# Opinion – China's e-Renminbi as a Fiscal Silk Road?

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In terms of growth of its fiscal institutions and practices, China has outpaced other nations on almost all fronts. In 2019, the People's Republic of China turned 70, and has since 2006 been the primary contributor to global economic growth. Nineteen (which is one-fifth) of the top hundred banks in the world have their headquarters in China and report USD 25.8 trillion in assets. According to the latest Global Bank Ranking by S&P Global Market Intelligence in April 2020 China has maintained its domination, for the fifth year in a row, of the global fiscal market with its "Big Four" remaining the four largest banks in the world. This was despite a weakened yuan, US-China trade tensions and protests in Hong Kong for the better part of the close of 2019.

In 2019, China's per capita GDP was 4.6 times that of India with China becoming increasingly referred to as not just Asia's, but the world's top trading partner. Further, in terms of infrastructure financing, China's Belt and Road Initiative (BRI), with an estimated budget of USD 1 trillion, has superseded any other infrastructure development program in the world. The renminbi in 2014 overtook the Canadian and Australian dollars as the the fifth most used global payments currency and in 2015, the International Monetary Fund (IMF) included the Chinese yuan in its Special Drawings Rights which is its formal hard currencies basket. Following this decision, the Chinese renminbi joined the ranks of the US dollar, European euro, Japanese yen, and British pound sterling.

It is in light of these developments that the release of China's e-currency model must be studied. The growing global importance of the yuan has been progressive and Beijing has begun looking for alternatives to further strengthen its global financial position. Electronic payments are already ubiquitous in China and the public is doing away with cash transactions. People's Bank of China (PBOC), building on the Chinese goal of financial growth and innovation, began the process of launching its state-backed cryptocurrency in August 2019. The designing of this prototype began in 2014 and initiated China's Central Bank Digital Currency (CBDC) module with the ideation of the e-Renminbi. The Director of PBOC Wang Xin in 2019 announced that the launch of the same was being moved up to November 2019. The move had been presumably influenced by the release of US social media conglomerate Facebook's plan to launch its stable-coin 'Libra' in 2020. Libra will be backed by a number of independent currencies with the dollars making up 50% of the nest. PBOC fears the Libra will further US dollar influence in the financial system globally.

In the present financial system, the US dollar is the most powerful currency responsible for almost 90% of global transactions and 60% of foreign exchange reserves in 2019. The Chinese renminbi in comparison only accounted for 2% of international payments. The move to introduce digital currency, when electronic transactions are already highly popular, stems from its desire to protect China's monetary sovereignty. A central bank controlled digital currency is advantageous as the private companies are always at the risk of going bankrupt or being banned in China. This would lead to heavy financial losses for their users. The materialization of China's digital currency project would be an unparalleled development in the field of digital currencies. Existing cryptocurrencies like Litecoin, Bitcoin and Ethereum are decentralized and stateless. Their value fluctuates very rapidly hence trust in them is very limited. China itself began the process of banning cryptocurrencies in 2013 and by 2018 all platforms dealing with the same had been shut. However, in 2019, China began to change its stand regarding cryptocurrencies.

China's stake in this technology stems from a desire to manage financial growth in the technology sector, but on its own terms. Being a state backed digital currency and not a cryptocurrency, which are controlled by stateless parties, China's yuan-based and centralized e-RMB will not be dependent on any other value.

The main attraction of a digital currency for China stems from the fact that it allows the settling of international payments without involving the US dollar. While reservations about cryptocurrencies stand valid, a state backed digital currency will certainly go a long way in increasing ease of trade, something China can build on in its BRI outreach. In India, a high-level Reserve Bank of India (RBI) panel in 2018 banned all virtual cryptocurrencies. Mobile payments applications like PayTM, UPI and PhonePe have gained extreme favor in the country already but entry into CBDC is missing. With China moving forward with the CBDC, its impact on global finance will only increase; something India should regard with caution.

China is not the first country to invest in CBDC; Uruguay has done a pilot program, called e-Peso, that was praised by the IMF. Venezuela has a controversial offering called the petro, and Sweden's Riksbank is exploring an e-krona. In August 2019, Bank of England Governor Mark Carney called for 'Libra-like reserve currency to end the dollar's dominance'. An anonymous survey by the Bank for International Settlements(BIS) in early 2019 showed most of the global central banks are participating in theoretical and conceptual research on CBDC. Nonetheless, China's foray into CBDC is a matter of much graver concern as compared to others, especially in a post-COVID order.

With its decision to push forward with the scheduled test-run of e-RMB in the Chinese cities of Shenzhen, Suzhou, Chengdu and Xiong'an amidst the coronavirus pandemic raging, Chinese President Xi Jinping's attempts to maintain China's fiscal dominance can be seen. The supremacy of the US dollar globally is the basis of the might behind US sanctions, which countries like China, Iran and North Korea have been on the receiving end of over the years. Subverting US dollar supremacy has hence been a prime goal for Xi and if the e-RMB trial is deemed a success, the digital currency can be released all across China within a year. While the e-RMB will not provide immediate respite to Beijing in a system dominated by the dollar, it will gradually build China's economic outreach and make business with nations like North Korea far easier.

The e-RMB can also accentuate, in a potential future, China's BRI loan disbursal and interest receiving mechanisms, making the transactions easier and state-controlled. Since China's BRI focuses on relatively weaker economies and has been deemed to follow a "debt-trap" diplomacy, getting nations in need of money to agree to an e-RMB transactional mode may not be as difficult. The US in 2019 re-labelled China, for the first time since 1994, a 'currency manipulator' after Beijing allowed the value of its currency to drop; an e-RMB facilitated mode of payments will make such occurrences more common. The risk of e-RMB being used in global settlements is hence real by creating a 'fiscal Silk Road' which will drastically reduce Beijing's dependence on other currencies. Reportedly, China is already testing e-RMB in regions that are to hold the Beijing Winter Olympics in 2022. Further, the digital currency has already been incorporated in the monetary system of cities and was to be used to pay the salaries for the month of April of government employees in the four cities it is being piloted in.

It is also crucial to note that Hong Kong is a world-class financial hub and also operates as a gateway between China and other financial circuits. China's attempts to control Hong Kong, emboldened by the national security law it has put into motion in May 2020, will further fast-track e-RMB in international markets if it is incorporated in the Hong Kong fiscal system. In 2018, Hong Kong was the key-intermediary location for RMB payment with 77% payments transiting through it. It is the biggest RMB clearing center globally beyond mainland China with a 74% share of the RMB activities.

During the COVID-19 pandemic, digital currency has gained momentum due to lower risk of transmission as compared to payments done using hard currencies. In a post-COVID-19 order, this trend can only be expected to increase with bio-security, health and urban sanitation assuming greater salience among public concerns. The e-RMB will increase the reach of Chinese financial circuits, creating trade partnerships globally with counterparts in a manner that may bypass American dollar dominance and furthering the BRI by implementing 21st century digital trade parameters to it. Geopolitics affects all walks of life; its entry in the field of cryptocurrencies is not unexpected. Digital currency combines monetary, technological and economic factors with politics. Active participation of China in this realm indicates its growing importance and also marks it as the next competitive arena.

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