



Russian Speculation about the Cryptoyuan

OE Watch Commentary: The *EKD* project started off as a social media interest group on *Vkontakte*, the Russian version of *Facebook* and which is widely reported to toe the party line in the content it publishes. *EKD* quickly developed into its own website, aimed at setting the record straight in Russian media reporting on China. On their website, they claim China is one of Russia's main trading partners, and that there is not enough reporting on China for Russians to understand their relationship.

According to this particular article, this spring, the Chinese Central Bank established the Institute for the Study of Digital Currencies. In October, its director said China needed to have its own digital currency to further develop online payments and electronic commerce, and that blockchain technology had good prospects. Later the director put out an announcement saying there was no need for China to create a national digital currency that would be specifically blockchain-based.

This reflects the wavering seen in statements by finance officials in a number of countries, who have struggled both with categorizing independent cryptocurrencies, such as Bitcoin, as well as determining their legality. Despite their intense reluctance to embrace a financial instrument ostensibly aimed at disrupting their sovereign currency system, officials must walk a fine line, damning Bitcoin et al. without damning the blockchain technology on which they are built.

As the author suggests, China could create a non-blockchain-based digital currency. There are already precedents for that such as the cryptocurrency Ripple, which is still based on distributed ledger technology, but which is somewhat different from blockchain. Or they could still use blockchain technology, while assigning the state to control emissions, thus avoiding mining and miners as a source of disruption. While Russia could learn from watching China's experiment and determining what works well for the government and what pitfalls to avoid, the prospect of a Chinese cryptocurrency being issued before Russia issues one threatens Russia with the potential for China to displace the US dollar as a reference currency or at least as a viable multinational trading currency. Although that may have economic benefits for Russia, the specter of one hegemon replacing another is unpalatable for the current Russian administration.

China is where cryptocurrency mining is currently most concentrated, thanks in part to access to cheap electricity. This may help create a built-in demand for the cryptoyuan, unlike the cryptoruble, the demand for which will likely have to be forced to appear at all. Both pseudo-crypto-currencies (they would actually be digital currencies, not cryptocurrencies per se) share the dubious distinction of being highly suspect as to their real capacity to add value. **End OE Watch Commentary (Hall)**

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A modern 'money tree' observed in Yunnan, China, 2015.
Source: By Pratyeka (Own work), https://commons.wikimedia.org/wiki/File:Modern_money_tree.jpg, CC BY-SA 4.0.

Source: Каким будет государственный криптоюань? (What Will the State Cryptoyuan Be Like?), *EKD*, November 25, 2017. <http://ekd.me/2017/11/kakim-budet-gosudarstvennyj-kriptoyuan/>

“For more than three years, rumors have been swirling about the creation of a state cryptocurrency. At the beginning of 2014 the Chinese National Bank announced it would study digital currencies. That’s when people started talking about the possibility of creating a cryptoyuan – a Chinese national cryptocurrency. Nevertheless, the Central Bank did not issue any official clarification on that account until this year. Everything changed somewhat this year, but the situation did not become any clearer.”

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“After a flurry of activity by Chinese regulators in the decentralized cryptocurrency market, the Chinese National Bank established the Institute for the Study of Digital Currencies. In one interview, the Director, Yo Tsyang, said China needed its own digital currency...and said blockchain had good prospects. Later, however, Yo Tsyang put out another announcement, saying there was no need to create a national digital currency based on blockchain per se. We can only guess what the Chinese digital currency will look like.”