



when the concrete stairs are out-of-order



Dr. Evil believes there is a forced convergence, of sorts, occurring in China's financial landscape. On the public side of Chinese digital finance, in April 2020, the People's Bank of China (PBOC) launched the digital yuan AKA "Digital Currency Electronic Payment" (DCEP). (Dr. Evil applauds PBOC's acronym "D-CEP-tion", it's very evil.) The digital yuan replaces cash while giving regulatory authorities more control over the rapidly growing digital economy. BTW, the digital yuan is a digital token and not a cryptocurrency. Tracked by and backed by the PRC, the PBOC will know every holder and every transaction. As of 5 November 2020, CNY 2BN (yuan) or \$299M (measly) have been used in 4M transactions (again, measly). In order to juice the use, the PBOC gave away \$1.5M to Shenzhen (can you say, "PRC's hope for a 'new Hong Kong' "?) citizens who were less than impressed.

- [China's \\$1.5 million digital currency giveaway impressed analysts. Shoppers, not so much](#) :Reuters: David Kirton, Alun John, Samuel Shen: 19 OCT 2020: "China's experimental \$1.5 million (1.16 million pounds) giveaway of digital yuan to Shenzhen citizens ended on Sunday with acclaim from currency analysts - and skepticism from some users saying they preferred existing shopping tools like the ubiquitous Alipay app."
- [China's Digital Yuan Hits 4,000,000 Transaction Milestone as US Mulls Digital Dollar](#) :Dailyhodl.com: 5 NOV 2020:
- [Say Goodbye to Banking as We Know It](#) :Bloomberg: Andy Mukherjee: 29 DEC 2019

On the 'private' side of the PRC's digital finance, we have the Ant Group. The Ant Group, previously known as Ant Financial, is the parent of AliPay, the [largest mobile and online payment processor in the world](#) and an affiliate/subsidiary (don't ask) of Alibaba, [world's largest retailer and e-commerce company](#). On 25 August 2020, Ant Group filed for a **\$34.5B** initial public offering, simultaneously on the Hong Kong and Shanghai stock exchanges, which was expected to be the **largest IPO in history**. On October 24, Alibaba's founder, former CEO and Chairman, Jack Ma gave a snarky speech in Shanghai "...banks have a pawnshop mentality. ...regulators are too academic and too far from the market..". On 2 November, Ma and Ant management are summoned for 'tea' with the regulators. 3 November, the Ant IPO was stepped on.



Why and when would \$34.5B of new capital flowing into the PRC's lead digital brand become a problem? Dr. Evil's best guess is that the two events, digital yuan and Ant's IPO, while not directly connected represented a divergence between State control of capitalism versus free range digital capitalism. Let's take a look at Ant. Ant has 4 major product lines: Credit Tech (39% of revenues); Payments (36%); Investment Tech (16%); and Insure Tech (8%). Credit Tech consists of 2 main products: Huabei (*just spend*) and Jiebei (*just borrow*), i.e., a credit card and an online loan facility. The two products combined logged 500 million product sales in the last twelve months. That is the equivalent of half

Clever banter can only be called "repartee" if it's from the Repartée region of France. Otherwise it's just sparkling wit.
-- Daniel Hannan

of all internet users in China either using Ant's credit card or borrowing from Ant. On problem, Ant's lending to people who've never had a credit card and don't know much about debt. Credit cards are a new thing in China. In 2002, there were less than 500K credit cards for a 1.7B population. Huabei users have an average outstanding credit balance of \$300; (You think "*So what? \$300 bucks, small potatoes!*") Remember, most of China is not the latte-swilling luxury-goods coveting coastal provincials. Most of China, like 1 billion people, have average real disposable incomes of less than \$300 per month. Ant was running the tables with its credit card and most of that is starting to look... subprime.

The other problem? Dr. Evil thinks something more important to the State was in play. Ant got its 'microlending' license in 2014 from the city of Chongqing (*Where? ...right...it's in the middle of nowhere*) Chongqing is 1 of 4 cities that report directly to the central government, the others being Beijing, Shanghai, and Tianjin. Everyone thought, "*Hey just another bank, only on the internet.*" Regulators were not ready for internet based microlending. Up until 2018, Ant would provide credit and lend, and then immediately roll the receivables into an asset backed security and sell it to, mostly, banks and financial institutions looking for 10% (+) returns not the mandated 0.35% demand deposit (bank account) interest rate. Ant managed to get 100x leverage on its' capital because it had an enormous and efficient distribution channel directly to consumers. Undoubtedly, the PBOC and regulators freaked out.

Finally a self-care routine I can stick to



How does Dr. Evil know this? Because knowing dastardly things is in the "Evil manual of Evil", page 34 and this pretty good [TechBuzzChina](#) article. Also regulators were burned twice before, once with Peer to Peer lending's (P2P) collapse and with the university lending scandals. In the [P2P lending collapse](#) millions of small-time investors have [lost their life savings](#), having invested in online peer-to-peer (P2P) lending platforms — a burgeoning segment of the finance industry that imploded suddenly following allegations of widespread fraud and mismanagement. The University Lending scandal led to a [number of suicides](#) and uncovered that female students, in some cases, had to provide nude photos of themselves holding their IDs as collateral. If they didn't repay the "[nude loan](#)", the photos would be sent to their parents and/or posted online.



Other than considering nude loans as 'best practices' for evil loans of evil (*How could I have missed that one?*), why should we care? Digital tokens makes 'money' more fungible. The dilemma of "What do I do with all those pennies?" is gone. Transactions costs get cheap. Transactions get faster and can



cross every border in a single bound...outside any correspondent banking system. The international banking system, as we know it, is gone. In tandem with negative interest rates, which cost account holders to maintain deposits, digital money will drive the destruction of banking's 19th century industrial framework. Digital money also creates a layer of data collection on people that was previously unobtainable...unless you were Amazon or Google. The state becomes the monopoly supplier of money to retail customers. *That will end well....*

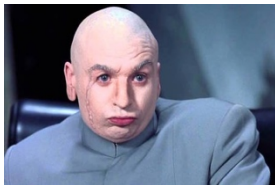
OFAC, say goodbye to your little sanction!



There is a great power competition aspect to the digital yuan. Gaining power, influence and sovereign territory without overthrowing the government can be, as shown by OBOR, facilitated by nonviolent economic means. “Many insurgencies center on forcing the host nation (HN) into significant political or economic change.” [Joint Publication 3-24, “Counterinsurgency.” page II-3.] Changing a host nations’ foreign policy, for example de-recognizing Taiwan, would count as significant in the PRC’s decision calculus. The influence the PRC obtains through indenture of the host nation could be considered subversive particularly when it requires the government to surrender sovereign territory as in the case of Sri Lanka and Tajikistan. Add to OBOR’s general bad outcomes the following – ‘Colonial’ Special Economic Zones - like the Golden Triangle Special Economic Zone (GT SEZ) located at the border between Laos and Thailand, with a 75 year lease, expandable up to 99 years, judicial autonomy from the HN, enforced with PRC paramilitary police or PRC private military corporations, condos for thousands of Chinese who can petition for Lao citizenship...and add to this enclave - digital yuan. It’s like a giant economic forward operating base, on Lao soil but entirely Chinese. These type of PRC SEZs are popping up all over the world.



Green Executions



What’s going to happen in the short run? Ant has something the PRC wants, its’ transactional data. Currently, Ant isn’t forced to contribute its’ transaction data to the State, except in specific national security issues. Too heavy a hand by the PRC, too fast would become an...issue, particularly if PRC digital finance companies want to *sucker...ah..’raise’* money from non-PRC investors. The solution? Most financial transactions, perhaps up to 90%, are already digital. Expect PRC regulators to require AliPay wallets, WeChat wallets (**available in the USA, just download the iPhone or Android app**) and every other wallet to take the digital yuan. Very Chinese in that the State introduces a substitute for cash without requiring the removal of bank sponsored transactions from AliPay wallets, WeChat wallets, etc. However, the PBOC digital yuan will, over time, force out most digitized bank transactions for state controlled token transactions. Why? Because it is faster, cheaper and avoids the processing infrastructure where the Point of Sale entity (card reader) reports a sale transaction request, which goes through AliPay to the bank, which then verifies the account holder has the required yuan in his/her account, debits the account, sends a credit to AliPay which then credits the merchant account. For a digital yuan transaction, the customer’s digital yuan is already his/her AliPay wallet. The transaction merely moves it from the AliPay wallet to the merchant’s wallet via blockchain.

- [China cracks down on cryptocurrency exchanges ahead of digital yuan launch](#) :Forexcrunch.com: NOV 10, 2020
- [Former People’s Bank of China Governor Says Digital Yuan Will Combat US Dollarization](#) :BITNEWSBOT.COM: Vladimir Denis: 7 NOV 2020:
- [Brace for the Digital-Money Wars](#) :Wall Street Journal (paywall): Paul Vigna: 7 DEC 2019:
- [China’s digital Yuan could be surveillance tool for govt](#): ambcrypto.com: Chayanika Deka: 17 NOV 2019
- [China’s Digital Currency Will Be a Weapon for Authoritarianism](#) : OneZero.Medium.com: Kieran Smith: 14 JAN 2020



If you have received this Dr. Evil mistakenly and want off the distro list, please let me know.

If you are not on the distro list but want to be, please let me know.

Sincerely, Dave “Dr. Evil” Katz

