

# INSIDE DIGITAL ASSETS

with RIC EDELMAN

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## CHINA'S LEAD WITH DIGITAL CURRENCY THREATENS DEMOCRACY AROUND THE WORLD

By [Ric Edelman](#), Founder, Digital Assets Council of Financial Professionals

I'm often asked about the future of digital money. As blockchain technology grows in acceptance and usage, digital money will dramatically change how the world's financial system operates.

For more than one hundred years, the U.S. has led the world in financial innovation. We're the world's leading economic power, the U.S. Dollar is the world's reserve currency, and our economic and political systems have helped to bring democracy to every corner of the planet.

But all that is under threat because the U.S. is no longer showing the leadership it once did. As a result, China is leapfrogging our nation with its own combination of monetary policy and embrace of blockchain technologies.

China's Ant Group's Alipay and Tencent's WeChat Pay are already the largest fintech payment services in the world. Now, the Chinese government is transitioning from paper money to a digital currency, via its launch of the e-CNY, aka the "digital yuan." This is the digitized version of China's legal currency, the renminbi (RMB), and it's issued by the People's Bank of China, China's central bank.

The Chinese Communist Party says it wants to create more efficient payment services (business, consumer, and even social welfare payments), reduce corruption, and serve the underbanked – those without cellular or internet services. All that sounds noble. But China's real motivation is to grow its power.

The Chinese government will use e-CNY to trace money flows into and out of citizen's bank accounts. They'll be able to see who you called your phone, freeze your online accounts and even seize assets from them. Indeed, the e-CNY lets the Chinese government punish its citizens for their social and political activism and criticism.

Such are the concerns raised by a striking new report from Stanford University's Hoover Institution. This 227-page report on digital currencies urges the U.S. to launch its own Central Bank Digital Currency and allow for private-payment transactions that include stablecoins.

In the report's foreword, former Secretary of State Condoleezza Rice writes that China "poses stark challenges for the United States and the world" and that "China's 'first mover' advantage consolidates its lead in online payment technology and will elevate authoritarian norms that undermine principles of transparency, accountability, and human rights." She urges U.S. authorities to "move energetically to develop a U.S. central bank digital currency to counter this growing Chinese influence."

For sure, international adoption of Chinese e-payment platforms could give the Chinese government power over countries, companies, and individuals worldwide. This is already happening: the report notes that more than 60% of smartphones sold in Africa are made in China, and new phones like Huawei's Mate 40 come with CBDC wallets.

### **The Hoover Institution's Key Recommendations**

Hoover's report urges the United States to prevent the e-CNY from undermining U.S. geo-economic and strategic influence and stop RMB-based payment arrangements from threatening individual freedoms and human rights.

In our recent blog post, ([Issue #18](#)), we noted that President Biden recently issued an Executive Order directing the federal government to explore creation of a CBDC. Since then, Treasury Secretary Janet Yellen, in her first speech on digital assets, said a digital dollar could become "trusted money comparable to physical cash" and referred to blockchain technology as "transformative." She noted that a U.S. CBDC must support the dollar's role in international markets.

### **The U.S. Must Regain Leadership to Protect the Global Monetary System**

In short, for the executive branch, the Federal Reserve, Congress, and the American people, this is an urgent task. Now is the time for us to accelerate research, development, planning, and preparation to ensure U.S. global leadership and competitiveness in digital financial technology.

Our government must assert leadership – right now – to maintain our dominance of the global financial system and to prevent China's CBDC from undermining democracy and human rights around the world.

Read the report at [Hoover.org](https://www.hoover.org) and encourage our nation's leaders to act fast – before it's too late.