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# The Chinese Government's Race to Central Banking Digital Currency & its Increasing Control Over its Citizens

Opinion

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The People's Bank of China has tested a Central Banking Digital Currency (CBDC) in response to various factors affecting the government's control over its citizens' payment transactions. Through a lottery system, the government handed out 23 million dollars' worth of yuan to over 750,000 people across China [1]. Once the digital yuan app is downloaded, one can go to thousands of merchants who have signed up to accept digital yuan, scan a QR code, and pay for their product all through the app. Merchants prefer this payment method because there is no transaction fee, unlike Alipay and WeChat Pay's private digital wallets. Over time, the Chinese digital yuan app is expected to



carry out transactions without the internet, granting rural areas the benefits of this payment method. The People's Bank of China has stated that it hopes the digital yuan becomes the primary form of payment, eventually phasing out cash.

Private digital wallets dominate Chinese consumers' preferred method of payment services within China. The general Chinese public is accustomed to using digital wallets, so from the public's perspective, the switch in payment method has not been a radical change [2]. The major difference is now the central Chinese government has access to all payment information records instead of the private digital wallet companies. The hegemony of the US dollar and the history of economic sanctions through the SWIFT transfer system, have been a threat to Chinese business. China hopes to reduce reliance on the American dollar by issuing CBDC [3]. In short, the CBDC trials have been introduced at the perfect time, and so far, have been successful.

China might have the most prominent CBDC project, but they are not alone. According to the Atlantic Council CBDC tracker [4], there are currently 28 countries in the research phase including the US, India, Chile, Australia, and the EU. Small-scale pilot testing has taken place in 19 countries including Saudi Arabia, Russia, and South Korea. The number of countries involved in some phases of CBDC leads to the conclusion that a shift from physical currency to a centralized digital system is surely inevitable. The question now is how quickly countries will realize this shift or should a country completely phase out cash? China's policy on digital currency will not be mimicked in its entirety, as countries are reluctant to completely phase out cash due to several concerns including privacy and legal issues.

On May 20th, 2021, the US Federal Reserve announced that it is in the process of publishing a discussion paper where the possibility of issuing a digital dollar will be discussed. Federal Reserve Chairman Jerome H. Powell states [5]: "We think it is important that any potential CBDC could serve as a complement to, and not a replacement of, cash and current private-sector digital forms of the dollar, such as deposits at commercial banks. The design of a CBDC would raise important monetary policy, financial stability, consumer protection, legal, and privacy considerations and will require careful thought and analysis—including input from the public and elected officials."

### **Should the US feel pressured?**

At first glance, it seems that the US is falling far behind the digitalization of the dollar. As of May 20th, 2021, 88% of the world's international transactions are carried in dollars, but the digital yuan could bring the percentage down due to the presence of Chinese companies in international trade [6]. Although there is no specific date as to when China will launch CBDC nationwide, many speculate that it will be in full use by the next Olympic Winter Games taking place February 2022 in Beijing [7]. Early Chinese adoption of CBDC may give it the prestige and media coverage that comes with the Olympic games, but being the early adopter also comes with its disadvantages, as the CBDC will likely not go as smoothly as planned due to implications it will have with commercial banks, and foreign investment. It is also unknown if foreign companies operating in China would accept digital payments when conducting business.

Surely, the US will not have the prestige of being the first country to implement CBDC. Nevertheless, it is advisable that the US continues to take the slow road towards digitalization. The US does not have the luxury of neglecting or exploiting its citizen's privacy. The Federal Reserve's research paper is an important first step in gauging the public's opinion and identifying the potential issues ahead. Keeping a close eye on the Chinese implementation and response will also aid the US in its domestic application. Preferably, American CBDC implementation would be gradual and co-exist alongside physical currency for years. The US consumers would phase out cash organically as opposed to government mandate. The fate of the physical US dollar would truly be left to the American public.

## Sources

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