

China's Rising Digital Currency



Jonathan Grady
The Canary Group
Contact: jgrady@canarygroupllc.com

Executive Summary

- The link between Chinese politics and China's emerging digital currency is an important factor fintech investors, experts and analysts will have to consider.
- e-CNY is a Chinese Central Bank digital currency now being deployed across China with an already significant number of downloads. There are challenges to adoption, but there is also government support.
- e-CNY is likely to offer a range of economic benefits, but at the same time there are concerns about its use both domestic and abroad.
 - It can be a tool to evade US financial sanctions since e-CNY routes outside of the SWIFT network
 - It can supplement China's surveillance system against regime challengers and dissidents for financial surveillance and asset freeze uses
- From CNBC forecast project result of factionalized Chinese elite politics with growing evidence of increasingly tense Chinese factions, e-CNY may well provide a useful tool for PRC against regime challengers and dissidents.

Agenda

- What is e-CNY: A Central Bank Digital Currency
- The e-CNY structure
- Potential e-CNY benefits to the Chinese economy
- Potential e-CNY drawbacks domestic and international
- How much usage some experts think e-CNY will have in China
- Larger e-CNY implications for China from established China factions evidence

What is e-CNY: A Central Bank Digital Currency

- e-CNY is a digital version of the RMB issued by the Chinese Central Bank
- Therefore, it is not a crypto currency with a decentralized settlement!
- Being part of the currency, the E-CNY is a form of money and can be used as a medium of exchange, unit of account and store of value.
- e-CNY is currently in an early rollout stage across a number of cities and already over one fifth of China's population have downloaded e-CNY wallets.
- The Chinese government has been pushing for e-CNY's adoption.

Major Chinese apps offering e-CNY as payment include:

Alipay

WeChat Pay

Meituan



The e-CNY Structure

One Coin, Two Databases, Three Centers (一币, 两库, 三中心)

- **“One coin”** – the e-CNY unit of currency
- **“Two Databases”**
 - An overall tracking system from the Central Bank to monitor outstanding e-CNY
 - Monitoring of all e-CNY ledgers that will be on the local level or used by same cloud system as Central Bank
- **“Three Centers”**
 - Certification Center – Database of real identities tied to digital wallet holders
 - Registration Center – Track e-CNY ownership and transaction history
 - Analysis Center – Monitor payment flows for financial risks and “illegal” behaviors – CCDI is a leading stakeholder

Potential e-CNY Benefits to Chinese Economy

- The direct interface between the Central Bank and user allows a more streamlined transaction process compared to traditional bank transaction processing.
- The e-CNY is designed to handle at least 300,000 transactions per second which is dramatically higher than the Alipay ceiling of ~250,000 transactions per second
- Transactions can be done while using fractions of existing currency
- Substantial economic data about the Chinese economy can be collected and analyzed in realtime.
- There is a level of anonymity in transactions between users –“controlled anonymity.” Transactions can also occur without internet access offering a usable substitute to cash.

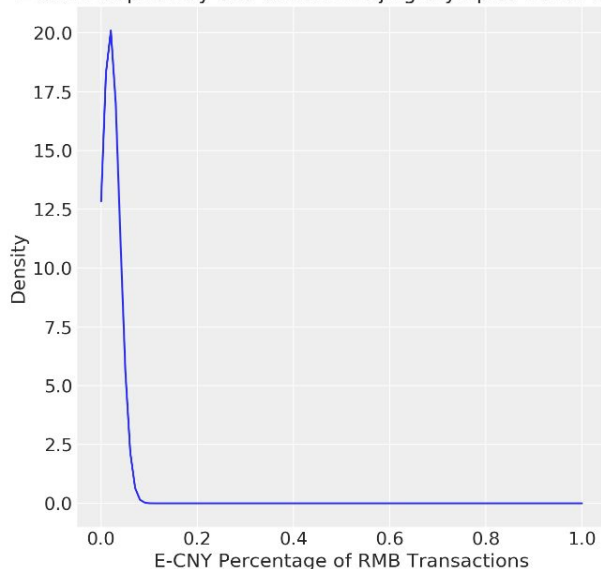
A Digital Currency with Chinese Characteristics

- e-CNY avoids routing through the SWIFT banking system which the US uses for financial sanctions. e-CNY has the potential to erode some US ability to enact financial sanctions.
- This can help avoid US financial sanctions against Chinese individuals or entities, in addition to outside individuals or entities that do business with China.
 - “...in the long term it could undermine the status of the U.S. dollar and efficacy of U.S. financial sanctions.”
 - US-China Economic and Security Review Commission, 2021 Annual Report to Congress
- The e-CNY can supplement state surveillance. It offers the ability to monitor individual financial transactions and even freeze e-CNY digital wallets.
- CCDI is a major player in the development of the e-CNY. CCDI already has a team in Central Bank to investigate graft. CCDI has already explained e-CNY can be used for investigations – specifically, funds tracking of specific individuals and transactions of interest. This offers the government an expansive new tool to monitor and sanction potential government challengers and dissidents.



Stern Project: Where the Experts Think e-CNY is Heading

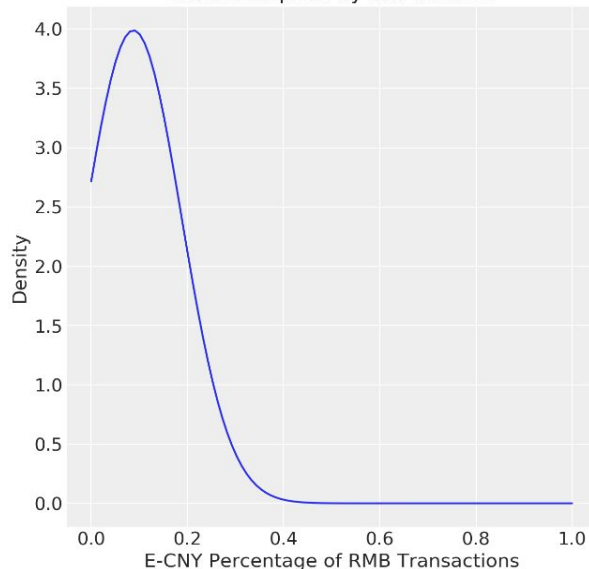
E-CNY Adoption by end of 2022 Beijing Olympics March 1 2022



Mean: 1.88%; SD: 1.98%

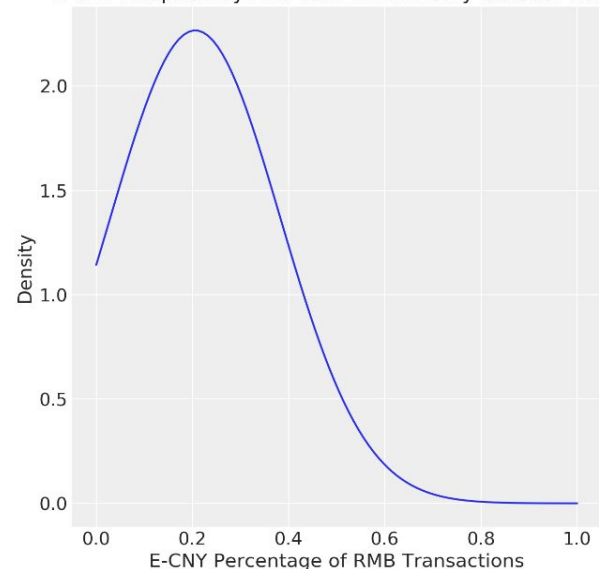
E-CNY Predictions

E-CNY Adoption by end of 2022



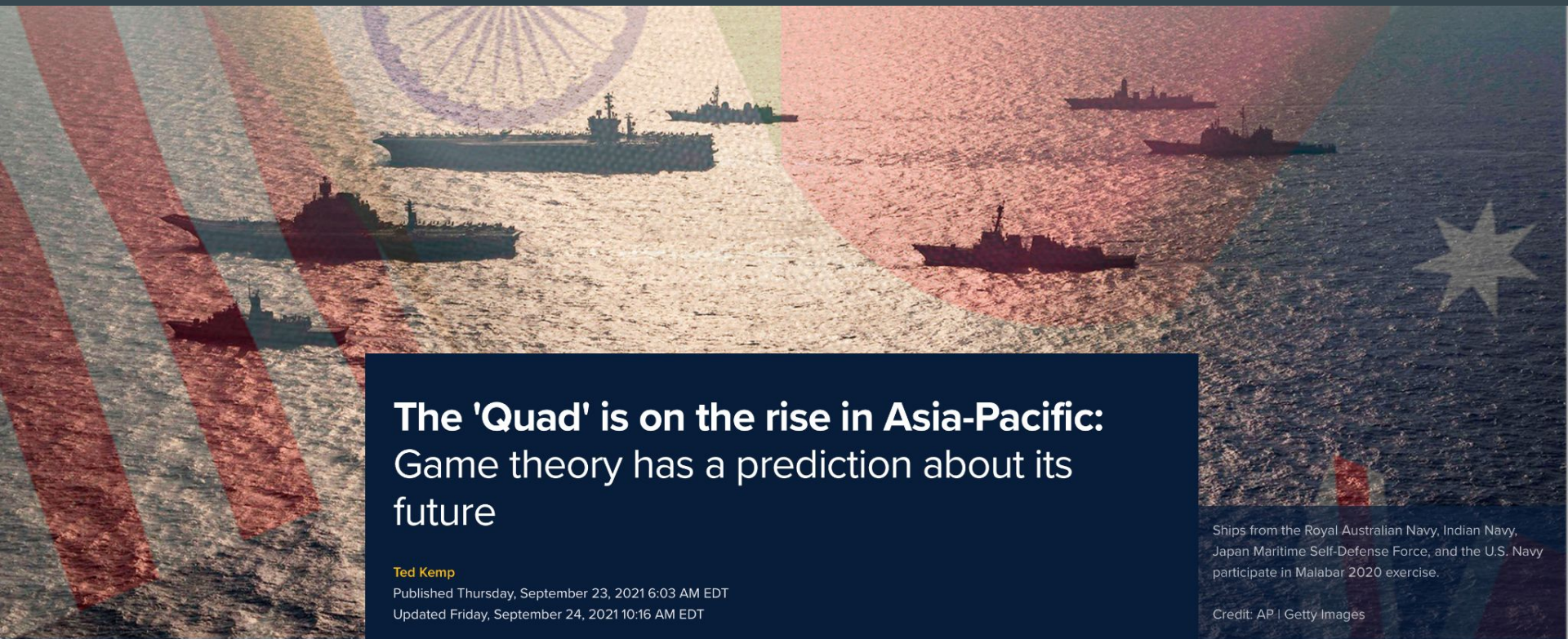
Mean: 8.77%; SD: 10%

E-CNY Adoption by PRC 75th Anniversary October 2024



Mean: 20.6%; SD: 17.6%

The CNBC Quad Project



The 'Quad' is on the rise in Asia-Pacific: Game theory has a prediction about its future

Ted Kemp

Published Thursday, September 23, 2021 6:03 AM EDT

Updated Friday, September 24, 2021 10:16 AM EDT

Ships from the Royal Australian Navy, Indian Navy, Japan Maritime Self-Defense Force, and the U.S. Navy participate in Malabar 2020 exercise.

Credit: AP | Getty Images

The CNBC Quad Project Findings on China Relating to e-CNY

- CNBC Quad project studied Chinese government from perspective of the Quad's decisionmaking.
- The forecast offered unexpected and surprisingly accurate insights for domestic Chinese politics.
- Deep and very tense factionalized politics across senior military, foreign policy and government figures in China.
 - This analysis was at odds with consensus view of leading experts at the time..
- Events on the ground in China have aligned with reports from CNBC Quad project, even accurately predicting unexpected moves by Vladimir Putin.

Current China Situation Aligns with the Forecast

A steady drumbeat of reports of increasingly tense factionalized politics have emerged following the report:

- **“Professional Predictions”** (专业预测) – Fudan Development Institute, Fudan University
- **“Analysis: When China's leading paper ignores Xi, all bets are off”** – Katsuji Nakazawa, Nikkei
- **“As Rival Factions Gain Traction, Xi Seeks to Secure Support from the Military”** – Willy Lam, Jamestown Foundation
- **“Soros Says China’s Real Estate Crisis, Omicron Threaten Xi’s Rule”** – Bloomberg

Internal divisions in China are “so sharp that it has found expression in various party publications”

“Xi is under attack from those who are inspired by Deng Xiaoping’s ideas and want to see a greater role for private enterprise.”

– George Soros, comments at Hoover Institute, Stanford, 01/31/22 reported by Bloomberg

Larger e-CNY Implications from Established Evidence

- Xi Jinping faces an increasingly tense and factionalized political situation
- Xi already survived a major coup attempt from several years ago.
 - In Book, Xi Jinping Taints Ousted Rivals With Talk of Plots, The New York Times
- From what we know about factions, e-CNY has the potential to play a role as a digital currency with Chinese characteristics for Chinese state security for pushback against regime challengers.
 - e-CNY offers expanded financial surveillance and asset freeze uses against potential challengers and dissidents. The CCDI is a leading figure in e-CNY development

e-CNY Conclusion

- e-CNY is a new and growing Chinese Central Bank digital currency with potential
- e-CNY can offer substantial efficiencies to the Chinese economy
- It can also be a tool to combat US financial sanctions and against political challengers
 - There is strong suggestion e-CNY will be a part of the Chinese surveillance state
- Fintech investors, experts and analysts should have e-CNY on their radar and consider the unique political considerations attached to China's digital currency

Thank you for your time!

Jonathan Grady | The Canary Group

We forecast negotiations. We can forecast negotiation outcomes, their process and how the stakeholders will negotiate. From that information, we can advise how to shape the situation for more winning outcomes. We can forecast a wide range of applications from business negotiations to high stakes dealmaking. “Forewarned is forearmed.”

Our accurate and outperforming forecasts have been reported by The Wall Street Journal, CNBC and The New York Times.

Contact:

- [linkedin.com/in/jongrady](https://www.linkedin.com/in/jongrady)
- jgrady@canarygroupllc.com