**China s new digital yuan Lessons for Pakistan**

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As more and more nation contributes to and depend on the global economy, the process associated with routing payments smoothly so that they can be monitored by the central banks becomes important. Over time, various types of digital payments were introduced to facilitate business and household transactions. However, a lot more is required to be done by Central Banks to help build trust in digital payments.

China, being the leader, has launched a Central Bank Digital Currency (CBDC). An initiative was taken in September of 2020 to allow Digital Currency Electronic Payments (DC/EP). In simple words, the DC/EP is a digital version of the Chinese yuan backed by deposits held by the central bank. To take advantage of this form of digital payments, banks must replace a portion of yuan holdings with assets that are in digital form and then allocate it to businesses and the public using mobile technology.

In contrast, payments are also made using cryptocurrencies; what is different in DC/EP? The answer is the legal status that differentiates between DC/EP and cryptocurrencies. In terms of making payments through cryptocurrencies, the laws are vague in regards to whether it is legal to pay for goods and services in China using this form of payment; however, DC/EP is recognized as a legal tender to make transactions. The government will also control the digital yuan while cryptocurrencies are decentralized and do not have a single entity to manage their supply. Anonymity is another significant difference between the digital yuan and cryptocurrencies. Cryptocurrencies are anonymous whereas the digital yuan will be monitored, tracked, and backed by the government.

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The broad advantages of the digital yuan include:

n Digital transactions will help to monitor the flow of funds in the economy and execute appropriate decisions. As a result, a community without access to bank facilities will be able to participate in the mainstream economy;

n Cash is considered a primary mechanism that is used to make transactions across all economies but this new payment variant emphasizes digital transfers of money employing diversified technological platforms, which include cell phones, QR codes, and token systems. Payment firms such as Alibaba, Tencent, and WeChat favor executing transactions using digital yuan as it matches well with their payment taxonomy. As it is easier for the government to track digital token as compared to cash; and

n Digital yuan will help to increase the likelihood that the Renminbi is used for international reserves. After the financial crisis of 2007/08, economists and international agencies have extensively discussed the likelihood of replacing the US dollar for international transactions. Currently, the US dollar accounts for 88.3% of all global transactions whereas the Renminbi has only 4%. Being China has the second-largest economy, the digital yuan will allow China to compete with the US for international trade and make its currency popular among the international community.

In conclusion, the Chinese digital yuan will connect the entire market in one place, which will enhance its prominence in the international community in the near future. In line with the digital yuan, it is proposed that the Pakistani government may introduce its digital currency which may help to smooth payments. It is not as easy to introduce a digital currency in Pakistan because 63% of the population live in rural areas. However, a digital currency will help citizen to access financial products and make payments without burdensome hassles. Also, several benefits can be attained by introducing a digital currency: (a) transaction cost and time associated with transactions can be reduced; (b) non-printing of fiat currency reduces the cost of the government; (c) the informality of the economy will diminish in the absence of cash transactions and digital transactions will be processed on a fast-track basis, (d) monitoring and control of digital currency will be easy for the government as they will have complete information regarding the receipts and payments, (e) the tourism sector may flourish as cash will not be required in the wake of digital currency, and (f) corruption can be reduced using digital currency. It may take a decade to create the necessary infrastructure to establish a digital currency in Pakistan; however, the benefits are enormous and will serve its people for many decades.

On January 11, 2021, Prime Minister, Imran Khan, launched the first digital payment system, ‘Raast,’ to promote financial inclusion and government revenue. This system will be implemented in three phases ending in early 2022. This timely initiative by the government is highly commendable as it will serve its purpose in many ways. Several private-sector digital cash transfer systems already exist that do not require a bank account like JazzCash, Easypaisa, Telenor Pakistan; however, Raast would be the first to connect government organizations and financial institutions. Businesses, fintechs, merchants, individuals, and government entities will utilize this system to receive and send real-time payments via the internet, mobiles, and agents. Using the Raast, the government will pay salaries, pensions, and financial support programs (e.g., the Benazir Income Support Program, the Ehsaas Emergency Cash program, etc.). This initiative is vital to restrict illegal financial transactions perpetuated by militant and extremist organizations. An essential requirement of the Financial Action Task Force (FATF) is fulfilled through digital payments which will help Pakistan come off of the grey list. Furthermore, Raast will automate the collection of taxes on transactions and tighten rules on banking.

Though Raast is not an alternative to digital currency it will be useful to align the transaction channels as the government will have full information about receipts and payments. Based on this information, the informal economy will be brought into the tax net and corruption can be reduced significantly. The government may also control the money supply and take fiscal and monetary measures accordingly.

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