

DLT solutions for trade and finance - China Focus

According to the development plan 2019-2021 issued by People Bank Of China "PBOC", six priority tasks have been identified in order to strengthen the financial technology strategic position under a long term perspective.

We are therefore focusing on two key pillars: Blockchain Service Network "BSN" and Digital Currency Electronic Payment system "DCEP", that are both already undergoing testing phase by the PBOC.

Around these two pillars, Chinese corporations and associations will provide their blockchain operation services: IT, trade finance, supply chain, healthcare, insurance, digital identity by enterprises networks consortiums.

Blockchain Service Network "BSN" and Digital Currency Electronic Payment system "DCEP".

According to business schedules, the project has been reassessed after the Covid-19 pandemic outbreak and will be officially launched on July 31st 2020. The project foresees a kick-off phase of 200 nodes, located all over China Mainland and overseas. BSN has already partnered with AWS China in order to speed up the internationalization process establishing itself as the foundation for to be seen as a "gate" through which enterprises and governments can interoperate via cloud. Potentially, a perfect duo to let private and public data achieve the best performances.

DCEP is a software solution consenting PBOC to issue and manage the first sovereign digital currency backed to the "fiat" value of renminbi. It is mainly a technical transformation of the mechanism for the issuance and circulation of RMB.

It is sectioned in two operative layers: while the first one involves PBOC and commercial banks, the second one involves Chinese commercial banks and end users, businesses or physical persons.

As for now, the DCEP does not necessarily use blockchain technology, since it leverages on asymmetric cryptography, which is fundamentally the reason for the efficiency and security of electronic payments provided by the DCEP ; furthermore it is fully implemented on a distributed ledger technology for securing transactions.

The DCEP also makes possible features into a digital wallet, although under a more centralized perspective.

Blockchain solutions can be potentially implemented only at the first layer of the operative system, in that it allows to notify, allocate and record digital currency operations from PBOC to other commercial banks.

Besides, How will the rest of the big financial players, Alipay and Wechat Pay just to name two of them, will be involved in this system, especially if this will push them out of the market?

We can only argue that the preexisting digital currency channels will be involved in the money transfers in favour of consumers. Due to their market position , these players are used to play a vital role when it comes to ensuring the security of holdings and the facilitating transactions.

In the long term, we are likely to witness an interaction in terms of off chain transactions usage in a second layer context for connecting consumers, while the first layer would be supported by on chain transactions connected with a centralized authority (PBOC). This solution may help shape a payment system capable of boosting performances when dealing with a huge number of transactions per second.

In addition to this, China UnionPay Corporation and China Mobile Financial Technology Co., Ltd. are now both involved in current digital transfers of currency and are also the founding partners of BSN. This picture suggests a potential integration of DCEP with BSN, which might empower mainland and overseas transfers.

How is it possible for BSN and DCEP to interoperate?

BSN is still at the first layer and is also working as a cloud solution for blockchain application providers. The fact that big players like China Union Pay are involved in the project may lead to the conclusion that a digital state currency issued by PBOC may be installed on the network.

In a middle term perspective, we will probably see these two pillars working jointly : DCEP will act as a centralized crypto running on a decentralized cloud architecture (BSN), capable of providing different blockchain solutions to different business enterprises. The combination of these two assets will constitute a safer, stronger and quicker means for supporting investments.

Business sector associations, such as the Chinese Bank Association, are starting to implement their own solutions focusing on branches like trade finance, supply chain finance, supply chain operations and logistics, copyrights and IP, judicial and legal, health and digital identity.

Blockchain service providers, like Aliyun, Baidu to name one, will easily run their BaaS into BSN nodes providing blockchain solutions at cheaper implementation costs, crossing different markets needing and offering customized solutions for each different business case.

In the long run, BSN will allegedly be considered as a strategic technological architecture capable of assisting businesses from mainland China to overseas strategic locations under a secure and distributed network.

On the other side, DCEP might stand as a way to fully drive overseas investments in terms of political orientation and economic accountability.

By joining together, these two pillars will give rise to a continuous flow of assets, both data and transactions, that will efficiently support the execution of the Belt and Road Initiatives "BRI", along with other national investment development programs that still are struggling in some areas of the world because of the lack of interconnectivity, transparency, governance and accountability.

Please find the full report here.