POLICY PAPER

The Decline of the Dollar, Suicide with Assistance?

When the US sanctions policy and the rise of crypto assets fasten up de-dollarization

VOCAL EUROPE

*This Policy Paper was written by **Astrid Viaud*** and **Paul-Arthur Luzu*** | 25 January 2023

Paul-Arthur Luzu
Luzu Consulting

Paul-Arthur is a former partner in an international law firm in Iran and the founder of a consultancy active on sanctions and crypto assets issues. He is the co-author of '*Between Dollar and Cryptocurrencies: The challenge of Sanctions for Europe*', Arnaud Franel Edition, 2022.

Astrid Viaud
PhD and consultant

Astrid is Doctor in Political Sciences, specialist of UN, US, EU sanctions, and Senior Consultant in several banking Compliance departments. She is the co-author of '*Between Dollar and Cryptocurrencies: The challenge of Sanctions for Europe*', Arnaud Franel Edition, 2022.

VOCAL EUROPE

RUE DE LA SCIENCE 14B, 1040 BRUSSELS

TEL: +32 02 588 00 14

VOCALEUROPE.EU

TWITTER.COM/THEVOCALEUROPE

FACEBOOK.COM/VOCALEUROPE

YOUTUBE.COM/VOCALEUROPE

INSTAGRAM.COM/VOCALEUROPE

The de-dollarization of the world, as a reserve currency, a unit of value and a medium of exchange, is a recurring issue that, sooner or later, will prove the point of the economic doomsayers. The latter might have found food for thought in various recent diplomatic declarations to slow down US dollar use (USD). However, the critical point might be somewhere else, between US economic sanctions policy and the rise of crypto assets, including the Central Bank Digital Currencies. Like previous hegemonic currencies, the USD naturally contains the seeds for its fall despite an exceptionally long-life cycle supported by economic globalization which helps it maintain a strong position. Continues abuses of this dominant position, especially as to sanctions, have created, for the first time, an economically viable bulk of sanctioned entities. As a result, maintaining the USD's position requires growing efforts for the same result and relying more than ever on very tight control of the financial system. The rise of crypto assets, and their assimilation by most financial vital players, could be a game changer. Independent crypto assets have shown limits but appropriation by Central Banks drives the issue at another level. Thereupon, China has a first-mover advantage to offer a stable financial alternative safe from US secondary sanctions. European companies could, under certain conditions, benefit from this situation but will they have the necessary European Union political support?

The declining use of the United States Dollar (USD), hence Washington's position on the world exchequer, is an evergreen issue for journalists who know that, sooner or later, they will be proven right. 2022 gave them food for thought with several diplomatic declarations in that respect, including from old allies like Saudi Arabia[1]. However, the key point might be somewhere else, between US economic sanctions policy and the rise of crypto assets, including the Central Banks Digital Currencies (CBDC) which, along with others, constitute converging low-signals of a slow-moving but irreversible movement from a USD dominant position to a multipolar system.

De-dollarization is the process according to which institutional, business, or individual actors reduce or stop the use of the US Dollar currency whether it is as a unit of account, storage of value, or as a trading/investment medium. De-dollarization includes, but is not limited to, selling the USD as a foreign exchange reserve, excluding it from trade agreements or the transactions of commodities as well as, among other uses, denominating assets in local currencies or gold. International or regional bodies as well as governments conceive sanctions as an instrument, between diplomacy and war, to alter the behavior of States or non-States actors by affecting their interests, mostly economic and financial. In practice, the impact of sanctions largely consists of US secondary sanctions blocking investment, trade, and exchange with listed entities to anyone, even non-US, using or linked to USD. Their number peaked during the last 10 years. In this regard, crypto-assets have been considered an alternative to the USD and the international banking system used by Washington to track forbidden transactions. These assets, even if not formally currencies, can be used to transfer value hence to trade with entities under sanctions. However, their regulation has quickly evolved everywhere. The rise of CBDC out of the influence of the USA could freshen up their interest.

De-dollarisation at large is not the object of the following policy review which focus on the sanction trigger and crypto-assets booster of the process, especially CBDC which constitutes its most promising leverage. Among the various impacts of de-dollarization, we have chosen to focus on the consequences for European companies. Part of this note is based on our book[2] on sanctions and crypto-assets compliance and business opportunities. Can the slow decrease of the USD position, including through the use of crypto assets, benefit EU companies threatened by the US secondary economic sanctions? In other words, is it a natural agony or assisted suicide?

Indeed, the long-lasting reign of the USD as hegemonic money is seriously challenged even though it remains in a strong dominant position. The threat might come from the money itself which, through out-of-control economic sanctions policy and crypto-assets development by State actors, might have launched a slow suicide with assistance

Reign of the US Dollar: Where do we stand?

The US Dollar is the current hegemonic currency. Like previous ones it follows specific life cycles and, so far, remains strongly in place. However, the important challenges it faces at this stage are not coming from the outside.

A hegemonic currency with a strong position

[1] Reuters, *China to use Shanghai exchange for yuan energy deals with Gulf nations*, 9 September 2022

[2] Astrid Viaud and Paul-Arthur Luzu, *Between sanctions and crypto-currencies: The challenge of sanctions for Europe,* Arnaud Franel Éditions, June 2022

King Dollar, which gives so much power of impact to the US secondary sanctions, bears in itself the seeds of its fall, due to its nature as a hegemonic currency, currently the only one. We talk of hegemonic currency for money dominating the three functions of currencies[3][4], from reserve of value to unit of account through medium of investments/exchange, and whose position is a tool of power for the public policy and the economic interest of the issuing State. As a medium of exchange, hegemonic money is omnipresent in global finance and trade systems because it ensures, through its available volume, a function of global fluidity of commercial and financial flows. Hence its domination as a global unit of account: every fiat currency or commodity can be appreciated according to it. Last but not least, the function of reserve of value relies on the trust in the dynamism of the economy of the issuing State as well as the other dimensions of its power (including soft power, military capacity, etc.). Therefore economic actors store this currency to back their currency or secure their trade. These conditions induce other sub-conditions. For instance, to be a reliable to trade and invest, a currency should be internationalized enough (used in cross-border trade and have enough convertibility hence no or few capitals flows restrictions). To sum it up, a hegemonic currency is necessary to maintain world trade and growth, giving important power to the issuing State.

Hegemonic currencies have always existed at a regional level until globalization made it possible at a global level. They behave according to life cycles with a limited expansion before the fall exposed by the dilemma of Triffin[5]. To maintain its status, the issuing State needs to feed the world with a continuous issuing of currency in the proportion to economic growth, so that everybody can store value and trade. As a result, the issuing State imports goods and pay with its own money, creating a permanent trade deficit. The huge amount of money necessary ends up affecting the world trust in this currency as soon as the issuing State can't back it up with another asset like gold or is sufficiently challenged in the other tools of its domination (military, technology, soft power, etc.) to show signs of slackening. Sooner or later, the constant growth of the world economy will lead to a situation where there is either too much money to be backed up or not enough money to allow economic players to store and exchange with it.

The US Dollar is the current hegemonic money since the end of World War II and is now reaching the last part of its cycle. The USA came out as the biggest winner of the conflict thanks to the lack of damage on its territory and the massive loans, with following exportation, granted to their allies. They accumulated the largest amount of capital, growing and innovating industrial production and two-thirds of the world's gold volume. They needed a new financial global frame to allow rebuilding and economic expansion. It led to the Bretton-Woods conference which resulted in a new gold standard: all currencies will be defined in USD, the latest being the only one to be convertible in gold. No currency should deviate by more than 1% from the USD. It means two implied rules: the United States will maintain the real value of the Dollar, and no one will ask to convert its USD into gold. The system mechanism was eased by low international capital mobility, tight financial regulation, and the dominant economic position of the USA. World growth and inflation were now relying on only one currency, one economy, and one State. The USA was constantly oscillating between Dollar Gap (it is necessary to print so that other countries buy from the USA and feed the growth) and Dollar Glut (too many USD makes the gold parity unsustainable since the reserve does not grow as fast as the world economy). A choice is made to maintain the hegemony of the USD: The Bretton-Woods system is put on hold before being terminated. The hegemonic currency is, from this point, not backed by any specific asset. Maintaining its value requires maintaining a flourishing US economy as well as other kinds of domination (military, culture, technology…) with the help of a network of allies and debtors. Washington, since the end of Bretton-Woods, is sentenced to be an unchallenged dominant player to maintain the value of its money.

At this stage, the USD weighs half of the world's transactions and 75% of the green notes are used abroad. The US Dollar is, *de facto*, the currency used to trade the vast majority of commodities worldwide. Its level of 87% of change operations in the world makes it the global unit of account. Furthermore, it assists individuals, companies, and public institutions to store value to mitigate the volatility of local currencies. 95% of the world's change reserves are in USD with still 61,8% for the Central Banks, which also store gold and other assets. Washington can handle trade deficits of $100 billion a month while its currency gets stronger. So, the country is still attracting

[3] S. Arslanalp, "*The Stealth Erosion of Dollar Dominance: Active Diversifiers and the Rise of Nontraditional Reserve Currencies*", IMF working paper 2022

[4] Eswar Prasad & Lei Ye (2013) "*The Renminbi's Prospects as a Global Reserve Currency,*" Cato Journal, Cato Institute, vol. 33(3), Fall.

[5] Robert Triffin, *Gold, and the Dollar Crisis: The Future of Convertibility*, 1960

foreign capital despite the huge US federal debt-to-GDP ratio is 121% which no other country can do: Investors keep looking at the USD thinking of safety. Indeed, Allianz Research compared the USD and the Yuan as to the different criteria of a hegemonic currency: The green note is still a leader by far despite Yuan's huge growth, at the expense of the Euro that should be matched by 2027[6]. Beijing is even ranked 2nd as to 2 sub-criteria: economic size and credibility. Despite having sacrificed the gold parity at the cost of more exposure to other power's competition, the USD is still the only hegemonic currency. So far, no attempts to challenge the USD were in a position to succeed.

The difficulty to challenge the USD position from the outside

Several external attempts at de-dollarization already occurred since World War II, including from France. In January 1965, General de Gaulle decided to convert into gold all French balance of payments USD surpluses. This year France exchanged more than 150 million USD coming close to 90% of its reserves in gold[7]. Previously, an alternative system, Bancor (from French words for bank and gold), had been designed by John Maynard Keynes to mitigate the drawbacks of a hegemonic currency. It was supposed to be independent of States and rely on the International Clearing Union to fix the balance when trade imbalances would threaten the world economy. None of these two experiences succeeded and the reign of the USD had not been seriously challenged from the outside.

It does not mean that, at a smaller or regional scale or for specific purposes, the USD can't be challenged successfully. Strategies and tools focus on two possibilities for value and exchange: reducing the use or bypassing USD. When it comes to the storage of value, reducing the number of USD is not always an option for countries with huge exposure. However, progressive diversification is possible by buying gold or other assets and mitigating the amount of USD with several important currencies, including its own[8], or a basket of less important ones. The IMF even noted, as to the rise of non-traditional reserve currencies, like the Swedish Krone, '*If dollar dominance comes to an end, then the greenback could be felled not by the dollar's main rivals but by a broad group of alternative currencies*[9]. Several central banks have even considered independent cryptocurrencies[10][11] and the IMF, following this movement, is working on recommendations as to the ratio of crypto assets[12]. To be efficient, these actions must be coordinated, non-exclusive, and progressive. For instance, the increasing purchases of gold have been spread through the last 10 years to avoid a sudden rise in price before reaching the current peak[13] and, at least for China, is probably underestimated.

As to the strategic diminution or alternative to USD for trade and investments, the possibilities are much more diverse. Of course, there are individual and mid-cap companies' solutions derived from swap/compensation patterns (Arabic *hawala* or Iranian *saraf* services) where companies or individuals pay debts for others in the local currencies. These barter systems have sometimes been institutionalized like INSTEX (UK/France/Germany with Iran) or the Swiss SHTA with limitations as to the products at stake. They failed mainly by lack of import/export balance and, most of all, political will[14]. Independent crypto assets are also a solution but, even with State support[15], limited by the growing regulation and specific sanctions that make it harder, but not impossible, to repatriate the funds in a European bank account. For instance, Nobitex, an Iranian platform, has led Binance under the light of OFAC[16].

The first step is therefore developing a series of bilateral or regional trade agreements. As to bilateral agreements, a growing series of countries have already opted for it[17]. However, regional trade agreements, most of the time based on a basket of local currencies, are much more efficient. The issue is now seriously on the table for the BRICS (nearly a third of the world's GDP (PPP)) and the Shanghai Cooperation Organization (40% of the world's

---

[6] Allianz, *Financial globalization: moving towards a polarized system? The Chinese yuan aiming for financial "co-hegemony" with the US dollar*, November 2022

[7] Éric Monnet, « *Une coopération à la française. La France, le dollar et le système de Bretton Woods, 1960-1965* », Histoire Politique, n° 19, 2013.

[8] Bloomberg, *Turkey's Central Bank Says Shift from Dollars to Liras Is Top Objective for 2023*, 30 December 2022

[9] Arslanalp, "*The Stealth Erosion of Dollar's Dominance: Active Diversifiers and the Rise of Nontraditional Reserve Currencies*", IMF working paper 2022

[10] Coin Telegraph, *Russia aims to replace US dollar reserves with digital assets in long term*, 19 October 2021

[11] M. Ferranti, *Hedging Sanctions Risk: Cryptocurrency in Central Bank Reserves*. Harvard University, 17 November 2022

[12] Bank of International Settlements, Basel Committee on Banking Supervision, *Prudential treatment of crypto assets exposures*, December 2022

[13] Financial Time, *Gold buyers binge on biggest volumes for 55 years*, 29 December 2022

[14] P Luzu M Sodayreh, *Le respect du droit international par l'UE : Quels outils économiques pour sauvegarder le JCPOA?,* Lexis Nexis MENA #4/2019

[15] P Luzu A Shokraneh, *Regulation of cryptocurrencies in Iran: Economic illusion or game changer?* Lexis Nexis MENA Business Law Review, 2022

[16] Reuters, *Crypto exchange Binance helped Iranian firms trade $8 billion despite sanctions*, 7 November 2022

[17] Bloomberg, *Suddenly Everyone Is Hunting for Alternatives to the US Dollar*, 21 December 2022

population), the EEU and even the ASEAN. But it remains uncertain that it could be the case for the world's biggest Free Trade Agreement, led by China: The Regional Comprehensive Economic Partnership. The fever seems to have reached new shores with Brazil's minister of finance evoking a South American digital currency built upon the Local Currency Payment System already used for many south American countries[18]. Ghana could even opt for directly paying commodities in gold[19]. However, volume and value are needed. This is where commodities are strategic. New Delhi's recent position as to buying energy in rupees is decisive despite the wait-and-see position of Saudi Arabia. In these configurations, we are still trading and investing through banks hence the SWIFT system[20] and clearing rooms, creating exposure to the USD hence US secondary sanctions. So far, the Chinese (CIPS) and Russian (SPFS) equivalents of SWIFT are very limited because of their size (15 000 messages a day for CIPS compared to 50 million for SWIFT), their regional dimension, and the intensive pressure of the USA on their members, leading recently, major Turkish or Kazakh banks to quite SPFS. From that perspective, there is, no imminent external threat to the USD. However, the situation could quickly evolve due to two US internal elements, sanctions policy and crypto assets, able to speed up the de-dollarization trend to reach multipolarity or co-hegemony of currencies.

From sanctions to crypto: is the USD committing assisted suicide?

The biggest threat to the domination of the USD might not come from external causes but from the conjunction of a suitable window with two internal weaknesses: out-of-control sanctions and crypto assets hesitations policies.

When US sanctions turn into an economic and political suicide

US secondary Sanctions, which affect every entity as soon as it can be connected to an American nexus, like the USD, have considerably evolved in nature and practice. Turned massive and automated, they require more and more effort for fewer and fewer results. Moreover, the growing bulk of sanctioned entities is now resilient and … attractive. US secondary sanctions were close to nothing before the legislation following September 11 and, years later, the USA Freedom Act of 2015. This legal frame allowed the US government to use massively the sanctions as leverage to defend the economic interests of American companies. The use of sanctions has risen by 933% between 2000 and 2021[21]… just before another exceptional rise due to Russia, now the most sanctioned country before Iran.

This rise was eased by a change in the nature and practice of sanctions. At first, sanctions were not just economic and had very specific targets with a clear objective, an escalation and winddown process, and an expected calendar. Step by step the legislation evolved to give the possibility to include larger grounds for sanctions (Magnitsky Act) while the president could sanction swiftly by Executive Orders (60% of sanctions in 2021) etc. At the same time, the practice tends to include broader entities hence a nearly automatic sanction process. Meanwhile, the scope of secondary sanctions has been widened by practice: Anything was likely to constitute a nexus with the USA. An important European company working with a sanctioned country had to ask its executives to add the name of the country in the object of each email so that an executive in transit in the USA while not mistakenly open it. However, the mother of all nexuses is the USD. In today's global financial world, the USD is everywhere. Should a company use euros sent by a bank with no US exposure and through the TARGET2 system (a European SWIFT equivalent) to another bank, the latter having a correspondent bank for its clearing room, it could be a US nexus hence possible US sanctions. Not only most transactions could be connected to the US but also the information is automatically coming up to Washington through, among others, the almost monopoly of the SWIFT banking messages system. However, as a former US Secretary put it, "*The more we condition use of the dollar and our financial system on adherence to U.S. foreign policy, the more the risk of migration to other currencies and other financial systems in the medium-term grows*"[22].

Iran, and probably soon Russia, is a good illustration of how massive waves of sanctions have resulted in an increased effort for fewer results. Under the presidency of Donald Trump, the sectors, entities, and activities under sanctions have been extended to touch nearly everything to the point that even the activity of '*manufacturing*', which could cover nearly anything, has been the object of a presidential Executive Order. Washington obtained no

[18] Tricontinental Institute, *The Road to De-Dollarisation Will Run through Saudi Arabia*, 15 December 2022
[19] Reuters, *Ghana plans to buy oil with gold instead of U.S. dollars*, 24 November 2022
[20] SWIFT is the messaging service used by the vast majority of banks worldwide to communicate transactions
[21] The Department of the Treasury, "*The Treasury 2021 sanctions Review*", October 2021.
[22] Reuters, *Sanctions 'overreach' risks driving business from U.S.: Treasury's Lew*, 30 March 2016

tangible political results but a movement of Tehran to Beijing and Moscow and a complicated sanction web requiring most of the management efforts of the OFAC and costly time-consuming compliance processes for American companies[23]. Worst, the massive sanctions waves pushed India and other important economies to stop using USD for certain products requiring important compliance that slow down and raise the cost of the trade[24]. Most of all, this out-of-control sanctions policy led to a massive bulk, turned economically viable, of sanctioned entities. From Beijing to Ankara, it is now possible to draw a line crossing country with US sanctions issues or concerns.

This geographical dimension should not be limited to Eurasia but include a variety of countries in other areas that feel the need to de-dollarize, at least partially, their economy. For them, China offers other possibilities of financing (especially in Africa or through the Belt and Road Initiative) via the Asian Infrastructure Investment Bank (AIIB)[25]. This new community is economically viable with a large population, leading international companies, a variety of industries and technology (despite a reducing gap for microchips), and access to cheap energy. However, it does not have a common platform of discussion since the BRICS, or the SCO does not encompass all the countries or entities at stake. However, both platforms have taken strong positions and open discussions as to reducing dependency on the USD. It is difficult to perceive a common ideology or community of interest other than challenging the US world order and its sanctions threat. The main trigger for taking this stand remains sanctions and especially the Russian situation. The freezing of 300 billion USD of assets owned by the Russian Central Bank and detained out of Russia, with a discussion about granting them fully or partially to the Ukrainian government, has been a shock for many countries that could fear facing a similar situation later. On a smaller scale, from an economic or political point of view, a similar situation with the Central Bank of Iran did not break the trust in the security of one's assets if labeled in USD. In the Russian case, much more countries could relate and feel in danger. We are, step by step, heading up to what the Crédit Suisse recently called '*one world two systems*' expanding from Eurasia before reaching the BRICS+[26].

The USA, to maintain the efficiency of the sanctions policy, and the USD's position, has to maintain and develop a tight control of the financial system while, for the first time, CBDC could provide an alternative parallel and independent financial channel. Despite its limits, at least political, a China-led block could see an opportunity here.

Could crypto assets, especially from Central Banks, speed up the process?

Cryptocurrencies are assets of a decentralized system to record transactions and manage the issuance of new units, through Blockchain technology, and based on cryptography to prevent counterfeiting and fraud. Independent cryptocurrencies have no central issuing or regulating authority. Even though they are not issued by a State, they detain the three functions of money and can even be backed by gold or by a fiat currency to avoid volatility. Central Bank Digital Currencies are just another form of the same fiat currency based on Blockchain technology. Using cryptocurrencies at large can be done without going through a commercial bank. As a result, the transaction is almost immediate, with no or few costs, no over-compliance by the exchange platform, and not at all out of the platform. These assets are henceforth widespread for individuals, companies, and financial investors. As to CBDC, out of 119 countries, there are already 11 launched but in minor economic importance countries, 17 pilots, 33 in development, and 39 at the research stage. The most advanced project, of a major economy, is the e-Yuan or e-CNY[27].

Independent crypto assets have an impact on US sanctions since banks, and the SWIFT systems, make Washington able to screen transactions. Hence, they have been used by companies or individuals to bypass compliance checks. Countries in need, like Iran whose Central Bank and commercial banks are sanctioned, have even encouraged the use of crypto assets to maintain a flow of trade and investments with the outside[28][29]. However, the most important regulating authorities, including the European Union with the recent MiCA regulation, have opted for specific compliance controls that make it almost as controlled as in a classic transaction hence far less attractive.

---

[23] Bloomberg, *Treasury Officials Warn Banks Against Sanctions 'Overcompliance'*, 6 January 2023
[24] The Economist, *Dethroning the dollar America's aggressive use of sanctions endangers the dollar's reign*, 18 January 2020
[25] China Daily, *China's digital yuan can leverage the Belt and Road Initiative*, 12 August 2022
[26] Zoltar Poszar, Crédit Suisse Economis, *War and currency statecraft*, 29 December 2022
[27] https://www.atlanticcouncil.org/cbdctracker/. Retrieved 7 January 2023
[28] P Luzu A Shokraneh, *Regulation of cryptocurrencies in Iran: Economic illusion or game changer?* Lexis Nexis MENA Business Law Review, 2022
[29] Bitcoin News, *Russia May Allow Crypto Mining and Gold-Backed Stablecoins, Lawmaker Says*, 23 January 2022

CBDC's potential of impact goes way beyond independent cryptocurrencies since it brings the same advantages as independent crypto assets (cheap and instant cross-border transactions, eased compliance through transparency, by-passing commercial banks and messaging services hence blind to Washington[30], multiple designs, and function possibilities through Blockchain technology and decentralized Finance) with State control and, last but least, it is an official state currency. This point means a currency backed by the Chinese economy, accepted as well as any other form of Yuan, encouraged for several transactions and investments like BRI, compliance checked by the State, etc. The most striking point is CBDCs' ability to entangle central banks of this new bloc, to replicate, more efficiently and without US control, the global correspondent banking system that the U.S. dollar system relies on[31].

However, the Chinese design of the e-Yuan and its development strategy is not an aggressive move against the Dollar. Indeed, the former governor of the Central Bank of China put it clearly, the Chinese CBDC is not designed to replace the USD's position as a hegemonic currency[32]. The project is essentially built on modernizing the domestic payment system and playing catch-up in the era of the digital economy, envisions raising efficiency and reducing costs, and serving the retail payment system in particular. Indeed, the very first limit of the e-Yuan to replace the USD (after the need to start as a reserve currency before a trading mean) is that China would have to allow for the full convertibility of the yuan, end capital controls, and liberalize its financial market. These options are not a priority at this stage but could be in a long term. Another former Chinese Central director evoked a progressive internationalization of the currency as China's economy integrated with the rest of the world: '*By the middle of this century, China might have the world's biggest, and most open financial market to function with the world's most inclusive rules and norms promoting international cooperation*[33]. Both positions are not in opposition since the implementation of the e-Yuan plan is progressive with a short-term internal efficiency objective and a long-term external objective[34]. Beijing already laid the foundations of the first elements of the second objective, for instance with the creation of a joint venture between the Digital Currency Institute, CIPS, the Payment & Clearing Association of China, and … SWIFT[35]. It is contested that this project is e-Yuan related[36] but, *de facto*, it contributes to a future mix-up of both systems so that the e-yuan would not be just a more efficient CIPS. The e-Yuan is also part of regional projects of CBDC platforms, another step for internationalization, like the mBridge project which already includes Thailand and the UAE. China is also very active in technical working groups on CBDC worldwide, to ensure its first-mover advantage.

Other important economic blocs did not react swiftly. The e-Euro project is in suspended limbo, mainly because Brussel is waiting for Washington's position as to the interest of a CBDC. The latter is very divided[37] and so far, the leading position is the creation of a *Stablecoin* (cryptocurrency based on a fiat currency) based on the USD[38][39]. If done swiftly, this choice could still impact the e-Yuan's development thanks to the current position of the USD. However, if the USA opt for a CBDC, they might have difficulties catching up. Meanwhile, the USA try to upgrade the current financial channels to answer the world's need for easier cross-border transactions[40] … the first reason for a CBDC!

Indeed, China can't hope to replace the USD. However, it has seized the current window of opportunity, an important Dollar glut compounded by a breach of trust due to the sanctions policy, to fasten up the development of the e-Yuan. This CBDC could lead, if no swift and decisive reaction from Washington, in the next decades, to a co-hegemonic or multipolar currency system[41]. It remains to be seen where the EU and its companies could be next.

The European Union, contrary to the USA still undecided between CBDC and *stablecoins*, seems to have taken a strong stance by opting for its own CBDC, the future e-Euro. However, despite several announcements and the

---

[30] Arner, Douglas W. and Buckley, Ross P. and Didenko, Anton N. and Zetzsche, Dirk Andreas, Ukraine, *Sanctions and Central Bank Digital Currencies: The Weaponization of Digital Finance and the End of Global Monetary Hegemony?* (June 2022), UNSW Law Research Paper No. 22-19
[31] Zoltar Poszar, Crédit Suisse Economis, *War and currency statecraft*, 29 December 2022
[32] Global Times, *China's digital yuan not designed to replace US dollar: former central bank governor*, 22 May 2022
[33] SCMP, *China's yuan could become world's 'currency of choice' by 2050 under dual circulation plan*, 12 June 2021
[34] Heng Wang, *China's Approach to Central Bank Digital Currency*, 24 February 2022
[35] Reuters, *SWIFT sets up JV with China's central bank*, 4 February 2021
[36] Digichina, *Is SWIFT's Joint Venture With the People's Bank of China Related to the Digital Yuan?,* 8 March 2022
[37] Board of Governor Federal Reserve system, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation*, January 2022
[38] Kevin Wars, Money Matters: The US Dollar, Cryptocurrency, and the National Interest, American Enterprise Institute, 2022
[39] Ledger insight, *Banks concerned USDC stablecoin will become 'backdoor CBDC' with BlackRock help*, 6 January 2023
[40] Carnegie Endowment, *Beijing's Global Ambitions for Central Bank Digital Currencies Are Growing Clearer*, 6 October 2021
[41] Allianz, *Financial globalization: moving towards a polarized system? The Chinese yuan aiming for financial "co-hegemony" with the US dollar*, Nov. 2022

assistance of various private actors[42], the strategic choices to lay the basis of the European CBDC are still pendant, including the scope of supervised intermediaries or funding options, hence its practical use for European companies[43]. The EU calendar itself is slow, with the collection of comments for the preliminary research before the calls of tender starting in January 2023 at last. Without a clear objective for the e-Euro, among financial inclusion, enhanced transparency, or business assistance among others, Brussel can't opt in for strategic technical options and might end up as a follower of the standards of the 1st fully-developed and widespread CBDC, namely the e-Yuan.

From a business perspective, e-Euro is a key point, and its added value is not clear yet. Indeed, European companies are among the most impacted by US secondary sanctions relying on the green note power. The striking example of the 10 billion USD fine of French bank BNP Paribas is the tip of the phenomenon. While European companies are constrained by US extraterritoriality to leave Iran, the market does not stay empty for the benefit of Chinar or even Washington, Johnson & Johnson, or even Medtronic having an Iranian turnover that European labs could envy! The latter could legally operate in Iran, drugs and medical devices are under a general license from the OFAC, but over-compliance from banks makes it impossible since they don't have formal authorization from Washington. If operating with a business-tailored e-Euro, these companies could bypass commercial banks and re-enter the market.

To be successful, European companies should be able to benefit from (i) a technically pro-business e-Euro[44] and (ii) a strong and united political position, from the European Commission, to choose sovereign public policy options. Indeed, the door is still open for the first point and, as of today, could still be reasonably reached. As to the second point, there are several public policy options, explained in our book on this matter, that could turn the e-Euro into a tool for European trade and investments: Creation of a bank dedicated to CBDC only / direct management by the ECB, internal due diligence on the EU side only with a standardized 'stamp' from the Chinese side, no connexion out of CBDC, etc. However, after the consensual but useless white elephants of INSTEX and the Blocking Regulation, can Brussels give birth and maintain unity with such a sovereign position defying the US partner?

[42] Florence Loève, *Les consultants, premiers gagnants de l'Euro numérique*, Consultor, 2 January 2023

[43] European Central Bank, *Progress on the investigation phase of a digital euro – second report*, January 2023

[44] For instance, beyond the wholesale/retail use issue, the most important point is technical compatibility with other CBDCs and first the e-Yuan. Several institutions, like the BIS, already work on it. The EU should at least create a joint work group with China.

VOCAL EUROPE

RUE DE LA SCIENCE 14B, 1040 BRUSSELS

TEL: +32 02 588 00 14

VOCALEUROPE.EU

TWITTER.COM/THEVOCALEUROPE

FACEBOOK.COM/VOCALEUROPE

YOUTUBE.COM/VOCALEUROPE

INSTAGRAM.COM/VOCALEUROPE