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Executive Summary

China's Digital Currency Initiative and Implications for U.S.-China Competition



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*This article is written based on the author's personal opinions
and does not reflect the views of the Sejong Institute.*

Executive Summary

□ This is a Chinese government's initiative aimed at:

○ Social Control

- The “digital yuan” will help track down tax evasion, the gray economy, and the underground economy. It can curtail corruption and improve the state's ability to accurately calculate GDP and collect other national economic data.
- It allows to trace individuals' cash holdings “real-time.” The government can set an “expiration date.” The government can freeze dissidents' accounts. The state can monitor, for instance, the records of an individual's purchasing luxury goods and downgrade the individual's “social credit score.”

○ Keeping Big Tech in check

- The market dominance by pre-existing mobile payment systems created by tech giants such as Alibaba's AliPay and Tencent's WeChatPay, will yield their power to the government again.

○ The U.S.-China Competition

- China has been in a position to “chase” the West in the course of economic development. China can become a world leader, however, when it officially launches the legal digital currency, for it would shape the new chapter in the

global digital finance.

- As the conflict between the U.S. and China deepens, China fears that the U.S. may take extreme measures, such as excluding China from the international financial network, since the U.S. already imposed sanctions on Chinese telecommunication and equipment entities like Huawei. For China, the short term goal is to break away from the U.S. dollar-oriented, international payment system. The long term goal is to seek a fundamental shift in the international financial order. ♣

※ Translator's note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.