

China's digital currency poses challenges to Ant and Tencent

Article

The news: Chinese payments giants **Ant** and **Tencent** were enlisted in a central bank digital currency (CBDC) trial, [per](#) The Wall Street Journal—a program that by design could threaten their businesses.

- The People's Bank of China chose the two firms, which own **Alipay** and **WeChat Pay** to help it test out the digital yuan.

- But the central bank reportedly gave six state-owned lenders a jump on Ant and Tencent, letting them start trials earlier—Ant and Tencent still can't run full tests of the CBDC. This raises concerns about Ant's and Tencent's future involvement with China's CBDC and how it might affect their businesses.

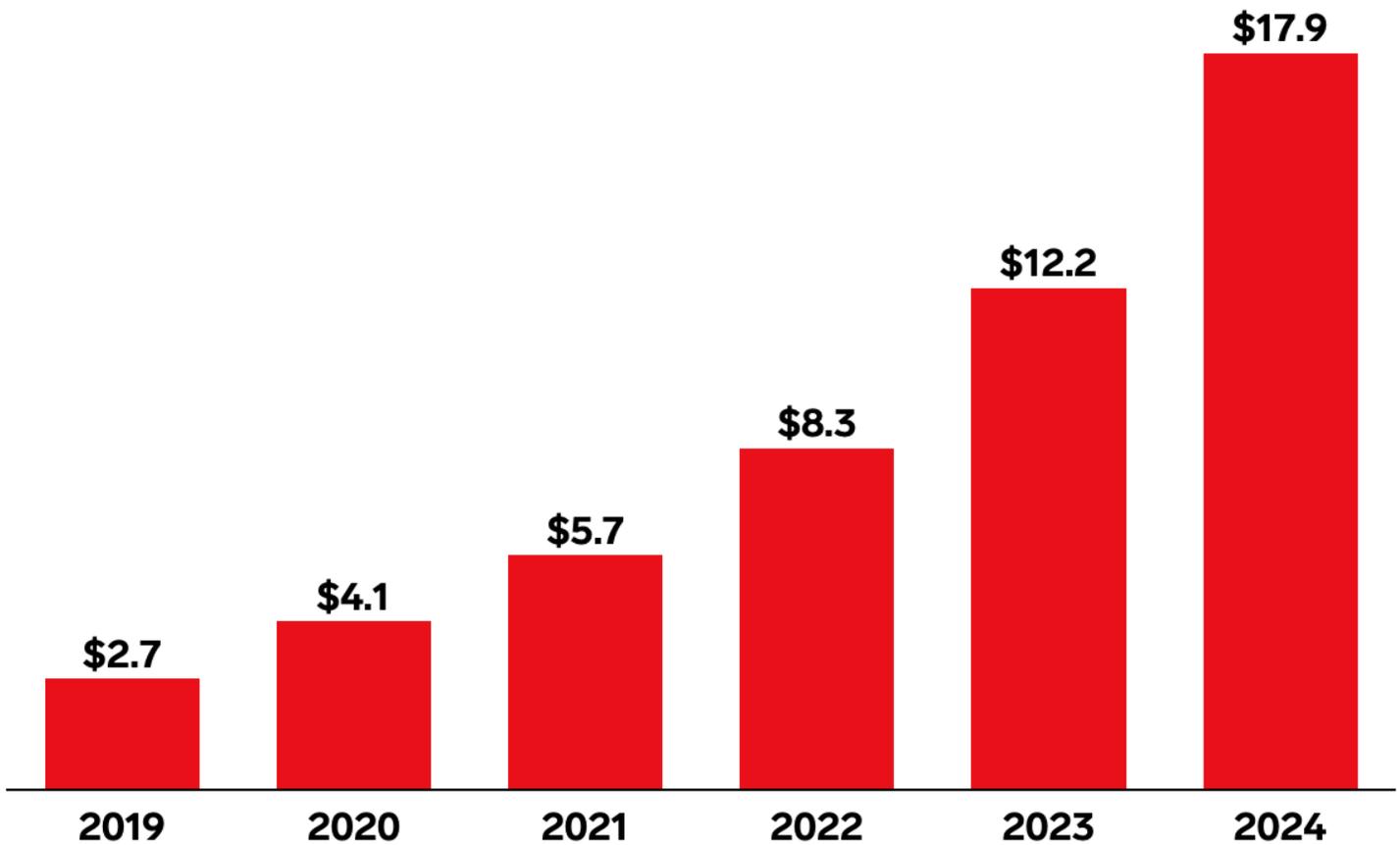
How we got here: The Chinese government's efforts to develop the first major CBDC and its scrutiny of top payment firms introduce a challenge for Ant and Tencent that they are ill-positioned to take on.

- **China's CBDC project outpaces other developed economies.** With [crypto payments](#) building momentum, many governments are taking an interest in CBDCs because they have parity with corresponding fiat currencies and can avoid the volatility of other cryptos, like Bitcoin. China has been at the forefront of this effort: Its CBDC has been used for more than **70.75 million** transactions worth over **\$5 billion**. CBDCs could change how consumers make mobile and digital payments—they're meant to be platform and technology agnostic, potentially challenging the [leading positions](#) Ant and Tencent have built by operating payments ecosystems that aren't interoperable.
- **The Chinese government's regulatory crackdown has hit Ant and Tencent hard.** Ant's IPO was [suspended](#) by the government, and the company was forced to restructure in response. Meanwhile, Tencent was [fined \\$1.54 billion](#) following an antitrust probe. The government's scrutiny and power over the firms likely leave them ill-equipped to ensure the country's CBDC benefits their businesses rather than hurting them.

What's next? The CBDC trial currently reaches 10 cities and some locations related to the 2022 Olympics in Beijing, and while the central bank has said there is no timeline for a nationwide CBDC rollout, it may be hoping to align the [launch](#) with the Olympics. That would give Ant and Tencent little time to develop a strategy to defend their payments volume from the possibility of banks and other firms facilitating CBDC payments in-store and online.

Global Spending on Blockchain

billions of dollars



Source: International Data Corporation, "Worldwide Blockchain Spending Guide," September 2020

Methodology: Data is from the September 2020 International Data Corporation report titled "Worldwide Blockchain Spending Guide." The report quantifies the emerging blockchain market by providing spending data for 10 technologies across 19 industries and 17 use cases in nine geographic regions.

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