A DIGITAL RENMINBI: PLANS, FEATURES AND IMPLICATIONS

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Executive Summary

1. China may soon have a digital currency. It is exploring the possibilities of fintech (financial technology) given the latter’s and e-commerce’s rapid development, the rise and fall of bitcoin and other cryptocurrencies, and the announced plans for a “stable coin” (or cryptocurrency) issuance led by Facebook.

2. Some form of digital currency can be expected as early as 2020, possibly first on an experimental basis. This can have profound implications for China’s payment system and monetary policy, and the future role of the Renminbi (RMB) in the international payment system.

3. There are three types of digital currency technologies. The first, used by Bitcoin and Ethereum, is based on public blockchain. The second, such as the Libra, is based on a private or consortium blockchain. The third comprises those who use the internet rather than cash to process payment, including Alipay and WeChat.

4. Central banks may have three main concerns with digital currencies. First, be it private or public, digital currencies can be competition for a sovereign currency. Second, the move to digital currencies may affect money supply. Third, digital currencies could reshape the international payment system.

5. A digital Renminbi has been discussed as far back as 2014. The People’s Bank of China (PBC) established a study centre on digital currency in 2017. Recently, the plans have become more concrete and the PBC is considering launching in 2020 a pilot digital RMB, officially called Digital Currency/Electronic Payment (DC/EP).

6. The PBC is apt to dismiss blockchain as the underlying technology for its DC/EP. The blockchain technology currently could not be scaled to the needs of China’s economy and could not meet the processing speed required by the PBC. It could also undermine the central bank’s control of the money supply and is likely to be in conflict with China’s cybersecurity law.
7. Using the existing infrastructure, a digital RMB will take a two-tiered issuing model, with the PBC as the first tier and licensed commercial banks, e-commerce platforms, and telecom companies as the second tier facing the public. The PBC also wants to avoid the much more direct competition between the digital RMB and other forms of digital payments.

8. According to the PBC’s former governor Zhou Xiaochuan, producing and using DC/EP is cheaper, while DC/EP counterfeits are more difficult to produce. An anti-corruption campaign on anti-money laundering may be easier to conduct. Implementing monetary policies and monitoring the economy will be more accurate with the big data provided by the digital payment.

9. RMB’s internationalisation could benefit from digitisation by lowering cross-border payments costs where a transaction through the digital RMB is immediate, bypassing clearance and settlement via central banks. The ease in licensing foreign banks and e-commerce providers using the digital RMB as transaction currency can facilitate international trade and ecommerce.