



The Current Situation and Future Development Prospects of Virtual Currency in China

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Abstract. Virtual currency is very common in people's daily life. Virtual currency is mainly divided into two categories. One is virtual currency that can be used for transactions in the market, such as bitcoin; The other is a virtual currency that can be used to buy goods and services, such as Q currency, game currency, etc. With the prevalence of virtual currency in China, it not only enriches people's ways of payment, but also increases people's ways of investment. However, it has also caused some negative effects on people and society, such as becoming a money laundering tool for cyber criminals. On the basis of understanding the background of virtual currency, consulting relevant literature, this paper analyzes the advantages and disadvantages of the two kinds of virtual currency, synthesizes the legal background, and finally summarizes the current situation and future development prospects of virtual currency in China.

Keywords: Virtual Currency; Internet; current situation; future prospects

1 Introduction

1.1 Background and Significance of the Topic

With the development of the society, money is not just paper money. It has gradually become more various in forms, such as digital currency and virtual currency, and with the development of the Internet, online games and e-commerce, and more and more transactions in virtual goods and services. People gradually begin to invest and buy goods and services online through virtual currency.

Take Tencent as an example, Tencent launched an online virtual product called Q coin in May 2002. This is a virtual currency which can be used to buy equipment in games, clothes of characters, etc. it can also be used to recharge QQ members (QQ is a social media in China which published by Tencent) Tencent also made a huge profit through Q coins. Since then, more and more network service providers have begun to issue virtual currencies, so the types of virtual currencies are becoming richer and richer.

The q-coin in the above example is a virtual currency, one of which can be used to buy goods and services, and another can be used for investment, such as bitcoin. Bitcoin appeared on January 3, 2009 and has been popular in China since 2013. In the bitcoin

trading platform, the most popular one-day trading volume was as high as 200million yuan. Then, it led to more virtual currencies, such as Wright coin, Penguin coin and more than a dozen other virtual currencies have been launched in China. However, after the explosion of virtual currency, it began to become very unstable. In December 2013, the people's Bank of China jointly announced that bitcoin was illegal in China, and since January 2014, China has banned the sale of Internet virtual currencies such as bitcoin and Wright coin.

The background illustrates the virtual currency is a special currency in the market, it also broke many benefits and drawbacks to people, and the current situation of different kinds of virtual currencies in China is different. Virtual currencies such as q-coin are very popular in China, but virtual currencies such as bitcoin are an online virtual currency that is forbidden to be sold in China. This paper will deduce the development prospect of virtual currency in China by describing the current situation and combining legal knowledge.

1.2 Literature Review

Ling Jian and Xie Yunshan mentioned that virtual currency has both advantages and disadvantages in the research on the Current Situation and Counter-measures of China's Virtual Currency.

Advantages are: 1. Virtual currency as a means of payment facilitates people's life.

2. As a means of virtual payment, virtual currency enriches people's spiritual life.

Drawbacks are: 1. It may cause inflation.

2. The problem of currency exchange may lead to arbitrage.

3. Virtual currency is a money laundering tool for cyber criminals.

Liu Sen mentioned in the article on the Crime and Regulation of online money laundering: one of the tool of money laundering is virtual currency and he mentioned China does not recognize the legitimacy of virtual currencies that can be used for investment. Zhang Cuicui also mentioned China does not recognize the legitimacy of virtual currency that can be used for investment, and she also used some evidences to illustrate virtual currency has high risks on the article Dangerous Financial Currency.

1.3 The Deficiencies of the Paper

There are limited resources which are related to the topic can be find, and it is very difficult to find some data to prove the opinion.

1.4 The Innovation of the Paper

Since most of the researches about virtual currency are about the influences to the economy. Therefore, this paper will demonstrate the current situation of virtual currency in China, and analyze the advantages and disadvantages of virtual currency to deduce the future development prospects of virtual currency in China.

1.5 Research motivation

Although virtual currency has been researched by many experts many years ago, and bit-coin had also been banned in China's currency market, with the change of China's currency policy and economy situation, the development of virtual currency may change in the future. Especially for the virtual currency which can be used for transaction market, it is true that this kind of virtual currency is illegal in China currently, but it was popular in China's currency market before and many people also has willingness to know more about that. Moreover, China will issuing virtual currency very soon, this means this the virtual currency which can be used for transaction can develop the currency market. Thus, virtual currency is still necessary to study.

2 The current situation and influence of virtual currency

2.1 The Scale of Netizen in China

The China Internet Network Information Center released The Statistical Report on the Development of China's Internet Network. As of December 2020, the number of Internet users in China was 989 million, an increase of 85.4 million over March 2020. The number of mobile Internet users reached 986 million, and the Internet penetration rate reached 70.4%. What is more, the number of online payment users in China is 854million, accounting for 86.4% of the total Internet users. Compared with the data in 2020, the scale of netizen in China rose to 989 million in 2021, and the data of online shopping user scale, short video user scale and the percentage of live shopping can also be seen on the figure 1. These data illustrates China has a high Internet penetration rate and a large number of netizens. [1]

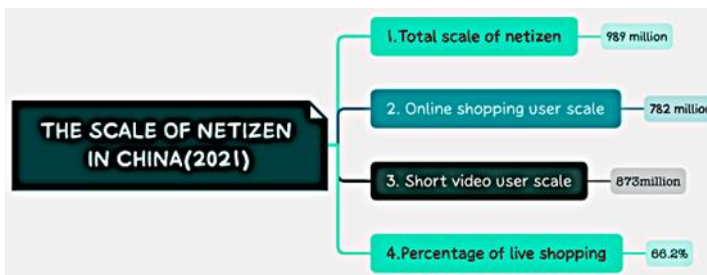


Fig. 1. demonstrates the scale of China's netizen in 2021(Self-generated)

2.2 The Current Situation of Virtual Currency

2.2.1 The Current Situation of China's Virtual Currency (Eg: Q coin) [2].

According to the data of scale of netizen in China, the Internet in China is developing rapidly, and with the development of online games. When providing services to netizens, they launched some virtual network service products in order to satisfy the diversified needs of users. Take Tencent as an example, Tencent launched an online

virtual product called Q coin in May 2002. It has lots of usage, it can be used to purchase equipments in games and the clothes of characters, etc. it can also be used to recharge QQ (QQ is a social media in China which published by Tencent) and QQ music members. Tencent also made a huge profit through Q coins. There are mainly two ways to obtain Q coin: "official way" and "private way".

"Official way" means Q coin is purchased on the official platform. At present, Tencent provides the following channels: bank card, TenPay (TenPay is an online payment platform launched by Tencent in September 2005, and its function is similar to that of Alipay), Tencent Yidian Tong (Tencent Yidian Tong is a payment service launched by Tencent in March 2006, which realizes the payment function by binding bank card), mobile recharge card, QQ, mobile phone and broadband bill. What is more, "official way" will have some official rewards of Q coins, for instance. From April 13, 2009 to June 13, 2009, Tencent held an activity called "the first re-payment with TenPay, give 7 Q coins", this means people will get 7 Q coins for free as long as they use TenPay for the first time. Generally, the conversion ratio of Q currency to RMB is 1:1, but the specific conversion ratio is also different due to different official purchase ways. Specifically, the conversion ratio of bank card to purchase Q currency is 1:0.95, that is, 1Q coin = 0.95 CNY; The conversion ratio of TenPay to purchase Q coins is 1:0.9, that is, 1Q coin = 0.9 CNY; The conversion ratio of Tencent Yidian Tong to purchase Q coins is the same as that of TenPay; The conversion ratio of QQ to purchase Q coin is 1:0.88, that is, 1Q coin = 0.88 CNY.

"Private means" means the private transfer of Q coins, such as the sale of third-party platforms and gifts from users. But it needs to be clear that at present, QQ accounts do not provide the transfer function of Q coin.

At present, the scope of application of q-coin is very wide. As long as the software launched by Tencent can basically use Q coin, such as QQ music, QQ members, QQ games store, etc. Moreover, Q coin has no service life, so Q coin can be used permanently, but Tencent only provides the exchange service of Q coin, does not provide its redemption service, and which means people cannot refund after purchasing Q coin.

2.2.2 The Current Situation of Foreign Virtual Currency in China (Bitcoin).

Currently, China has banned the sale of any foreign virtual currency, such as bitcoin, but there are still some people who own foreign virtual currencies. This is because these virtual currencies were bought before China announced that the sale of foreign virtual currency was prohibited. Bitcoin has been popular in China since 2013, in the bitcoin trading platform, the most popular one-day trading volume was as high as 200million yuan. Then, it led to more virtual currencies came into China's market. However, after the surge of virtual currency, it began to become very unstable, and the phenomenon of rolling money and running away appeared on the trading platform of virtual currency. In December 2013, the people's Bank of China jointly announced that bitcoin was illegal in China, and since January 2014, China has banned the sale of Internet virtual currencies. Therefore, there is no platform in China to sell and trade foreign virtual currencies. [3]

2.3 The Influence of Virtual Currency

2.3.1 The Influence of Virtual Currency (Q coin) to China's Economy[4].

Virtual current has some positive impacts on China's economy, such as promoting the adjustment of China's industrial structure, may become a new economic growth point and provide new payment tools.

(1) Promoting the adjustment of China's industrial structure: From the problems existing in China's industrial structure, the experience of industrial structure adjustment and the direction of industrial structure adjustment, it can be seen that the development of tertiary industries such as information industry and cultural industry is very important to the improvement of China's industrial structure. Therefore, taking the information industry and cultural industry as the media, online virtual currency plays a great role in promoting the adjustment of China's industrial structure and the development of the tertiary industry.

(2) May become a new economic growth point: With the development of economy and the improvement of people's living standards, people's spiritual needs are gradually revealed after their material needs are met. Q coin is a good proof. According to Tencent's 2006 annual report, nearly 70% of its revenue comes from the sales revenue of Q coin. Since then, Tencent's annual report almost every year shows that most of its revenue comes from the Internet game industry. The financial statements of the first quarter of 2022 show that the game revenue in the local market is as high as 33 billion CNY, and the game revenue in the international market is as high as 10.6 billion CNY. These data are evidence of people's demand for online virtual currency. Although the sales of online virtual currency now account for a small proportion of GDP, with the development of science and technology and economy, online virtual currency is likely to become a new economic growth point. [5]

(3) provide new payment tools: Currently, payment tools have developed into a system of payment tools with diverse functions, complete and clear hierarchy, but there is still a lack of payment tools with short payment time, high speed, high efficiency and low cost. Network virtual currency can just meet this condition. It not only meets the needs of consumers for real-time payment tools, but also improves the system of payment tools. Therefore, virtual currency improves the efficiency of economic operation and promotes economic development.

2.3.2 The Influence of Virtual Currency to the Society.

Virtual currency has both positive and negative effects on society.

Positive impact (Q coin): Virtual currency enriches people's spiritual life. With the development of economy and the improvement of people's living standard. People began to catch up and get spiritual satisfaction. At the same time, with the acceleration of the pace of life, people's work pressure is increasing. Therefore, people now have a great demand for products that can relieve mental pressure and get spiritual satisfaction. At this time, online games and virtual currency have become a good choice. As a key element in online games, virtual currency can bring people into the virtual world together with online games, which can keep people away from pressure and relieve mental pressure. Virtual currency is also a virtual means of payment, which provides great

convenience for people to buy real products, virtual property and services. What is more, the prices of online virtual currency purchase objects are mostly very low, which will not bring economic burden to people. Therefore, virtual currency has played a positive role in enriching people's spiritual life.[4]

Negative impact: (1) Increase opportunities for criminals to commit crimes (Bitcoin): China does not recognize the legitimacy of foreign virtual currency (bitcoin), but Germany has officially recognized the legitimacy of bitcoin, and Britain and the United States and other countries have also recognized the legitimacy of bitcoin. Although bitcoin is illegal in China, it cannot be denied that it is valuable. Therefore, criminals can completely convert bitcoin into legal tender overseas. In fact, when virtual currency first appeared, some money laundering gangs began to use it for money laundering activities. Because virtual currency has the characteristics of anonymity and centralization, it can not only arrive in real time when transferring money, but also is not easy to be supervised.[6]

(2) Damage people's own interests (Bitcoin and Wright coin): Bitcoin has been popular in China since 2013. In 2013, bitcoin was the craziest. It soared from the initial 3 dollars to 1242 dollars each, and in the bitcoin trading platform, the hottest day trading volume was as high as 200 million CNY. Since then, more than a dozen virtual currencies such as Wright coin have also been launched. Here is a case: on March 21, 2013, the price of Leyte coins rose gradually from 100 CNY, which was 4351 Wright coins bought with a man called Mr. Zhao who is working in IT industry decided. The average transaction price was 103.9 CNY, including 300000 CNY financing. He used 452000 CNY in the financing. Before 18:00 of the day, the trading price of Wright coin remained stable at about 103 CNY, while at 19:00, Mr Zhao found that at 18:54, the account sold 4351 Wright coins at the unit price of 1 CNY, and the transaction price was 36.45 CNY. This means that the previous 452000 CNY is now only 158000 CNY. Compared with the loan of 300000 CNY, he still owes 140000 CNY. Moreover, the trading platform of virtual currency is very "fragile", and website operators have the possibility of running away with cash For instance, a man called Mr. Qiao paid 90000 CNY to buy bitcoin through a third party on GBL (bitcoin trading platform) in September 2013. On October 26, he found that he could not contact the staff of the platform, resulting in some normal transactions that could not be implemented. After checking, he learned that the registered address of GBL company was false. The trading website had already rolled up money and ran away. About 500 victims of this incident, with a loss of more than 20million CNY. In addition, due to insufficient payment, some loan players were unable to pay back their money due to its closing positions, so there were negative assets in their accounts, and all losses were basically borne by the players. In fact, Huo coin network had no losses.[3]

3 The legitimacy of virtual currency in China

In China, virtual currency is not all illegal and all legal. Generally speaking, virtual currencies belonging to China are legal, such as q-coins, but foreign virtual currencies are illegal in China. The reason why foreign virtual currency is illegal in China is it has

high risks, and let many people suffer from the investment of virtual currency, it also made a negative impact on China's currency market. In addition, the reason why China's virtual currency is legal is that it is a virtual currency issued by China, and many investigations and studies must have been done before its issuance. Moreover, China's virtual currency, such as Q coin, is actually game currency or other currencies which can buy virtual goods and services in software, which will not pose any threat to the CNY or disrupt the currency market.

4 Conclusion

According to the description of the current situation of virtual currency in China, the influences of virtual currency in China and the legislation of virtual currency in China, the future development of the virtual currency in China will only encourage the virtual currency which will be issued by China, such as digital RMB which will be issued by the central bank. The virtual currency which will issued from central bank will accelerate the international trend of RMB and help to break the dollar centered world trade financial settlement system. Therefore, China will encourage the virtual currency which will be issued from central bank in the future.

The virtual currency, such as Q coin will be better and better in the future, since it brings lots of benefits to the company and enriches the diversity of payment instruments, facilitates people's life and enriches people's spiritual life. What is more, it is possible that the virtual currency will become the second major currency in China except RMB in the future. In addition, the central bank is also about to issue its own virtual currency, which is very similar to bitcoin. People can also buy it on banks or other trading platforms in the future.

In conclusion, the development prospect of virtual currency in China is relatively optimistic. Even though China will continue to suppress foreign virtual currencies, the virtual currency such as Q coin and domestic virtual currency which will be issued from central bank will be encouraged.

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