

Britain looks to establish digital currency

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The announcement by China earlier this month that it is currently testing the use of a digital yuan in various pilot programs has brought a reaction from the Bank of England. The Treasury and the BoE announced on Monday that they had established a joint task force to evaluate the creation of a central bank digital currency (CBDC).

Reporting on the decision, the *Financial Times* said it was a move to “future proof sterling against crypto currencies and improve the payments system.”

A statement issued by the BoE said a CBDC would be a new form of digital currency issued by the bank for use by household and businesses and would exist alongside cash and bank deposits rather than replace them. The taskforce would monitor international CBDC developments “to ensure the UK remains at the forefront of global innovation.”

It said the government and the BoE had not yet decided on whether to introduce a CBDC in the UK and would “engage widely with stakeholders on the benefits, risks and practicalities of doing so” and would “support a rigorous, coherent and comprehensive assessment of the overall case for a UK CBDC.”

As yet authorities have no clear idea as to the form any digital currency would take. But they are clearly concerned that if Britain falls behind in the development of new methods of international monetary transactions, then the position of the City of London as a major global financial centre could be weakened.

When crypto currencies first emerged, central banks were somewhat dismissive of them. But with the rise of bitcoin and a host of other cryptocurrencies and their growing use in financial circles the use of central-bank-backed digital currencies, and whether or not they use the blockchain ledger system that forms the basis of bitcoin, is under active discussion.

Last month the chairman of the US Federal Reserve, Jerome Powell, told an “innovation” conference

conducted by the Bank for International Settlements that Fed officials were working with the Massachusetts Institute of Technology to explore the feasibility of a dollar-based digital currency.

As with virtually every other economic issue – from COVID-19 vaccines, to trade, investment, technology and even green energy and climate change – the introduction of CBDCs is being analysed and discussed within the framework of a conflict with China.

The FT reported that the British CBDC move was “likely to magnify perceptions that the West can only meet the challenge from China’s currency advances, and the greater efficiencies it is likely to offer users, by following a similar path.”

Announcing the digital currency move last week, Chinese financial authorities said its goal for internationalising the yuan (also known as the renminbi) was not to replace the dollar and that the digital yuan was aimed at domestic use.

The deputy governor of the People’s Bank of China, Li Bo, said internationalisation of the renminbi was a “natural process, and our goal is not to replace the US dollar or other international currencies. I think our goal in to allow the market to choose, to facilitate international trade and investment.”

But as Bloomberg reported, the Biden administration “is increasing its scrutiny of China’s progress toward the digital yuan amid concerns it could kick off a long-term bid to displace the dollar.”

Immediately the Chinese move was announced, the former first managing director at the International Monetary Fund, John Lipsky, told the *Wall Street Journal* anything that threatened the dollar was a “national security” issue and “and this threatens the dollar over the longer term.”

There are also more immediate considerations in the US centring on its ability to use the pre-eminent position of the dollar in global financial markets to

impose sanctions in pursuit of its geo-strategic agendas.

In a comment on the China move, the FT cited remarks by Martin Chorzempa, senior fellow at the Peterson Institute for International Economics who recently testified to the US-China Economic Security Review Commission on the China “threat.”

He said hype had outpaced reality in digital currencies and while cryptocurrencies such as bitcoin were “booming” they were mostly used for speculation. China’s efforts to create a digital yuan had yet to prove that they would be more efficient or convenient than the existing international and domestic payments system. They were unlikely to “represent any more a threat to the dollar’s international dominance than the current forms of RMB (renminbi) at least over the short and medium term.”

While discounting any short-term threat to the dollar’s global position, Chorzempa said a benefit for China of a well-funded financial network would be the creation of “an alternative sanctions-proof set of financial infrastructure and currency arrangements.”

This is an issue of immediate concern. Starting under the Trump administration and intensifying under Biden, the US has weaponised the dollar by threatening to cut off banks which have dealings with individuals or countries it has sanctioned from the international financial system. Even Chinese banks will not deal with Chinese citizens who have been sanctioned, such as Hong Kong chief executive Carrie Lam, because of fears they will be unable to operate internationally.

Last month China began discussions with the Belgium-based SWIFT messaging service for international financial transactions to explore the means by which it could operate a digital yuan and has begun collaboration with Thailand and the United Arab Emirates on digital currency usage.

If the US views the development of a digitalised yuan as a significant means of evading the effect of its sanctions, then a significant response will follow.

The way in which the “China question” has become front and centre in all economic and financial decision-making in Washington was underscored on Monday when US Secretary of State Antony Blinken framed the question of climate change in terms of the conflict with Beijing.

He said the US was “falling behind” in the development of green technology and China held

nearly a third of the world’s energy patents and was the world’s largest producer and exporter of solar panels, wind turbines, batteries and electric vehicles.

“It’s difficult to imagine the United States winning the long-term strategic competition with China if we cannot lead the renewable energy revolution,” he said.



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