

China Fires a Digital Shot Off of King Dollar's Bow

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China's pilot of a digital yuan is a shot across the bow of King Dollar. Domestically it will displace anonymous physical cash and compete with China's card-network monopoly China UnionPay, and its PayPal analogues Alipay and WeChat Pay. Abroad it will help it bypass the dollar-dominated global financial system, facilitating China's Belt and Road Initiative, which is being used to ensnare vast swaths of the world in its economic dominion.

Hopefully, it's a wakeup call for U.S. policymakers.

It's high time for digital dollars, dollars that could be carried by consumers in digital wallets and used online and in-person at casinos, bars, cafes, and barbershops, worldwide.

Digital greenbacks could be public, private, or both.

The Fed issues physical dollars to banks in exchange for reserves. It could do the same with digital dollars.

Former CFTC Chairman and Director of the [Digital Dollar Project](#) Chris Giancarlo shared his vision for modernizing the dollar's architecture in

the Senate Banking Committee's June 30th hearing [“The Digitization of Money and Payments.”](#) He envisions Fed e-dollars distributed through banks and regulated money transmitters. The central bank would issue e-dollars to banks against reserves, that would in turn issue them to consumers and businesses. The Fed would serve rather than compete with banks.

Distributing digital greenbacks through banks is politically practical as they're a powerful interest group. It also preserves the dynamicism and accountability of competitive private-sector banking and payment systems.

Fed e-dollars would be supported by a permissioned distributed digital ledger, hopefully, unlike China's digital yuan, with U.S. values like privacy designed in.

They wouldn't be the first digital greenback. In 2015 [Ecuador's central bank launched an account-based digital dollar](#). It failed, not because Ecuadorans don't like dollars - they do, but because of distrust of the central bank and the state MNO having a monopoly providing mobile payment services.

Competition between Fed and private-sector e-dollars would be healthy.

Facebook's Libra stablecoin – “the Zuck buck,” will be a de facto digital dollar, used with its wallet Novi within Facebook and WhatsApp, and via third-party e-wallets.

Chase's [JPMCoin](#) and Signature Bank's [Signet](#) are electronic dollar-backed tokens, facilitating payments between their domestic business clients.

And, the world's largest payment network Visa has [applied for a digital fiat currency patent](#). It could deliver digital dollars through its bank licensees.

In the U.S. digital dollars will help the un- and underbanked more fully participate in the economy, displace dirty physical cash, and compete with credit and debit cards, PayPal, and money-transfer systems like MoneyGram and Western Union.

But digital dollars' impact will be felt worldwide.

The dollar is the world's preeminent currency, enjoys trust and powerful network effects. It dominates foreign-exchange reserves, foreign-currency-denominated debt, foreign-exchange turnover, and cross-border interbank payments.

The dollar [accounted](#) for [61% of the world's foreign-exchange currency reserves](#) as of the fourth quarter of last year, far surpassing the euro's 21% share and the Chinese renminbi's paltry 2%. An enormous [74%](#) of the \$16 trillion in foreign-currency debt is denominated in dollars, and most international trade, including oil, is invoiced in dollars.

While Beijing resents its dominance, foreigners planetwide love dollars. They circulate widely outside the U.S., for licit and illicit purposes. About 60% of U.S. currency and [75% of \\$100 bills are held abroad](#). Dollars are

used officially in Ecuador, El Salvador, Panama, the Turks and Caicos Islands, and Zimbabwe. In Costa Rica, the greenback circulates in parallel with national currency. Hong Kong, for the moment, pegs its currency to the dollar.

In November, 2019 Zimbabwe's central bank introduced a new Zimdollar, attempting to displace the U.S. dollar. However, it's quickly returning to binge money-printing. In May, 2020 inflation hit 786%, though that's still a far cry from Zimbabwe's November, 2008 peak monthly inflation rate of 79,600,000,000%. Civil servants have started demanding to be paid in dollars.

Since its 1913 creation the Fed's massively debased the dollar. Nonetheless today, relative to most fiat currencies, the dollar is a Rock of Gibraltar and trusted as a store of value, unit of account, and means of exchange.

Zimbabweans, people the world over, prefer currencies they can trust. Electronic greenbacks they can access from mobile phones will make it easier for them to dollarize and avoid debased domestic currencies.

Digitizing King Dollar will make it more attractive at home and abroad, and fortify its global dominance.