



ALERTS

Benefits And Effects Of China's New Digital Currency Electronic Payment (DCEP) System

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Highlights

The Chinese government is working to integrate Digital Currency Electronic Payment (DCEP) into society with the goal of eventually replacing paper currency

The initial distribution of digital Renminbi (RMB) is underway, with the expectation that it will be completed before the 2022 Winter Olympic Games begin in Beijing

Foreign businesses should consider evaluating the risks associated with the use of DCEP within a company's internal system and other countries with which they do business

Digital Currency Electronic Payment, or DCEP, is a new and innovative digital payment version of China's fiat currency – the Renminbi (RMB) – that the Chinese government is rolling out throughout the country.

The goal of integrating DCEP into society is so that, in the near future, DCEP will replace paper currency throughout China.

There are four primary benefits of DCEP to the domestic Chinese market: efficiency and convenience, enhances regulation of the economy,

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traceability and the ability address antitrust concerns. With the almost certain onset of digital currency in China, it is crucial that U.S. or other international businesses have, or begin planning to have, the proper technological infrastructure in place to handle DCEP payments if they want to remain competitive in the Chinese market.

1. Efficiency and Convenience

DCEP will reduce the costs of manufacturing paper currency. It will also allow for faster transaction times by enabling individuals to make payments directly to each other without the need for verification by a bank or credit card company – saving time and money. Further, the Chinese government can quickly distribute money to citizens through stimulus checks by directly depositing funds into their digital DCEP account. Of critical importance for China's large urban population, offline payment support will be made available to those who need to complete transactions without the use of internet.

2. Enhanced Macroeconomic Regulation of the Economy

The Chinese government can monitor which domestic accounts hold money, how much money is held in these accounts, and also control the amount of money held in certain digital wallets. With the ability to monitor every note in the economy, the Chinese government can also adjust inflation and interest rates in real time, as needed.

3. Traceability

DCEP will allow the Chinese government the improved ability to prevent and prosecute money laundering, tax evasion, and other financially motivated crimes. With DCEP, the Chinese government is able to record details of every transaction, including foreign exchange transactions, the amount of money involved in such transactions, and the identity of all transacting parties.

4. Antitrust

With the mobile payment market being dominated by a small group of corporate players, specifically WeChat Pay and AliPay, the Chinese government is able to reduce their reliance on these companies and provide an alternative to an otherwise monopolized market in China.

What is the Impact of DCEP on International Marketplace?

With the increasing popularity of the Belt and Road initiative (B&R), which now includes over 70 countries, the costs associated from trading along this path are very high. With a common currency deployed along the route, China will be able to drastically reduce its international trade costs, as well as such costs for the other countries participating in the B&R initiative.

The digital RMB also promotes the overall internationalization of the RMB and helps reshape the current cross-border payment system, SWIFT.

When Will DCEP Be in Circulation?

The initial distribution of digital RMB is already underway. The People's Bank of China will issue digital RMB to China's domestic banks, and by way of these banks, Chinese citizens will be able to access and use their money through their own digital RMB wallets.

The Chinese government is also developing offline DCEP hardware wallets to enable digital payments to be made through the use of a physical device. This is especially important for the large population of Chinese citizens without access to a digital wallet.

There are expectations within the country that the digital RMB will be completed before the 2022 Winter Olympic Games in Beijing. Former Bank of China President Li Lihui stated in an interview with China Daily that "some entry-points [to the Games], such as the cities of Shanghai, Beijing and Guangzhou in Guangdong province, are expected to be ready for extensive use of digital RMB payments during the games."

Implications for Foreign Businesses

If operating in China, businesses are required by law to accept the digital currency. Chinese residents will be able to complete transactions with companies located overseas using digital RMB as long as those companies have digital RMB wallets.

With data privacy concerns already a key focus for regulators and businesses around the world, the onset of the digital RMB will certainly bring cyber security concerns into sharper focus. Any digital address holding sums of money is bound to draw the attention of hackers and be prone to the threat of cyber hacks. As such, foreign businesses should also consider evaluating the risks associated with the use of DCEP within that company's internal systems, including data privacy issues that may come with using new technologies.

Along with the planned widespread adoption of a digital economy will come the need to reform the current banking and technological infrastructure around the world. Companies and institutions with business ties to China, but based in other countries, should also consider monitoring the status of new developments and regulations in China brought along by the use of DCEP to evaluate any potential changes to operations or product offerings domestically and internationally.

To obtain more information, please contact the Barnes & Thornburg attorney with whom you work or Naomi Kwang at 317-231-7545 or naomi.kwang@btlaw.com. Jackson Devine assisted with this legal alert while an intern.

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