

## China Development Forum 2021

### *China on a New Journey of Modernisation*

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Parallel Session III - Venue V

#### Outlook on Digital Currency

##### Moderator

Yao Zhen Shan, Anchor and Financial Commentator, CCTV Business Channel

##### Speakers

Dan H. Schulman, President and CEO, PayPal

Mu Changchun, Director-General, Digital Currency Institute, the People's Bank of China

Myron Samuel Scholes, Professor, Stanford University; Nobel Laureate in Economics

Nouriel Roubini, Professor, New York University; Chairman and CEO, Roubini Macro Associates

Huang Yiping, Sinar Mas Chair Professor of Finance and Economics and Deputy Dean, National School of Development; Director, Institute of Digital Finance, Peking University

##### Synopsis

Digitalization is accelerating globally and is irreversible. The digitization of currency has nothing to do with disruption, but creates shared opportunities by empowering people to participate in and benefit from safe and efficient currency flows on a global scale. According to Schulman, CEO of PayPal, the greatest opportunity for value creation and influence comes from customer-centric partnerships, which can further improve the payment experience and push the global economy toward a digital age.

##### Innovation characteristics of central bank digital currency

The innovation of digital currency lies in it being a digital form of monetary reserves and transactions between a central bank and other banks, and in principle every individual or business can conduct point-to-point transactions without a commercial or payment platform. At the same time, the security and efficiency of a central bank digital currency will reduce errors and fraud, thereby increasing trust in the financial system and making the transaction mechanism safer and less costly, better meeting customer needs.

### **Cryptocurrency vs. central bank digital currency**

The popularity of cryptocurrency is accelerating the research and issuance of central bank digital currencies in various countries. In this regard, Roubini believes cryptocurrencies such as Bitcoin have no fundamental value and do not contribute to the progress of the monetary system. Moreover, the mainstreaming of cryptocurrency will affect the status of national or regional legal tender, thereby influencing government monetary policies.

### **Revocable anonymity of Digital RMB**

Digital RMB is a legal tender in digital form issued by the People's Bank of China, operated by designated institutions and granted to the public. It is equivalent to coins and bank notes with attributable value and legal tender status. Revocable anonymity is the main characteristic of digital RMB. It reflects the positioning of MO and meets the public's reasonable requirements for anonymous transactions and personal information protection. At the same time, it prevents, controls and combats money laundering, terrorist financing, tax evasion, and other illegal and criminal acts, thus safeguarding financial security.

Unlike bank accounts, WeChat and Alipay, digital RMB is a loosely coupled account that can be technically anonymous for small transactions. Different digital wallets can be opened to meet different customer needs depending on the level of Know Your Customer: the weakest level is the anonymous wallet, which can be opened with a mobile phone number. There are certain restrictions on balances and daily transaction amounts, which can only meet daily demand for small payments. Upgrading the wallet may sacrifice a degree of anonymity, but the balance and payment limit of the wallet will be increased. This design satisfies the public's reasonable need for privacy protection while preventing the risk of large suspicious transactions.

A central bank digital currency fulfils the three obligations of anti-corruption, anti-money laundering and anti-terrorist financing, to ensure the security of the payment system. If too much emphasis is placed on anonymity, a digital currency may be misused by criminals as an illegal transaction tool for pornography, gambling, and drug abuse. Therefore, the digital RMB is designed to be anonymous for small transactions, but prosecutable for large transactions, enabling people to recover their money in case of telecommunications fraud.

### **Digital RMB promotes internationalisation of the RMB**

The digital RMB has legal tender status and better security, which can be more efficient in promoting RMB settlement for cross-border trade and investment. It is also relatively easier to accept, which is conducive to advancing the internationalisation of

the RMB. In future, if the digital currency can form a more convenient, safer and better monetary system, it could threaten the position of the US dollar.

**Long-term coexistence of digital currency and bank notes**

Rigid demand has always existed, and bank notes, electronic payment, and digital RMB will coexist for a long time. During the pandemic, there was an absolute increase in demand for bank notes, as people prefer bank notes for occasions including Spring Festival and weddings. Moreover, people in remote areas are not used to smart terminals, and people who care about personal privacy still want to use bank notes. The continued existence of rigid demand means continued large demand for bank notes.

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