China’s Renminbi

Why in news?

Four commercial banks in China began large-scale testing of the digital currency, Renminbi.

What does this testing mean?

- The state-run lenders are no ‘small change’.
- They are Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank of China.
- These are the largest banks of the world, with a customer base that runs into many millions.
- This means, if their tests come out cool, the digital renminbi will become the world’s first sovereign digital currency.

Why does China want a digital currency?

- China is one of the most digitally penetrated countries in the world.
- It has seen impressive acceptance of financial technologies and digital payments.
- China’s digital payments ecosystem is more advanced than many of its Western counterparts, including the US and the EU.
- China’s new financial system is built on digital wallets, QR codes, and runs through its own big tech firms: Alipay of Alibaba, etc.
- So, it is natural that the government has planned to take the next step and experiment with an all-encompassing digital currency.

Is China the only country planning an e-currency?

- According to the Bank for International Settlements (2019), most central banks (80%) are fiddling with the idea of a sovereign digital currency.
- This includes the US and the European Central Bank.
- The G7 countries have been planning a collective move on central bank-sponsored digital currencies.
- Even the RBI has been contemplating bringing out a national digital currency if and when safe technologies emerge.
- National Blockchain Strategy of India envisages a sovereign digital currency.
- But it seems China has gone ahead with its plans and is set to roll out one for

mass use.

What is China actually testing?

- Now, its citizens can use the e-wallet to top up accounts, purchase, withdraw and transfer money after pairing the digital currency with the phone number.
- The Chinese banks are also testing if the e-currency can be exchanged offline, that is, without the Internet.

How different is this from bitcoin or Facebook's Libra?

- It is different in many ways.
- To start with, this is **legal tender**, endorsed by the state.
- Bitcoin is not legally accepted in many geographies, including India.
- A 2018 RBI order disallowed the use and exchange of cryptocurrencies by financial institutions it monitors.
- India is contemplating a law banning cryptocurrencies altogether.
- Bitcoin is designed to be anti-authority and is not controlled by a central bank or a government.
- This makes it prone to giant fluctuations in value.

What is China trying to do?

- China expects to cash in on the global trend towards digital currencies by being an early-mover (the digital renminbi was announced in 2014).
- Also, it eyes the global disruption it can cause in the currency markets with renminbi.
- The fiat renminbi is often accused of being subjected to manipulation by China's Communist government.
- So, the future of an e-renminbi will also be shrouded in secrecy.
- Still, experts say China thinks that it is much easier to transfer e-payments across the border while controlling it from within the country.

Is it trying to create a universal currency, then?

- Unlikely, as things stand now.
- China doesn't enjoy the political goodwill to moot an alternative to the dollar, however weak the US economy seems today.
- But, China enjoys a clout in the international money market.
- Also, it secretly aims to plug the yuan as the global currency.
- If the digital renminbi rolled out for regular use soon, it could lead to major shifts in the way money moves within China and beyond.

Source: Business Line

