 0.1 MB per post. Admins might label some post as highly quality awarding its author with 10 MBs. Admins themselves are earning some MBs as a form of "salary". Winners of weekly competitions might be given up to 50 MBs. Contributing to the business database called "Yellow Page" is rewarded by MBs as well. Admins of the discussion boards are allowed to create their special ways of providing additional the MBs to the users. Yang Wang mentions the fashion board that awards every user with 10 MBs for posting his own photo.²⁷

Users can give some of their MBs to another user. Yang Wang discovered several patterns of transferring MBs. Firstly, the promise of MBs might encourage other users to provide a satisfying reply to the given question. Secondly, users can give someone MBs to express his feelings towards him. The third pattern called "Ren Pin" is used in a situation when a user asked others to bless him or his close ones before an important event of his or their life. Giving MBs afterwards is recognized as a form of gratitude. MBs might be used to buy some virtual items for user's avatar. Yang Wang even discovered that MBs are rarely used as a reward in the real-world games or competitions.²⁸

According to the provided information, MIT BBS and its MBs definitely fall into the second category of virtual currency. It might be earned within the forum itself only and there is no possible way of buying MBs for real money.²⁹ The use of MBs is also strictly limited to the forum itself, since they

²⁶ In the past, the „old MBs“ were used as a currency, but it didn't provide all functions of the new MBs.

²⁷ Wang, Y. 2010, 'Incentives in the Wild: Leveraging Virtual Currency to Sustain Online Community', <http://www.ics.uci.edu/~yangwang/papers/iConference2010-AuthorCopy.pdf> [Accessed 28.4.2010], p. 2.

²⁸ Ibid., p. 2 – 3.

²⁹ It is theoretically possible to exchange the money for MBs, but this is not an official policy of the forum and Yang Weng hasn't provided any evidence supporting this theory.

can be either given to other users for reason outlined above or used to buy some virtual goods.

3.2. GOLD FARMING

Gold farming is a phenomenon closely tied to the massive multiplayer role playing on-line games (MMORPG) that extremely popular nowadays because of widely available broadband Internet connection. In the game, every player controls his own avatar that interacts with other players and computer controlled characters, also known as NPCs (non-player characters).

When a player creates an avatar, its skills and abilities are limited, but they can be improved by fulfilling some game activities. The process of improving avatar's skills is usually very time-consuming and it might take weeks or even months to achieve the highest available level. Many players want to play a game with a highly developed and well armed avatar, but they are too lazy to spend a long time improving his abilities and acquiring high quality equipment. Since they are willing to spend some money to acquire an avatar of high level, there are people and even companies trying to provide them to their customers.

So-called gold miners play the MMORPGs for their living, spending hours every day playing game and acquiring skills, virtual money and items. They don't necessarily work as „freelancers“, but might be employed by companies specialized in providing this kind of service. The labour conditions in these companies are somehow similar to the situation in the “regular” factories producing goods to be exported to the western countries. The shifts last for up to twelve hours and the salaries are quite low from Western point of view.³⁰ Nevertheless, Chinese gold miner can earn more money than his counterpart working in a sweatshop. An average salary of a gold miner might be around 150 USD per month.³¹

There are several similar ways of earning money in the MMORPG worlds. Firstly, there is usually some form of virtual currency used in the game that can be collected by the players who can use it to buy items of their choice afterwards. The gold miners perform repetitive money-making activities like hunting, gathering herbs or lumbering.³² Earned virtual money might be later exchanged with another player for real money in

³⁰ Dibbel, J. 2007, 'The Life of the Chinese Gold Farmer', The New York Times, June 17, 2007, http://www.nytimes.com/2007/06/17/magazine/17lootfarmers-t.html?_r=1&pagewanted=all [Accessed 28.4.2010]

³¹ Heeks, R. 2010, 'Real Money from Virtual Worlds', Scientific American, January 2010.

³² Dibbel, J. 2007, 'The Life of the Chinese Gold Farmer', The New York Times, June 17, 2007, http://www.nytimes.com/2007/06/17/magazine/17lootfarmers-t.html?_r=1&pagewanted=all [Accessed 28.4.2010]

what's called a real-money trading.³³ Similarly, a gold miner may sell virtual items, especially unique weapons or armor, in a manner similar to the previous pattern. Some gold farmers are specialized on improving avatar's skills. Therefore, they can either sell an avatar of the highest possible level to the customer, or "train" his own avatar. In this case, the customer provides his username and password to the gold miner and he will improve its skills up to the highest possible level. According to the sources, the price for this kind of service varies between 300 and 450 USD (NY Times, ebsco).^{34,35} Other source claims that an average "Adena farmer" playing Lineage II might earn as much as 3 USD per 12 hours shift.³⁶

In majority of the MMORPGs, this form of earning money is not allowed, since trading the virtual items for real money is prohibited by the license agreements. Anyway, this form of making business is highly successful, with more than 60 to 100 thousand working gold farming companies employing 100 thousand to one million gold miners.³⁷ Since trading virtual goods falls into the grey or black economy sector, exact figures are not known and estimates vary significantly. The annual value of virtual goods traded on-line is estimated to amount to 200 million up to 3 billion USD.³⁸

Gold farming is perceived very controversially in the gamers' community, because many of them consider the activities outlined above as a form of cheating.³⁹ Moreover, the gaming companies are afraid that gold farming might possibly damage the carefully balanced virtual economy of the gaming world.⁴⁰ To prevent it, the companies are adopting different measures supposed to make the farming more complicated and less attractive. These measures include banning accounts of the gold farmers, changing the rules of items transfers or patching the game to disable the autonomously operating bots performing repetitive money earning activities.⁴¹

The virtual money used within the MMORPG world was supposed to be the virtual money of the second category. According to the game rules, it can be earned by performing prescribed activities in the game world and

³³ Heeks, R. 2010, 'Real Money from Virtual Worlds', *Scientific American*, January 2010.

³⁴ Ibid.

³⁵ Dibbel, J. 2007, 'The Life of the Chinese Gold Farmer', *The New York Times*, June 17, 2007, http://www.nytimes.com/2007/06/17/magazine/17lootfarmers-t.html?_r=1&pagewanted=all [Accessed 28.4.2010]

³⁶ Steinkuehler, C. 2006, 'The Mangle of Play', *Games and Culture*, 2006, issue 1, p. 203.

³⁷ Heeks, R. 2010, 'Real Money from Virtual Worlds', *Scientific American*, January 2010.

³⁸ Ibid.

³⁹ Dibbel, J. 2007, 'The Life of the Chinese Gold Farmer', *The New York Times*, June 17, 2007, http://www.nytimes.com/2007/06/17/magazine/17lootfarmers-t.html?_r=1&pagewanted=all [Accessed 28.4.2010]

⁴⁰ Steinkuehler, C. *The Mangle of Play*, *Games and Culture*, 2006, n. 1, p. 205.

⁴¹ Heeks, R. 2010, 'Real Money from Virtual Worlds', *Scientific American*, January 2010.

spent on buying the virtual items. Possibility of buying skills or items for real money was probably never considered by the game providers. Anyway, since it takes a long time of playing to achieve high level of skills, the demand for so-called gold mining appeared. As a result, the virtual currency and items can be exchanged for real money and vice versa, making it a fourth type of virtual money. However, these trades are usually prohibited by the license agreements, which make them illegal.

3.3. Q COINS

Established in 1999, Tencent Company runs the QQ.com portal and a wide range of related services. According to the Alexa.com, QQ.com is the 10th most visited website in the world⁴² and the 2nd most visited one in China, following the search engine Baidu.com.⁴³ In the beginning of the 21st century, Tencent management had to come up with an efficient way of paying for some additional services, bearing in mind the state of payment systems in China and users' attitude towards on-line paying systems. In 2002, company introduced its own virtual currency called "Q Coins" that later became the most used virtual currency in China.⁴⁴

The way how the Q Coins work is quite simple. User transfers certain amount of yuans (RMB) to the account of the Tencent Company using either old-fashioned systems like post office or modern ones like e-banking or credit cards. When the company receives the payment, it converts the yuans into the Q Coins at the exchange rate 1:1 and stores them at user's virtual account. Buying virtual services or goods can be done using the virtual account without a need to transfer real money every time a transaction is made.⁴⁵ Virtual goods available for sale include clothes and furniture to decorate user's avatar and his virtual house.⁴⁶ Such a service completely eliminates the complications described above. When users run out of Q Coins, he might recharge his account by exchanging more yuans for Q Coins.⁴⁷

Q Coins is, beyond any doubt, the most popular virtual currency being used in China nowadays. According to the 2006 estimates, virtual goods

⁴² ALEXA.COM, 'Top Sites', <http://www.alexa.com/topsites> [Accessed 28.4.2010]

⁴³ ALEXA.COM, 'Top Sites in China', <http://www.alexa.com/topsites/countries/CN> [Accessed 28.4.2010]

⁴⁴ Wei, T. 2007, 'Virtual Currency, Real Discontent', *Beijing Review*, May 10, 2007, p. 32.

⁴⁵ Tian, H., Zhang, K. 2007. 'Internet Virtual Money Under Chinese payment Environment and Its efficiency analysis', <http://www.springerlink.com/content/92p628r21p774802/>, [Accessed 28.4.2010], p. 110.

⁴⁶ Ye, J. 2008, 'In China, plenty of chat room; Instant messaging explodes, highlights local Web-use trend.' *The Wall Street Journal Asia*, Hong Kong, May 22, 2008, p. 32.

⁴⁷ Tian, H., Zhang, K. 2007, 'Internet Virtual Money Under Chinese payment Environment and Its efficiency analysis', <http://www.springerlink.com/content/92p628r21p774802/>, [Accessed 28.4.2010], p. 110.

worth approximately 400 million USD were sold within the Tencet world using the Q coins.⁴⁸ Since the number of Internet users in China grows rapidly, the amount of trade is to be much higher in 2010.

Because of vast popularity of Q coins, originally designed to be used to buy virtual goods only, some online shops started accepting Q coins in the same manner as an official currency. There were even reports of so-called QQ girls doing striptease in front of a webcam in exchange for Q coins.⁴⁹ The largest Chinese auction server Taobao.com even allowed exchanging Q coins for real world money, causing a legal response by Tencet.⁵⁰

Q coins fall into the first category. Q Coins were originally designed as a virtual currency of the second subcategory, since it can be bought for real money, but its use is limited to virtual environment. However, since some shoppers started treating Q Coins as a real currency and it could be exchanged for yuans as well, it spontaneously turned into the type of virtual money falling into the first subcategory.

4. CONCLUSION

The problems involving virtual money have not been yet entirely settled. There are many forms of virtual money depending on the nature of the virtual environment. There is probably some private regulation needed. It can be questionable whether all the forms of virtual money need to be regulated by the public law.

Despite the fact that there are already countries trying to regulate it. China is among the first of them. Its situation is specific. It is a country which has a specific government and economy. Therefore the probability of having some regulatory rules tends to be higher in all areas of interest. The official reason is the fear of money laundering and the economic stability.

The regulation that has been issued by the Chinese Ministry of Commerce and Ministry of Culture is regulating mainly the public law aspects of virtual money. It regulates some issuers of the virtual money and forbids buying real goods and services for the virtual money. Apart from that it gives the issuers some more obligations like the duty to inform the users of ending its operation and to refund their money in such case. It also sets the rules for registration of such issuers.

Few of the most interesting practical issues connected with money laundering are the MIT BBS, Gold farming and Q coins. The MIT BBS was ori-

⁴⁸ Fowler, G. A., Qin, J. 2007, 'Dispatch: Virtual coins generate real cash, clash in China.' *The Wall Street Journal Asia*, Hong Kong, March 30, 2007, p. 36.

⁴⁹ Ibid.

⁵⁰ Ibid.

ginally a message board for the Chinese people living in the USA. It started to give away “MBs” for the activity of its users. These could be considered as virtual currency in the broader sense.

On the other hand the gold farming is a common problem not only in China. But since the labor is still relatively cheap in China compared to the western world, many gold farmers are from there. This might not be a problem for the government itself (even though we might consider some tax issues etc.), but it causes a lot of trouble to the virtual world administrators. The reasons for this are quite obvious because such trades might harm the atmosphere for the other users and it might also lead to constituting the value of the virtual property and challenge the rules set by the administrators regarding the virtual property.

The third chosen case is the Q coins, which are probably the most widespread virtual currency that is available now. They have been designed to be used just for buying the virtual goods. Later they became exchangeable for the real goods as well. There were already some counter-measures taken by the Chinese government because such currency might be harming the “stability”.

It will be interesting to see the reactions of other countries when a problem regarding virtual currencies rises up. They might either try to restrict usage of virtual currencies same way as China did or they might leave this market unregulated. The final decision will probably depend on the usage of the virtual currencies in a particular country and on the current political situation in that country. Because of the financial problems of many countries nowadays there is some probability that countries will try to find new ways to gain money. The taxation of virtual worlds might be viewed as one of the possibility to gain money for the state. So this area might be one of the first that will be regulated.