



The Necessity and Overall Significance of the Development of Digital RMB in China

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Abstract. Nowadays, big data, cloud computing and blockchain technology have promoted the development trend of the third industrial revolution, as well as promoted the transformation of traditional currency to some extent. As a result, digital currency emerged at this historic moment. Although the World Bank has not yet said that central banks must issue digital currency, from the attitude and progress of various countries, the Central Bank Digital Currency (CBDC) has become a strategic commanding point in the era of data finance, consequently issuing digital renminbi (RMB) has become a must. In addition, combined with China's reality and national strategic considerations, the digital RMB can not only provide banks with power to fight against large technology companies, but promote the high-quality development of the new development pattern and enhance the stickiness of regional cooperation.

Keywords: CBDC, Digital RMB, new development pattern, regional cooperation

1 Introduction

Today, with the increasing development of social information network technology, different forms of digital currency have become the inevitable law of the development of the era, and have also attracted attention of all countries around the world. CBDC is a type of new cryptocurrency system based on blockchain technology, which is the legal tender in digital form issued by the central bank of a country. In 2014, the People's

Bank of China set up a professional team to study issues related to CBDC such as digital currency issuance structure, key technologies, and relevant international experience, and it has now entered the pilot stage. The research and development and practice of the digital RMB have taken the lead in the world, which has won a new strategic window for the internationalization of the RMB and China's financial reform.

Since the development of digital RMB in China, it has attracted many scholars' attention. However, most of the articles focus on the advantages of digital RMB itself, but lack the connection with national conditions and policies. Therefore, from the strategic perspective and the actual situation of China, this paper explores the global

advantages of digital RMB and the reasons why the Chinese government strongly supports its development.

2 Progress and trend of the development of global central bank digital currency

2.1 Developing attitudes

Attitudes towards CBDCs can be roughly divided into three categories: support, wait and see, and against. Except for a few countries that are clearly opposed to the development of CBDC, such as Argentina and Mexico, who believe that there is no urgency to issue CBDC due to the relatively complete electronic payment system in their countries, most economies hold a wait-and-see or support attitude. The Chinese government supports the development of its own digital currency, and as one of the first countries to study CBDC, China has been conducting research and development experiments of CBDC since 2014; At the beginning of 2021, European Central Bank President Christine Lagarde said that the digital euro will become a reality in five years; Although the UK and Canada have not made a decision to issue CBDCs, they continue to research and technical preparations.

Especially since the outbreak of the pandemic, there has been a marked shift in the attitude of some countries towards the development of CBDCs. The Bank of Japan was cautious about CBDC before the first half of 2020, but since July 2020, the BOJ's attitude towards CBDC has turned significantly positive. The COVID- 19 pandemic had heightened the need for a resilient, trustworthy payment infrastructure in the U.S.1.

2.2 Development process

CBDC have been introduced to several smaller economies. The first CBDC was issued by Tunisia in 2019 and designed as virtual accounts in the form of e-dinar; The Bahamas central bank announced the official launch of the world's first CBDC in October 2020, the Sand Dollar, issued by the Bahamas Central bank to nearly 400,000 residents across 700 islands and positioned as a retail CBDC.

Most of the world's major economies have entered into research and development trials or pilot process. The Swiss National Bank (SNB) wholesale CBDC project has started the cross-border use study phase and is working with the Innovation Center of the Bank for International Settlements (BIS) on a project called "Helvetia" to study its application in real-time settlement. The People's Bank of China's digital RMB research and development pilot has formed a certain pattern. Besides, in order to promote the steady and healthy development of the digital RMB, the relevant supporting regulations are also on the agenda. Brazil, Russia, Turkey and other countries have also announced pilot plans for their own CBDCs.

However, compared with developing countries and small economies, developed countries and large economies are more cautious about the development of CBDCs. In April 2021, the Bank of England and the UK Treasury jointly established a work-

ing group to study the issues related to the central bank digital currency, which is still in the project evaluation stage and has not yet decided whether to launch it [2].

3 The overall significance of China's development of CBDC

3.1 To help build the new development pattern

During the 14th Five-Year Plan period, China will build a new development pattern with the domestic cycle as the main body and the domestic and international cycles mutually reinforcing each other, which is a major strategic decision to promote the high-quality development of the Chinese economy. Accelerating to build the new development pattern, presents demands for financial technology which is making robust progress. Digital RMB as an important result of fin-tech is able to get through the choke points in industrial chain, supply chain, distribution chain and consumption chain, opening the domestic circulation, as well as to further expand high quality international circulation.³

On the one hand, digital RMB can promote the coordinated development of industrial chain, supply chain and innovation chain in the domestic grand cycle. Digital RMB based on block chain technology and large data, is able to not only record and store a large number of trading information and currency, but monitor real-time monetary operation. As a result, while creating the conditions for flexible and effective use of economic policies, the government can also have powerful data resources. The digital transformation of industrial chain and supply chain calls for the emergence of new monetary forms that adapt to the development needs of the big data era. On the other hand, digital RMB can improve the quality and level of domestic and international dual circulation. Digital RMB is conducive to the unification of internal and external financial harmony and co-prosperity of the global financial system. The digital RMB can realize the full data management of the currency life cycle. The regulation of financial stability based on the digital RMB will be more timely, and the prevention and control of financial and economic crises will be more accurate. Therefore, based on the orderly development of domestic and international double circulation, with the continuous enhancement of China's national strength, the digital RMB will likely develop into an important stability anchor of the international monetary system in the future.

3.2 Enhance the financial stickiness of regional cooperation

In the post-pandemic era, the international economic situation is not optimistic and cross-border commodity trading volume has decreased significantly, so the issuance of digital RMB will become an epoch-making highlight. Relying on its convenience and reliability, the digital RMB will form a trade and investment circle, and establish more diversified international cooperation between China and its neighbors in infrastructure investment, financing, regional economic and trade exchange, and com-

modity settlement. We can create a China-led regional digital currency system in. According to incomplete statistics, at present, there are at least 28 countries around the world can directly use the RMB settlement. With the deepening and expansion of foreign trade, the international payment ability and currency holding willingness of RMB are also enhanced, which is conducive to the cross-border payment and settlement of RMB on a global scale.⁴The use of digital RMB in the future is bound to enhance its functions in international payment, investment, transaction and reserve, as well as enhance the financial stickiness of regional cooperation with countries participating in the Belt and Road Initiative.

In addition, the digital RMB will also help establish a direct RMB exchange rate formation mechanism. In 2020, as the level of opening-up continued to increase, China had deeper cooperation with ASEAN, and successfully signed the Regional Comprehensive Economic Partnership agreement (RCEP), creating the diversification of development platforms including all kinds of free trade area, cooperation economic and trade zone, free zone to name a few, which provide digital RMB with a rich scene of cross-border trading pilot provides, It is conducive to the establishment of a direct exchange rate formation mechanism for RMB with the currencies of countries along the "Belt and Road" and RCEP countries, the construction of cross-border quotation bank group, and the realization of cross-border quotation, transaction and daily flat clearing.⁵ This will provide the international monetary market with excellent alternative choice to against the dollar or other risks.

3.3 Balance of power between China's banks and large technology enterprises

Network borrowing is designed based on Internet development in China's new lending way, through the big data risk control system and other advanced financial technology, in order to vigorously promote the construction of credit system of our country and the development of digital inclusive financial. The rise of digital companies such as Ant Group, JD and Baidu has created huge value for Chinese households and businesses. Since 2016, with the strengthening of financial supervision and rectification of strengthening network risky lending and borrowing makes network platform of compliance costs, solvency, and increased risk of capital chain rupture.

That is causing concern among Chinese regulators. The ability to offer unsecured loans shows that big tech can build high-quality credit scoring systems based on data that is not normally available to banks. The advantages of big data also make it cheaper and faster for big tech companies to process loan applications, make loans and collect payments than banks. If big tech abuses these advantages, traditional banks will continue to lose market share in money management and lending to digital giants.

Backed by the controllable anonymity of the digital RMB, the People's Bank of China could also have similar data like big fin-tech companies and set up its own credit rating system. Its data on balance growth is better than that of big tech because it covers the history of transactions across the economy. The People's Bank of China would then assess the creditworthiness of potential borrowers and share the new cred-

it scores with banks at low or no cost, allowing them to offer unsecured loans as well, thereby reducing or even negating big tech's informational advantage⁶. Digital RMB can realize the full data management of the currency life cycle. Compared with traditional currency, it will be more timely in the supervision of loan risk and more precise in the prevention and control of crisis.

4 Conclusion

Therefore, in general, from the attitude and process of the international community towards the development of digital currency in China, the development of digital RMB in China is the trend of The Times. The choice of the development path of digital RMB will have an all-round impact on China. Therefore, the People's Bank of China should continue to accelerate the application level of digital technology and improve the legal system and regulatory framework related to legal digital RMB, so as to ensure its smooth issuance and circulation.

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