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Social, Political and Economic Dimensions of the Instituted Process of Central Bank Digital Currency: The Case of the Digital Yuan

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An outline of this study

- Motivation and research questions
- Socio-political-economic dimensions in progression of digital currency
- Central bank digital currency as instituted means
- Particular instituted process of digital yuan
- Prospects and concerns of digital yuan in global context
- Conclusion and Remarks



Motivation and research questions - (1)

Extending Polanyi's arguments (1957) on the economy as an instituted process to this digital age.

- “Unity and stability, structure and function, history and policy spell out operationally the content of our assertion that the human economy is an instituted process.” (Polanyi 1957, 250)
- “It becomes apparent why money uses – like trade activities – can reach an almost unlimited level of development, ...” (Polanyi 1957, 266)
- “... the economic process is instituted. The three institutions of trade, money and market will provide a test case.” (Polanyi 1957, 245)



Motivation and research questions - (2)

Three research questions:

1. How does the formulation of a central bank digital currency (CBDC) represent an indispensable part of a new instituted process in a digital society/economy?
2. What are the particular instituted process and the practices of China's digital yuan as a CBDC?
3. What would be the potential role of digital yuan in the global context?

Socio-political-economic dimensions in progression of digital currency

- Two categories of digital currencies (DCs)

Digital technology \Leftrightarrow living habits and routines of market exchanges
(e-commerce / the virtual community)

Legal tender \rightarrow Financial intermediaries and related operators \rightarrow **Digital fiat currency (DFC)** ✓

Individual operators \rightarrow **Private digital currency (PDC)**

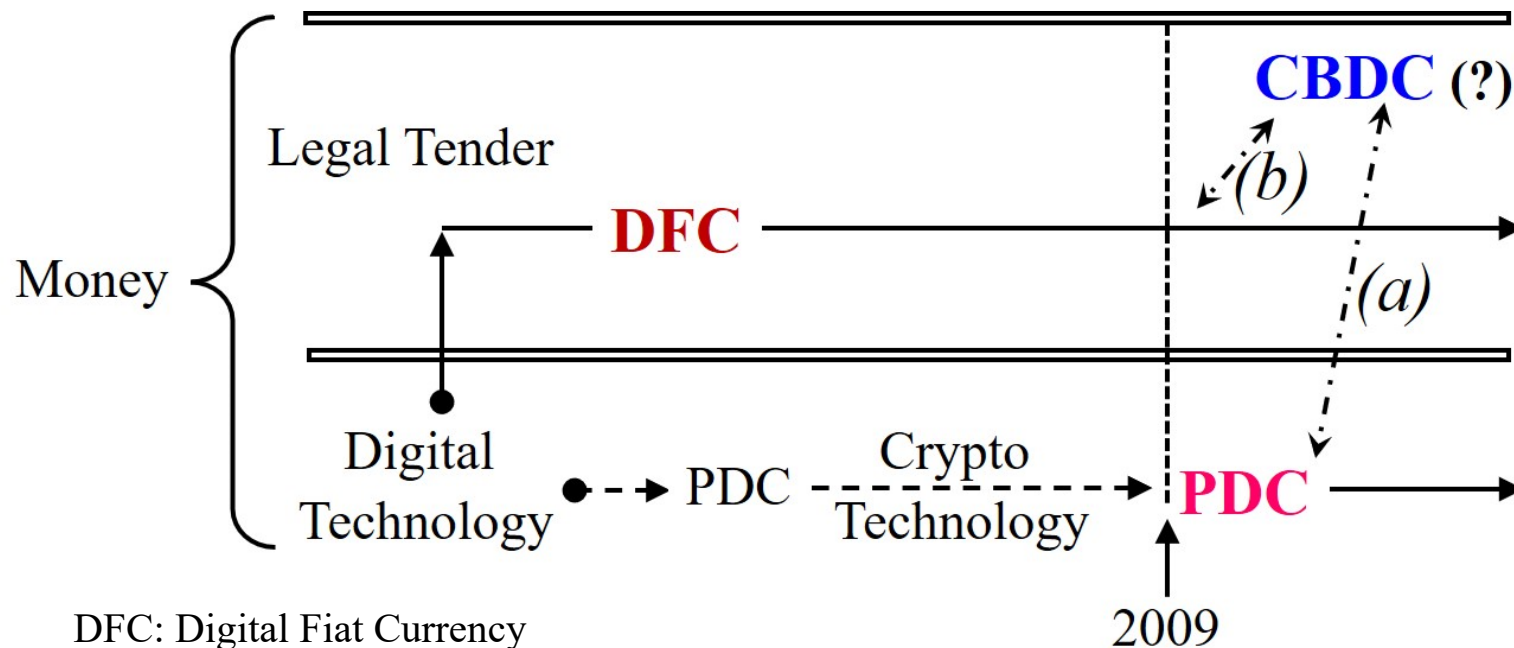
“techno-libertarianism” \rightarrow anonymity/privacy in the uses digital currency? / ✗
(Goldstein 2020, 187-212)
↑
“cypherpunks”
E.g., China

E.g., ... the Americans have deterred excitement to “rush out and adopt the new and innovative digital currency products” (Mullan 2016, 11)

A turning point in 2009: “... benefited from arriving on the scene in the middle of the financial crisis, a moment when hundreds of millions of people who had never paid much attention to the meaning of money suddenly found themselves much less trustful of trusted intermediaries.” (Goldstein 2020, 202)

Central bank digital currency as instituted means - (1)

- Researches on the formulation of a CBDC in a well-developed economy largely exhibits the government's policy response to the expanding uses of PDCs.



DFC: Digital Fiat Currency

PDC: Private Digital Currency

CBDC: Central Bank Digital Currency

Central bank digital currency as instituted means - (2)

- CBDC as an instituted means ...
 - ◆ “... to preserve the effectiveness of monetary policy in a world increasingly flooded by private digital currencies.
(Cukierman 2020, 114)
 - ◆ ... to preserve the unity and stability of a monetary system, and maintain the proper functions of its legal tender.
- While sharing a common ground, the instituted process of different CBDCs are vary in accordance with the contextual settings and policy objectives in different societies.
 - ◆ (Digital USD v. digital Euro ...) v. digital yuan

Particular instituted process of digital yuan - (1)

- Contextual settings for the institution of digital yuan
 - ◆ China exhibits as a creative imitator with ability to innovate for its economic reform and development.
 - ◆ China was an “overwhelmingly cash-based” society in the 1980s/1990s. (Economist Intelligence Unit 2017, 55)
 - Issues of counterfeit currency and illegal monetary transactions actually incentivized the community and the regulators to search for more secured form of money.
 - ◆ China’s economic reform coincided and interacted with the global digital revolution from the 1990s.
 - Wide acceptance and rapid popularity of mobile technology in the society in the 21st century

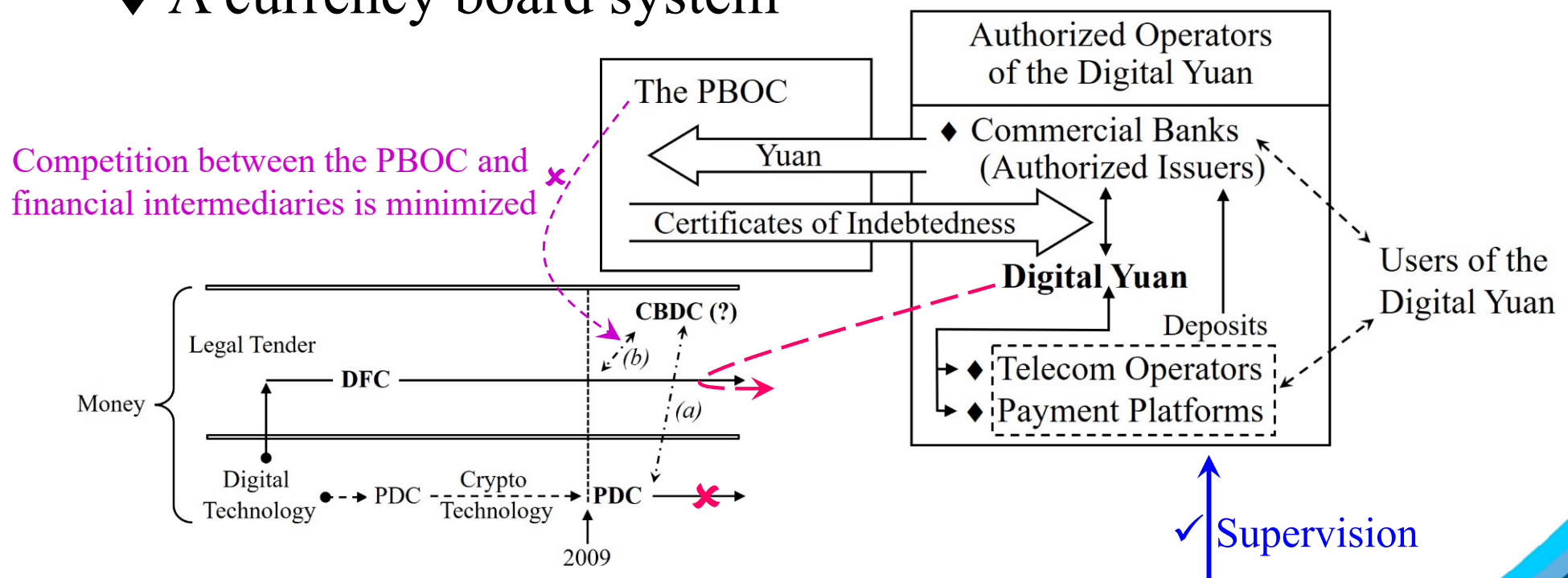
Particular instituted process of digital yuan - (2)

- ◆ Mobile payment substitutes cash in many areas of money uses (especially for e-commerce). Particularly, it saves the uses of paper checks and plastic credit/debit cards as commonly seen in the western countries.
- ◆ Yuan-denominated DFC and related shadow banking activities (e.g., P2P lending) also grow rapidly.
- ◆ The Chinese government is determined to stand firm to its dominant power in the development of its monetary/financial system.
 - Digital yuan is instituted to achieve the particular functions under China's contextual settings.

Particular instituted process of digital yuan - (3)

● Issuance and operation of the digital yuan

◆ A currency board system



◆ Adopting the Binary Operating System (BOS) instead of blockchain technology

Prospects and concerns of digital yuan in global context - (1)

- Digital yuan as a means for China to facilitate its Belt and Road Initiative (BRI)
 - ◆ Digital yuan is instituted as **a new operational device to promote exchanges between the BRI countries.**
 - To strengthen the China International Payment System (CIPS) as developed in 2015 for the BRI countries (... v. SWIFT)
 - Projects of establishing a Multiple CBDC Bridge from 2021 with some BRI central banks and monetary authorities
 - Direct conversions between the digital yuan and other currencies
 - ◆ Potential influence of the digital yuan in the BRI countries will increase.

Prospects and concerns of digital yuan in global context - (2)

- Threats to the dominant position of the US dollar and Euro are evident.
 - ◆ “China’s rapid progress in developing a digital yuan poses a key risk in preserving the euro’s international role.”
(François Villeroy de Galhau, a European Central Bank Governing Council member, June 30, 2021)
 - ◆ The United States government is increasingly concerned about its power to launch “USD sanctions” (Slawotsky 2020, 39) to preserve its dominance among the less-developed and emerging economies.
 - CIPS v. SWIFT in international payments
- Global influences of the digital yuan are yet to be determined by reactions of the international societies.

Conclusion and remarks

- Formulation of a CBDC actually represents a government's policies to **respond to the new market norms**, and to pursue different domestic and international interests **in a digital age**. Hence, the instituted process and practices of various CBDCs will not be identical.
- The instituted process of **the digital yuan provides a distinct case** as compared to the institutions of other CBDCs.
 - ◆ E.g., while the privacy issue in using the digital yuan with BOS has been a common concern in most studies, its practices is accepted in China widely, and in the BRI countries potentially.
 - ◆ ... supervision and monetary stability may have been instituted with a higher priority in these countries ...
- To be progressive in the local markets and competitive in the globe, the **operational content** of a CBDC has to be emphasized.

Thank You!

Any questions/criticisms are welcome.

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