

# Chapter 6

## Central Bank Digital Currency: A Case Study in China

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### ABSTRACT

*In an era characterized by rapid digitalization and technological advancement, the global financial landscape is undergoing a transformative shift, with the central bank digital currency (CBDC) emerging as a ground-breaking innovation. CBDC are a digital form of sovereign currency issued by a country's central bank, designed to complement traditional forms of money while leveraging the efficiency and security of blockchain technology. This revolutionary concept has garnered significant attention from policymakers, economists, and technologists worldwide, as nations explore the potential benefits and implications of integrating CBDC into their monetary systems. Amidst this global exploration, China stands out as a pioneer in the development and implementation of CBDC. The Chinese government's proactive approach to CBDC underscores the strategic importance it places on technological innovation, financial inclusion, and maintaining economic sovereignty in an increasingly digitized world.*

### INTRODUCTION

In an era characterized by rapid digitalization and technological advancement, the global financial landscape is undergoing a transformative shift, with the Central Bank Digital Currency (CBDC) emerging as a ground-breaking innovation. CBDC are a digital form of sovereign currency issued by a country's central bank, designed to complement traditional forms of money while leveraging the efficiency and security of blockchain technology. This revolutionary concept has garnered significant attention from

DOI: 10.4018/979-8-3693-5588-6.ch006

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policymakers, economists, and technologists worldwide, as nations explore the potential benefits and implications of integrating CBDC into their monetary systems.

Amidst this global exploration, China stands out as a pioneer in the development and implementation of CBDC. With its ambitious digital currency project, known as the Digital Currency Electronic Payment (DCEP), or commonly referred to as the digital Yuan, China has taken bold strides towards reshaping its financial ecosystem and asserting its position at the forefront of the digital currency revolution. The Chinese government's proactive approach to CBDC underscores the strategic importance it places on technological innovation, financial inclusion, and maintaining economic sovereignty in an increasingly digitized world.

As we delve deeper into the realm of CBDC, it is essential to examine the case of China closely, not only for its technological advancements but also for the broader implications it holds for the global financial landscape. By understanding China's journey towards embracing digital currencies, we can glean invaluable insights into the opportunities and challenges associated with CBDC, and perhaps, envision a future where digital currencies play a central role in shaping the economies of tomorrow.

Figure 1. Decoding the digital Yuan: Tracing the timeline of China's CBDC development



The development of the digital Yuan commenced with the conceptualization and research efforts of the People's Bank of China (PBOC) in the early 2010s. From 2014 to 2019, pilot programs were initiated in various cities across the nation to meticulously assess the feasibility and functionality of the digital currency. It was in August 2019 when the PBOC formally announced its ambitious plans for the digital Yuan, marking a significant milestone in the journey towards a digitalized monetary system.

The COVID-19 pandemic acted as a catalyst for accelerated development, prompting intensified efforts and resources towards the digital Yuan project. From 2020 to 2022, amidst the global crisis, trials of the digital currency expanded across numerous cities, serving as crucial testing grounds for its efficacy and scalability. These large-scale trials paved the way for the official launch of the digital Yuan in 2022, heralding a new era in China's monetary landscape.

Since its launch, continuous refinement and promotion efforts have been underway, aimed at fostering widespread adoption and integration of the digital Yuan into the economy. The Chinese government has been actively working to expand utilization of the digital currency domestically, while also exploring avenues for potential international usage. With ongoing initiatives to seamlessly integrate the digital

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