

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email to Mr Yang Razali Kassim, Editor RSIS Commentary at RSISPublications@ntu.edu.sg.

Rise of e-RMB: Geopolitics of China's Digital Currency

By Dylan MH Loh

SYNOPSIS

China recently piloted a renminbi-backed digital currency in four Chinese cities, allowing participants to transact and receive salaries via this state-backed cryptocurrency. If this is adopted nationally, it will transform finance, governance and politics in fundamental ways. What might be the geopolitical consequences?

COMMENTARY

AMIDST THE pandemic in late April 2020, China quietly trialled a digital currency, a sort of state-backed cryptocurrency, in four Chinese cities: Shenzhen, Suzhou, Chengdu and Xiong'an. Backed by yuan on a 1-to-1 basis, some public servants will receive a portion of their salaries in the e-renminbi (RMB), and participants will be able to spend it at selected retailers— with McDonald's and Subway some of the biggest names [reportedly involved](#) in the trial.

A brainchild of the Digital Currency Research Institute, established within the People's Bank of China in 2017, this digital sovereign currency is formally called "digital currency and electronic payment" or DCEP.

What is Behind China's e-RMB

One of the key impetus behind this digital currency was Facebook's own Libra cryptocurrency project – which is pegged to an as-yet undetermined basket of currencies. Fears that the RMB could be cut out from Libra's basket of currency set China's bankers thinking of a Chinese version. Li Lihui, the former president of the Bank of China and a key figure in China's digital yuan efforts, was surprisingly effusive in [praising the Libra project](#).

That notwithstanding, the contrast between the two could not be clearer. While the Libra coin sought to challenge governments' control and authority over legal tender, China's digital RMB sought to reinforce state control. As the Facebook-led Libra cryptocurrency project falters under the weight of regulatory oversight, China has moved decisively and quickly to trial and launch the digital RMB.

There are at least three principal motivations behind China's drive to tokenise the RMB. First, by developing a sovereign digital currency, China is able to better track, monitor and ultimately prevent capital flows outwards. Beijing is well aware of the risks posed by sudden and large monetary outflows. In 2015, for instance, capital outflows amounted to an estimated [US\\$1 trillion](#).

More recently, there was a noticeable increase in capital flight, with the initiation of the trade war between the United States and China. Even with extensive capital controls (including bans on cryptocurrency trading), it is difficult to prevent capital leakage if one was determined enough.

Because the digital RMB is administered centrally by the People Bank of China (PBOC), this ensures a robust supervisory architecture. In theory, this would mean that every single transaction and the data therein are available to the authorities, in real time.

e-RMB as a Response to Bitcoin

Second, the digital RMB is a response to Bitcoin's popularity in China. Indeed, Chinese nationals turned increasingly to cryptocurrencies (in particular, Bitcoin) for speculation but also to dodge capital controls. The liquidity, security, anonymity and decentralised nature of Bitcoin was perfect for moving vast sums of money, undetected and relatively quickly, outside Chinese borders.

Most alarmingly to Beijing's eyes, is the potential of cryptocurrencies to usurp the money-printing capabilities (and relatedly, its financial legitimacy) that only states, hitherto, possessed.

The 'trustless', decentralised nature of (most) cryptocurrencies now meant that central banks around the world, had to live with and manage a parallel financial universe developing right before their noses, but without their oversight. The Chinese response was to ban the trading of cryptocurrencies completely.

Yet, Beijing was savvy enough to convert the best aspects of cryptocurrencies to serve state goals. This includes potentially banking the millions of unbanked Chinese citizens; reducing transaction costs for businesses; reducing friction in peer-to-peer payment; easier cross-border payments; and allowing a more hygienic option to pay.

In any event, it is important to remember that these considerations are ultimately beholden to Beijing's demands for greater supervision over its currency and its financial system.

Digital Yuan and Regionalisation of RMB

Third, the advent of a digital yuan (if widely adopted and implemented), could compete with the US-denominated settlement system. It would also make attacks and speculation of the renminbi much harder. In the words of the PBOC governor, Yi Gang, China's digital yuan "provides a functional alternative to the dollar settlement system and blunts the impact of any sanctions or threats of exclusion both at a country and company level".

Moreover, one of the stated ambitions of the digital RMB is to regionalise the currency and [tie it into China's expansive BRI project](#). While the RMB global appeal may be limited for now, it is not improbable to countenance the eventual widespread acceptance of Chinese digital sovereign currency in the region. South Korea, for one, has [already indicated](#) that it may accept digital RMB from Chinese tourists.

Given that Chinese payment platforms such as Alipay and WeChat are already closely integrated into payment systems across Asia, it seems like a matter of time before the regionalisation of the digital RMB takes off.

What Does This Mean for Regional Norms?

Locally, the digital yuan (because of the instantaneity and magnitude of data collected) would allow authorities to better construct individuals' and businesses' credit and social scores.

This would accelerate ongoing efforts to quantify and evaluate people's trustworthiness on a much broader and deeper way. It will give a booster shot to China's ability to monitor economic cycles more accurately, but critics will decry the potential intrusiveness and power of the e-RMB to surveil and monitor its citizens.

China is the first major power to test a digital currency. It has the competence, will, resources and political capital to rapidly scale it nationally and, eventually, regionally. Seen in tandem with its moves in the BRI, the political and diplomatic implications of the digital RMB cannot be missed. For instance, could Beijing make it a requirement for recipient countries needing investments or loans to accept the digital RMB?

Will this spur states to expedite their own versions of digital sovereign currencies? Will the e-RMB be used to spread influence and shape regional norms of financial governance? Will China leverage on this to gain political and diplomatic leverage in other domains? How will this help innovate and disrupt cross-border transactions? These are questions that countries in the region will need to seriously grapple with.

Dylan MH Loh is an Assistant Professor at the Public Policy and Global Affairs programme at Nanyang Technological University (NTU), Singapore. He is also founding editor of ThePolitburo.org – an online magazine focused on the politics and policies of China. An alumnus of the S. Rajaratnam School of International Studies (RSIS), he contributed this to RSIS Commentary.
