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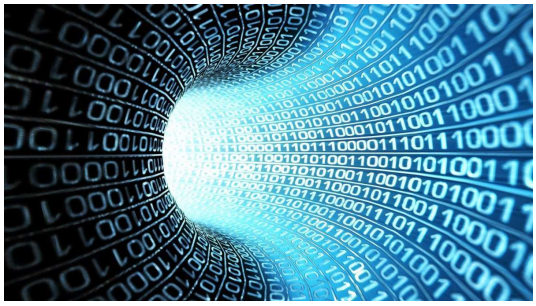

EconoMag

The Show that demystifies Economics

Virtual Economies – part 5

Virtuel Trends©

by Pierre Vercueil

Hi there EnglishWaves listeners, and welcome back to this week's edition of EconoMag. We'll be wrapping up our theme "virtual economies". Just to recap on what we've covered so far, we defined the term virtual economy, and considered what type of products or services are traded in these types of economies - we also started thinking about virtual currencies. We then moved on to how virtual economies work in online gaming, and how these economies were really some of the first movers in the virtual economic world. We also looked at how real-world currencies move between the real-world economy, and virtual economies, and further explored the deepening flow of online - or virtual - currencies.

We've seen that the virtual world is infringing more and more on the real world, and this is especially true economically speaking. In all likelihood virtual currencies will become more accessible and easier to integrate within existing payments systems that are safe, secure and appropriately regulated. Digital currency unlocks great potential for consumers and businesses to easily hold and liquidate different stores of value. This is vastly different from today's system where holdings of in-game points, gold, Bitcoins, cash in various currencies etc. cannot be converted in an immediate manner to make a payment.

But there is a chance that Bitcoin could be replaced by a better second mover; this is exactly what happened when Facebook ousted the former social networking leader Friendster. The collapse of the Bitcoin exchange, Mount Gox, has also placed the risks associated with virtual currency back into the limelight. After its collapse, Tokyo-based Mount Gox, once the main exchange for trading Bitcoin, disclosed that it had lost about 750,000 of its customers' Bitcoins as it filed for bankruptcy in Japan. That's a lot of money that just went missing! The announcement came after it abruptly wiped its website clean of information and halted all trading, raising questions about the security of investing in a virtual currency that isn't regulated by governments. That perhaps is however changing. SecondMarket, the platform known for letting investors trade shares of Facebook before it went public in 2012, is currently working on creating a U.S.-based Bitcoin exchange with input from government regulators. The company expanded into the Bitcoin space when it launched a Bitcoin investment vehicle for accredited investors.

But apart from virtual currencies run from computers, such as traditional online games or black marketplaces that are accessed via a web browser, the ubiquitous smartphone means that virtual economies are now run and accessed from anywhere on the planet – or rather, they're mobile in nature too. All those people staring down at their phones while stuck in cars, sitting on the subway, lounging in parks, or getting quick hits of workday distraction?

They're not just catapulting angry birds or crushing candy. They're contributing to a lively economy of mobile gaming, where each app download or purchase of a few extra lives in-game is contributing to a $20.9 billion global market in 2014. And this virtual economy—where large amounts of real money are traded for digital goods that have no use in the real world - is only getting bigger.

Juniper Research, a British research firm specializing in mobile commerce that has worked with clients including Apple and IBM, predicts that the mobile gaming market will grow to over $40 billion by 2019.

For all of its social-network start-ups, North America falls far behind other areas of the world in mobile-gaming revenues. Asia is home to the vast majority of mobile gaming payments, with $10 billion in 2014, over four times as much volume as North America. North America and Western Europe have similarly sized mobile gaming economies—around $2 billion—while India, Latin America, and Africa are clustered at the bottom. Of these, the African and Indian markets in particular are poised to grow quickly—an easy bet, given the regions' ready adoption of mobile banking technology. These big numbers however prompt a question: Why are we paying so much money for things that don't really exist? And what does that suggest about regulation, and the legal protection you have when it comes to your virtual goods?

Well the short answer is, it's not exactly clear. Online games such as EVE Online have made headlines when, for example, in 2006 one player managed to steal in-game currency from another player, and convert it to real-world currency to the tune of $120,000. Nothing could be done, since at the time the US legal justice system had no way of defining this as actual theft. There have also been reports of violence in places such as China where online gamers have stolen virtual goods from one another, and the local legal system was not set up for dealing with such online crimes that essentially pertain to goods that don't exist. This too, however, is changing. In South Korea for example, which has some of the largest online gaming communities in the world, relatively speaking, national police task forces have been set up to deal exclusively with virtual and cyber crime related to the theft of virtual goods that have real-world monetary value.

Virtual Economies form part of the economy of the future and will be as digital as possible, increasingly non-Western, and contained within easily accessible smartphone ecosystems. Its merchants will rigorously mete out content over time to keep customers engaged and the money flowing. While we might not be paying for digital-only groceries instead of actual produce any time soon, I think it's fair to say that all economies will soon be, to some extent, virtual.