

On 11 August 2019, the Chinese central bank – the People's Bank of China (PBoC) – announced that it was ready to launch a sovereign blockchain-based currency, bringing to completion a five-year long project. Weeks later on 27 August, industry insiders leaked that seven Chinese financial and quasi-financial institutions will receive the first batch of this newly created sovereign cryptocurrency in the coming months: the Industrial and Commercial Bank of China; the Bank of China; the Agricultural Bank of China; Alibaba; Tencent; and Union Pay.

More recently, on 6 September, a senior official at the PBoC clarified some aspects of the cryptocurrency and addressed some of the underlying motivations for its creation. Firstly, the PBoC stated that the cryptocurrency would bear similarities to Facebook's proposed "Libra" cryptocurrency. While the official speaking on the matter did not go into details on which aspects of Libra China's sovereign cryptocurrency would bear, it would not be a stretch to assume that the official is hinting at the cryptocurrencies' use of a basket of assets and other sovereign currencies to maintain stability.

The PBoC official's statement on Libra drew much of the press attention. However, the more interesting points are the supposed motivations behind the sovereign cryptocurrency's creation. *Reuters*, quoting the official, reported that the overall intention was to "protect our monetary sovereignty and legal currency status".¹ Further down in the article, the official was reported as stating, "China's digital currency would strike a balance between allowing anonymous payments and preventing money-laundering". While major press sources covering this story have suggested that the PBoC's launch of a sovereign cryptocurrency was in response to Facebook's Libra, we here at Cercius Group believe the motivations are endogenous to China's domestic situation.

This is not a matter of making simpler and smoother the payment process, as anyone who has ever been in China in recent years understands the ease of using Alipay and Wechat Pay. Rather, this is about PBoC breaking up a monopoly and inserting the sovereign into the supply and information chain. Alipay and Wechat Pay were able to dominate the digital payment scene in China simply because structural impediments blocked Visa and Mastercard from properly rooting themselves in the Chinese market. That said, Alipay and Wechat Pay have almost rendered cash and credit cards pointless in China. As one can imagine, this cuts into the business of commercial banks and, by extension, that of the central bank, as well as rendering technology companies de facto financial institutions with almost no regulatory oversight.

Indeed, the PBoC and the commercial banks undoubtedly have access to payment and spending information via Alipay and Wechat Pay, as one requires a bank card to use these payment platforms. However, the lack of regulation creates an immense space for financial crime, and this goes even without mentioning the sheer volume of transactions that can be either taxed or charged for a tiny percentage – as it was once the case with commercial banks.

Understandably, the PBoC must eventually step in. On the one hand, it wants to control and make transparent the entire payment chain and the plethora of valuable data and information that comes along with it. Sure, the PBoC has claimed to value anonymity, but a quick gander at China's dystopian "social credit system" shatters the fantasy of anonymous payments. On the other hand, the PBoC cannot sit idly by as Alibaba and Tencent continue to operate as de facto financial institutions without proper regulatory oversight. This, of course, comes hand-in-hand with the recent crackdown on the wider shadow banking sector, which includes the peer-to-peer lending and microfinance platforms, Bitcoin and other related cryptocurrencies, as well as the insurance-finance complex.

Cercius Group projects that the PBoC will carry out its cryptocurrency project by inserting itself at the very top of the supply chain. Similar to how the telecommunications sector operates in China, whereby the physical assets are all state-owned and licenses are handed out to operators and carriers. The PBoC will dominate the issuance of the digital currency and subsequently hand out licenses to compliant institutions. Of course, the PBoC's greatest hurdle will be creating a regulatory regime capable of preventing financial crime, but also not hinder the development and widespread of its sovereign cryptocurrency.

¹ <https://www.reuters.com/article/us-china-cryptocurrency-cenbank/china-says-new-digital-currency-will-be-similar-to-facebooks-libra-idUSKCN1VR0NM>