

Digital currency policy economics

Part 4: Cross-border payments and currency dominance

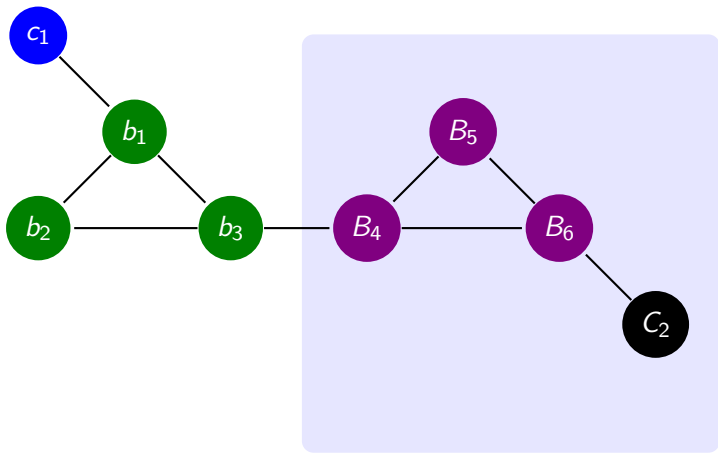
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Doctoral Course Program in Finance
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Outline

1. Correspondent banking and emergent cross-border payment technologies.
2. International progress with CBDCs ([Atlantic Council](#)).
3. Currency dominance factors: payments, FX reserves, FX markets, invoicing, debt issuance.
4. Implications for sanctions enforcement.
5. Implications for currency substitution, monetary sovereignty, and currency competition.
6. International principles and agreements.
7. Summary of course-relevant national policies.

What about cross-border payments?



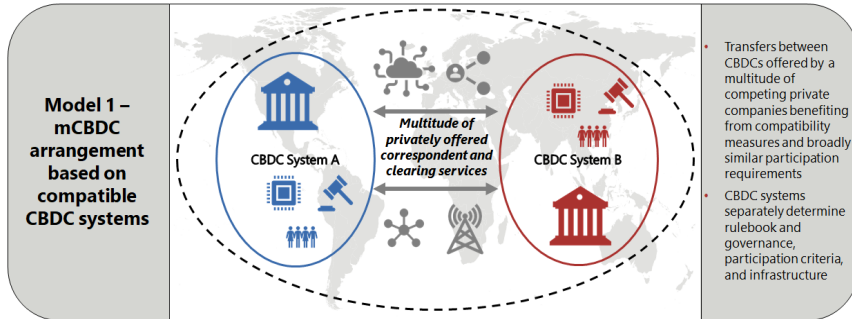
International use of eCNY

Christopher Hui, Secretary for Financial Services and the Treasury, Hong Kong.

“In the event that the PBoC would like to explore the use of DC/EP in places outside of the Mainland, including Hong Kong, the Government and the HKMA will actively respond and collaborate.”

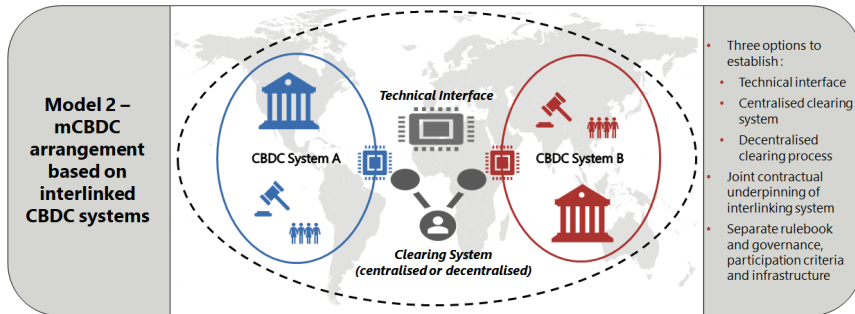
–[Hong Kong Legislative Council](#), October 21, 2020.

Cross-border CBDC payment: Model 1



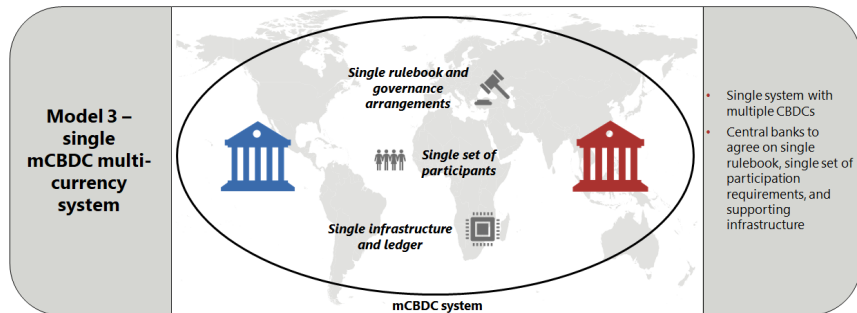
Source: Committee on Payments and Market Infrastructures, [Central bank digital currencies for cross-border payments](#), Report to the G20, Bank for International Settlements, July, 2021.

Cross-border CBDC payment: Model 2



Source: Committee on Payments and Market Infrastructures, [Central bank digital currencies for cross-border payments](#), Report to the G20, Bank for International Settlements, July, 2021.

Cross-border CBDC payment: Model 3



Source: Committee on Payments and Market Infrastructures, [Central bank digital currencies for cross-border payments](#), Report to the G20, Bank for International Settlements, July, 2021.

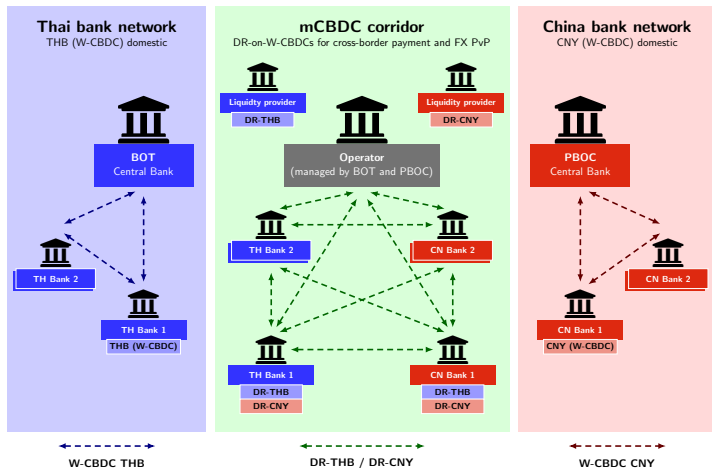
The m-CBDC Bridge Project

Currently includes China, Hong Kong, Thailand, and United Arab Emirates.

“ the m-CBDC Bridge Project will further foster a conducive environment for more central banks in Asia as well as other regions to jointly study the potential of DLT in enhancing the financial infrastructure for cross-border payments. Eventually, the outcome is expected to alleviate the pain points in cross-border fund transfers, such as inefficiencies, high cost and complex regulatory compliance.”

Joint statement on Multiple Central Bank Digital Currency (m-CBDC) Bridge Project, February 23, 2021.

A multi-CBDC exchange corridor



Adapted from: [Project Ithanon](#), Bank of Thailand and HKMA, 2021.

Cross-border stablecoin payments

- ▶ Stablecoins might simplify and speed cross-border payments.
- ▶ Leading examples: [USDC](#) (dollars) and [CNHC](#) (renminbi).
- ▶ Could sidestep international agreements.
- ▶ Could end-run sanctions, AML, CFT.
- ▶ Could contribute to currency substitution (dollarization, euro-ization, or yuanization) of small open economies, harming monetary sovereignty, despite agreements among central banks to prevent currency substitution with CBDCs.

The U.S. government is concerned

In addition, technological innovations such as digital currencies, alternative payment platforms, and new ways of hiding cross-border transactions all potentially reduce the efficacy of American sanctions. These technologies offer malign actors opportunities to hold and transfer funds outside the traditional dollar-based financial system. They also empower our adversaries seeking to build new financial and payments systems intended to diminish the dollar's global role. We are mindful of the risk that, if left unchecked, these digital assets and payments systems could harm the efficacy of our sanctions.

–[The Treasury Sanctions Review](#), U.S Department of the Treasury, October, 2021.

International use of eCNY

ZHU Min, Chairman of China's National Institute of Financial Research

“So, let's say if Singapore was willing to have the Chinese digital currency moving to Singapore and China was willing to accept the Singapore digital currency, maybe the two countries can sign a deal to work on those things.”

–[World Economic Forum](#), January 28, 2021.

G7 international CBDC principles

- ▶ Rigorous standards of privacy, accountability for the protection of users data, and transparency on how information will be secured and used are essential for any CBDC to command trust and confidence. The rule of law in each jurisdiction establishes and underpins such considerations.
- ▶ CBDCs should be designed to avoid risks of harm to the international monetary and financial system, including the monetary sovereignty and financial stability of other countries.
- ▶ The energy usage of any CBDC infrastructure should be as efficient as possible to support the international community's shared commitments to transition to a "net zero" economy.
- ▶ Jurisdictions considering issuing CBDCs should explore how they might enhance cross-border payments, including those through central banks and other organizations working openly and collaboratively to consider the international dimensions of CBDC design.
- ▶ Any CBDC deployed for the provision of international development assistance should safeguard key public policies of the issuing and recipient countries while providing sufficient transparency about the nature of the CBDC's design features.

Source: Selected from: G7, [Public Policy Principles for Retail Central Bank Digital Currencies](#), October 2021.

Course-relevant national policies

1. Use regulations and fast-payment infrastructure to promote a more open, efficient, and competitive bank-railed payment system.
2. Allow entry by private stablecoins and fintech banks, subject to compliance and interoperability standards.
3. Continue developing CBDC technology. Deploy a CBDC when the key technology gaps are closed and the economics warrant a CBDC.
4. Support wholesale CBDCs for settlement systems and cross-border payments.
5. Analyze dollar-dominance risks and benefits carefully.

Additional references

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