

# Digital Currencies: The US, China, And The World At A Crossroads

This multidisciplinary report explores the economic and sociopolitical motives for China's central bank digital currency and its implications for privacy, international security, and the leading role of the United States in global finance. Among the key findings: The US government should advocate for democratic norms of privacy, accountability, transparency, and security in shaping the global standards for digital currencies, and should improve innovation and competition in its own payment systems.

Central bank digital currencies have taken flight globally, and China is boldly leading the way. How will China's digital currency, the e-CNY, serve the political and economic agenda of China's authoritarian government? What are its implications for the world economy, international security, and the leading role of the United States in global payments and finance? How might the e-CNY and its underlying and related technologies be adopted by other countries? How do we weigh the potential gains in efficiency against the risks to privacy and security? How should the United States respond? To answer these questions, the Hoover Institution brought together distinguished experts in national security, finance, economics, central banking, technology policy, and computer science. This volume presents their findings and proposes a pathway toward revitalizing US financial

leadership on the international stage in the digital age. The United States must respond to a spectrum of key policy concerns raised by the e-CNY and improve incentives for innovation and competition in its own payment systems. It should expedite development of technology and standards for a possible digital dollar. And it should advocate for democratic norms of privacy, accountability, transparency, and security in shaping the global rules surrounding central bank digital currencies.

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### **SYNOPSIS**

McDonald's Shanghai accepts it. So do millions of other retailers in China. The digital yuan, or e-CNY, China's central bank digital currency (CBDC), is muscling its way into a vast consumer market. Over 250 million Chinese people have already opted into it. On January 5, 2022, the day after its launch, an e-CNY wallet was the most downloaded app on Apple's iOS App Store in China.

The e-CNY is also crossing borders. An experiment of the Bank for International Settlements, the m-CBDC Bridge, is enabling cross-border CBDC payments between Thailand, Hong Kong, the United Arab Emirates, and China. The Chinese telecom giant Huawei has also preinstalled an e-CNY wallet in its Mate 40 smartphone line, helping to extend the e-CNY's reach into new markets.

Why is China deploying a CBDC? The e-CNY will be a digital substitute for paper money, grant more Chinese people access to the banking system, and provide Beijing with greater oversight and control of business and individual financial transactions. The e-CNY also enhances Beijing's ability to exercise political control over Chinese society. In addition, China has a significant

opportunity on the global stage to cement its international leadership of payment technology innovation and adoption, set economic norms and technical standards that align with its authoritarian governance system, and increase its ability to undercut the traditional dominance of the US dollar as a source of geo-economic and strategic influence. Over time, the spread of the e-CNY might diminish the role of the dollar as the world's reserve currency and undermine the ability of the United States to deploy financial sanctions against rogue international actors.

China is not alone. Many countries, from South Korea to the Bahamas, have joined in the global CBDC gold rush. The United States, however, has held back. If Washington does not move quickly to adopt a more proactive strategy, it risks its leading role in global finance and financial technologies, eroding the strategic influence of the US dollar.

This volume analyzes these developments and provides a path for US policy makers to help ensure continued US leadership within the global financial system in the face of this potentially transformative new financial instrument. It remains agnostic as to whether the United States should ultimately adopt a CBDC but argues that, for both continued economic competitiveness and global influence, Washington must strive to lead in the digital currency revolution. Three broad recommendations stand out:

1. The United States should launch a well-resourced CBDC research and development effort drawing on the talent of US government, private sector, and university actors to ensure privacy, prevent illegal payments, and provide for a competitive and innovative payment landscape. The Boston Fed's partnership with MIT, *Project Hamilton*, is an early example of such collaboration.
2. The United States should establish a strategic plan for payment systems in the US digital economy that provides for the development of

data privacy standards and the integration of CBDCs, fast-payment systems, and private payment arrangements such as stablecoins.

3. The United States should step up to lead the development of an international regulatory framework around digital currencies, including CBDCs, that prioritizes consumer protection, privacy, financial anti-crime compliance, financial stability, and the protection of monetary sovereignty.

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