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INSIGHT: U.S. Must Act to Slow China's Roll Toward Global Digital Payments Domination

By Jamieson Greer

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China is aggressively seeking to dominate digital currencies and the next generation of international financial payments. Jamieson Greer, a partner at King & Spalding LLP who recently served as chief of staff in the White House's Office of the U.S. Trade Representative, warns that failing to address this emerging threat will undermine U.S. national security and explores what U.S. regulators need to be doing to level the playing field so China doesn't end up controlling the international payments system.

After years of neglect, the U.S. government has woken up to the strategic challenge posed by China. It is no secret that China seeks to dominate global markets in manufactured products, advanced technology, and artificial intelligence.

Global concern about Chinese hegemony over 5G networks is at an all-time high. Human rights and national security flashpoints are severely testing China's relations with the West.

Less known and perhaps more worrying, however, is China's ambition and growing ability to control the next generation in international financial payments through blockchain technology and digital or cryptocurrency. If successful, China will become the gatekeeper for key payment technologies and systems that the U.S. government, companies, and consumers will increasingly rely upon in the future.

Over the past three years, the Trump administration has made significant economic headway with China, extracting meaningful trade concessions while maintaining leverage with tariffs. But it is not enough for the U.S. to focus only on its trade in goods and services with China. Failure to address this emerging threat will undermine U.S. leadership in the global economy and present national security risk.

Leveling the Playing Field

The first step in this effort is to put U.S. companies on a level playing field with Chinese competitors. For decades, international financial transfers have depended on the U.S. dollar as the world's trade currency. But blockchain and digital currency advances will likely displace legacy payment systems.

The introduction of new technology to make cross border payments faster, cheaper and more transparent is welcome, but if the U.S. does not act swiftly it risks giving China the global advantage. This is precisely why China is promoting its own digital financial architecture.

China has already created a new domestic system for digital payments operated through its own tech companies, such as Alipay and WeChat. They capture more than 90% of individuals in China's largest cities on their mobile payment platforms. There is no question that in this space, China already has a world-class industry.

China is also working on creating a centralized, sovereign digital currency. The People's Bank of China began testing its currency in four cities in April, and we can expect this to spread throughout China and even abroad. It doesn't take much imagination to see China requiring international payments to be made using its digital currency. Weaker nations dominated by Chinese infrastructure projects and financing would be particularly vulnerable to such an effort. While it may seem improbable now, similar demands for U.S. retailers and consumers reliant on Chinese imports would not be far behind.

Following Same Playbook

While developing its own digital currency, China has simultaneously created favorable conditions for producing and hoarding cryptocurrency. The Chinese government is following the same basic playbook it uses to take over any sector. It is subsidizing the vast amounts of energy needed to fuel the servers and equipment at cryptocurrency "mining" facilities throughout the country. The government also has provided tax deductions to mining farms.

The leading hardware company for cryptocurrency mining equipment, BitMain, is in China and has facilitated the creation of a colossal industry within a few short years. As a result, 65% of cryptocurrency value for assets like bitcoin and Ether is concentrated in China. As their use expands, China will be in a unique position to exert influence or control over these currencies.

Unfortunately, the only two digital currencies that enjoy regulatory certainty in the U.S. market are bitcoin and Ether. Otherwise, the U.S. regulatory environment for digital currencies is opaque, unevenly applied, and puts home-grown projects at a severe disadvantage. Our policymakers should take the opportunity to provide clarity to ensure that U.S. blockchain platforms that rely on digital currencies created in the U.S. can compete everywhere.

Deliberate, Concrete Action Needed

This is not a question of providing special treatment for U.S. players—it's about setting the global industry on a level playing field. Without deliberate and concrete action by the U.S. (to which other countries look for leadership), China will own important components of the infrastructure of the new global payment economy.

A proactive approach is especially critical in a world where Chinese entities may become increasingly subject to U.S. sanctions, which are effective only to the extent they can reach financial transactions. The same is true with the long arm of U.S. anti-money laundering laws and corruption enforcement. China—and other actors that may find themselves on the wrong end of U.S. enforcement efforts—would be happy to control an alternative financial system to skirt those sanctions and anti-money laundering laws.

The time is right to get our house in order. U.S. companies are developing innovative digital platforms with the fastest transaction times on the planet. These U.S. entrepreneurs have successfully adapted digital currency for commercial use by hundreds of financial institutions globally—something that has never happened before. These kinds of free enterprise solutions can preserve American primacy in international payments and ensure compliance with global standards that promote good governance and the rule of law.

The private sector is doing its part; it is incumbent on U.S. policymakers to do theirs. It is imperative to establish a predictable and fair regulatory structure that establishes—at a minimum—a level playing field for U.S. blockchain innovators that rely on digital assets. Allowing the U.S. industry to continue muddling through a regulatory morass is a recipe for economic and national security disaster.

This column does not necessarily reflect the opinion of The Bureau of National Affairs, Inc. or its owners.

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