

Is Digital Yuan all set to Challenge the US Dollar's Status Quo

The stock market meltdown amid coronavirus crisis for consecutive two days and a significant movement of a group of stocks on Shanghai stock exchange in China triggered an automatic circuit breaker halting the trading, but interestingly trading was suspended not because the stocks plunged but because they soared. The volatile rally of digital currency may be attributed to the news that followed, which rolled the timeline by the Chinese Government for its new digital currency in its four cities. In months to follow the government employees through their smartphone application will receive some portion of their salary cheques in the form of digital payments thereby creating a milestone in the arena of Central Bank-backed digital currency system. Rumours suggest that the 'digital currency electronic payment', DCEP, could be rolled out to the public by the end of this year. The People's Bank of China targets to use the digital Yuan for the upcoming Winter Olympics scheduled in January 2022 in Beijing. If the project comes out successfully, DCEP backed by the Yuan could banish the requirement for both, cash as well as online payment services which could be yet another successful attempt from China to challenge the US dominance over the globe.

Presently, the US dollar dominance the global economy as in 2019, over 90 per cent of foreign transactions were in US dollars and about 60 per cent of all foreign exchange reserves in the world is maintained in US dollars while the contribution of Chinese Yuan is limited only to 2 per cent of global payments and reserves. To uphold the Dollar's status experts have been cautioning the US authorities as the Chinese dominance in the emerging financial technology could be alarming and would have intense negative effects for the U.S. There can be no denial that China may work upon something comparable to SWIFT to create its digital payment architecture, which could be more centered on Chinese digital Yuan. It is no wonder that countries like China and Russia have developed their alternative system to overrule SWIFT. Russia in 2014, launched System for Transfer of Financial Messages (SPFS) whereas, China in 2015 developed a Cross Border Interbank Payment System (CIPS). President Donald Trump in 2018, departed from the Iran nuclear deal and imposed more restrictions on the Middle-East States thereby impeding it's trade relations with other member countries of the deal. In 2019, the UK, France and Germany step ahead to create a special purpose vehicle, 'Instrument in Support of Trade Exchanges' (INSTEX) to facilitate Non-USD and Non-SWIFT transactions with Iran. Countries like Sweden, Netherland, Denmark, Norway Finland and Belgium went ahead and chose (INSTEX) to trade with Iran. In wake of US' restrictions against Russia, Moscow and India have been trading for procurement of defense equipment through the rupee-rouble mechanism.

Since 2014, China is working upon developing digital currencies to shift away from the US dollar and has made it its national strategic goal. Supported by the highly advanced technologies like blockchain and artificial intelligence China is all set to secure its financial autonomy. By taking the lead and becoming the first world power to control the digital payment system, Beijing would surely hammer out a sturdy position in the world economy by being less vulnerable to sanctions from the U.S.

China under it's an ambitious project of 'One Belt, One Road' has invested heavily in North Africa and Middle-East. It has invested around \$300 billion in Sub-Saharan Africa, \$175 billion in South America, \$115 billion in Australia, \$28 billion in East Asia and investment, worth \$300 billion in West Asia alone. With South-East Asia, Africa and the Middle East under its influence, moving to digital currency will not be a challenge for China and could cover 50 per cent of the global population by 2030. Experts predict that the coverage could come in the form of IPOs, payment for retail, investments, wages and so on.

Thus, in the short run, China's digital Yuan may not pose any threat to the status quo of the dollar but in long run would surely challenge the position of the west. Although, China's frontrunner status is not guaranteed as the

European Central Bank announced its planning to launch a digital Euro in the European Union wherein the top priority shall be the data protection. Also, Libra, the digital currency of Facebook along with an e-wallet 'Novi' plans a privately run global currency for its over 2.7 billion users. Who shall be the victor in the race of digital currency remains in the womb of the time, however, it is clear that in future what is the digital currency and how we pay it will have a tremendous impact in designing the international geopolitical framework and dominance on the globe.

A handwritten signature in black ink, appearing to read 'Mahima', with a stylized flourish at the end.

(Prof Mahima Birla)

Editor in Chief