

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email to Mr Yang Razali Kassim, Editor RSIS Commentary at RSISPublications@ntu.edu.sg.

Digital Yuan: Politicisation of China's CBDC

By Dylan MH Loh and Karyn Liow

SYNOPSIS

Global interest in cryptocurrencies and private stablecoin developments have compelled central banks around the world to consider developing their own digital sovereign currencies. China is leading the pack with the digital yuan. The race to launch the world's first major central bank digital currency (CBDC) and its politicisation signal the start of a subtle competition between major economies.

COMMENTARY

THE COVID-19 pandemic has facilitated a sharp pivot away from the utilisation of physical cash to digital modes of payment. This, coupled with a maturing cryptocurrency landscape, provides strong impetus for central banks around the world to seriously start thinking about issuing their own sovereign digital currencies.

In this regard, China leads the world in the development of its sovereign digital currency, the Digital Currency/Electronic Payment (DC/EP), or the digital yuan. The People's Bank of China (PBOC) started its research on the digital yuan in 2014. Three years later, it set up the Digital Currency Research Institute, and subsequently established its digital yuan.

China's Pilot Projects

Numerous pilot projects around China have enabled residents of several cities, including Beijing, Shenzhen, and Suzhou, to use the digital currency for both online and offline purchases. Six big state banks in China's commercial centre, Shanghai, are [working with PBOC](#) to promote the digital yuan as an alternative to existing cashless payment platforms – Alipay and WeChat Pay.

A pilot is currently being conducted in [10 regions](#): Shenzhen, Suzhou, Chengdu, Beijing (Xiong'An New Area), Shanghai, Hainan, Changsha, Xi'an, Qingdao, and Dalian. Designed to facilitate instant domestic transactions, the pilots have [tested](#) the digital yuan's stability and ease of use.

China's CBDC also promises to address perennial regulatory concerns such as capital flight, money laundering, tax evasion, and terror financing. As of April 2021, the digital yuan has been spent in stores such as Starbucks and McDonald's, as well as other private businesses such as JD.com.

The advancement of China's digital yuan trials does not stop at domestic users. The PBOC's recent collaboration with the Hong Kong Monetary Authority (HKMA) oversees [cross-border digital yuan payment trials](#). China also intends to allow [foreign athletes to use the digital yuan](#) during the Beijing Winter Olympics in February 2022. With these current and upcoming trials, it is likely that China will be the first major economy to introduce a CBDC.

China's CBDC: The Regional Response

The rapid development of China's digital yuan has heightened concerns around privacy, national security, and political power in the West, with alarm bells ringing particularly loud in Washington and its close partners.

Despite reassurances from both the PBOC and former PBOC governor Zhou Xiaochuan that the digital yuan is to be used domestically rather than globally, US policymakers are increasingly wary of the challenge posed by the momentum of China's digital yuan efforts.

While officials from the United States Securities and Exchange Commission mentioned that China's digital yuan is not yet a serious challenger to the dollar, [conservative Republicans](#) view its development as China's long-term bid become the world's dominant reserve currency. Indeed, historian Niall Ferguson has called the digital yuan a "[potentially fatal challenge](#)" to the US' decades-long financial hegemony.

Policymakers in Taiwan have also gradually started to demonstrate the same urgency. The close ally of the US has previously [viewed](#) the digital yuan as "nothing more than a propaganda piece and publicity stunt from Beijing". Nevertheless, China's concrete roll-out of its digital yuan has led Taiwan's central bank to increasingly perceive this as a security threat.

Surprisingly, Japan's reactions towards China's digital yuan development are somewhat ambivalent. Japanese officials have [played down](#) the potential for China's digital yuan to threaten the dollar's position even as they [acknowledged](#) that China has a "first-mover advantage" in issuing a sovereign digital currency.

Global Spread of CBDCs & Its Politicisation

In that regard, China's haste has promoted these actors to accelerate their own CBDC plans. Despite [initial statements](#) from the Central Bank of Taiwan's President Yang Jinlong that Taiwan is in "no hurry to launch a digital currency", it has since launched

its own retail CBDC trial in September 2020. The Bank of Japan has also confirmed its [plans](#) to potentially launch a digital Yen. The digital Yen currently in the [first phase of experiments](#), which will be carried out until March 2022.

What is more, US Federal Reserve Chair Jerome Powell said in February 2021 that the digital dollar is a “[high priority project](#)”. Even though the US is unlikely to win the race to develop its own sovereign digital currency, the Biden administration has recently [stepped up its scrutiny](#) of China’s digital yuan plans.

Individual ASEAN member states have also ramped up efforts to launch their own sovereign digital currencies even as there is a wide gap in maturity. Notable developments include Cambodia’s Project Bakong, Thailand’s Project Inthanon, and Singapore’s Project Ubin. Other countries such as Indonesia, Malaysia, and the Philippines are still in initial feasibility studies. Myanmar, Vietnam, and Laos’ generally antagonistic perspective towards digital currencies has resulted in a lag.

The divergence among the ASEAN member states towards digital currencies has prevented the regional bloc from any collective position vis-à-vis China’s digital yuan. For instance, the Bank of Thailand is collaborating with the China, Hong Kong and the Central Bank of the United Arab Emirates. Additionally, Singapore’s central bank and financial regulatory authority, the Monetary Authority of Singapore (MAS), has welcomed close cooperation with the PBOC to exchange related knowledge and expertise with China on CBDCs.

Redefining Money?

Against the backdrop of heightened US-China rivalry, particularly in the tech domain, it is perhaps inevitable that China’s rapid CBDC advancements has been met with some concern from Washington and its allies. Indeed, the digital yuan’s rapid progress promises not only to redefine existing modes of payment but also ‘money’ itself.

Beyond its technical sophistication, what is perhaps more significant is how China’s CBDC enables Beijing to track, monitor and surveil financial transactions at a granular level.

This makes it a compelling model for other countries to follow – perhaps extending China’s regional financial influence. As the central banks around the world come to grips with the wider implications of blockchain technologies, the politicisation and competition of CBDCs have begun apace.

Dylan MH Loh is an assistant professor at the public policy and global affairs programme at Nanyang Technological University (NTU), Singapore. Karyn Liow is an undergraduate student at the same programme. They contributed this to RSIS Commentary.
