

FEATURE

China's bear hug for the blockchain

Beijing is convinced that innovation technology and infrastructure development hold the key to 'national rejuvenation'

by [Dale Aluf](#)

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China is launching world's first blockchain driven e-currency. Photo: Facebook

As the world confronts the profound social, economic and political challenges that have emerged in the wake of Covid-19, Beijing has unleashed digital innovations that hold profound implications for the future of international trade, global governance, and geopolitics.

On April 25, in the midst of battling the pandemic, China's government established the world's largest blockchain ecosystem, the [Blockchain Service Network](#) (BSN), and its central bank introduced "digital yuan" pilot programs across four cities – making the People's Republic the world's first major economy to issue a national digital currency.

Also read: [Beijing to bypass US systems with e-RMB drive](#)

The fact that President Xi Jinping's administration launched these initiatives while simultaneously confronting a crisis of epic proportion is emblematic of the Communist Party of China's conviction that innovation technology and infrastructure development hold the key to China's "national rejuvenation."

The CPC's conviction that science and technology are the key determinants of modern national power has roots in China's historical experience.

China's defeat by the British during the First Opium War, which marked the start of a

[century of humiliation](#) by Western powers, is largely attributed to the fact that China had fallen behind the West technologically – because of isolationist policies adopted by the Middle Kingdom during the Industrial Revolution.

In a concerted effort to revive the “Chinese historical equilibrium” and reach the centennial goal of becoming an economic, military, technological superpower by 2049, Chairman Xi has propagated a refocused paradigm encompassing China’s entire economy and society to drive domestic innovation.

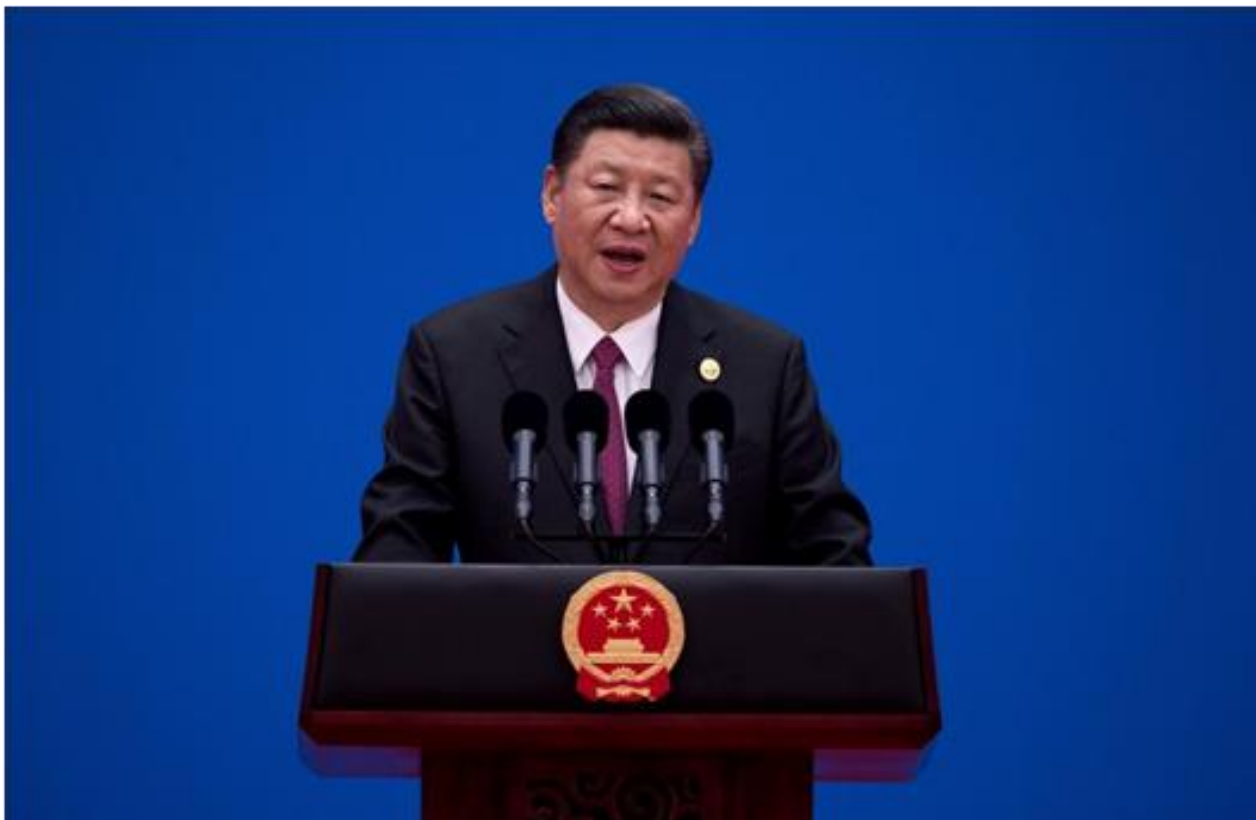
Within Xi’s Belt and Road Initiative, infrastructure development takes center stage. It has aimed to enhance economic integration between Africa and Eurasia, and already encompasses almost two-thirds of the globe.

Although the BRI slogan has been somewhat downgraded as of late, Beijing’s infrastructure targets certainly haven’t. Just as the BRI’s railway, ports, and power grids connect the

world to China physically, submarine fiber cables, Huawei 5G bay-stations, and standardized blockchain solutions serve to enhance China’s connectivity in the digital realm.

Professor Michael Seung, co-director of the Fintech Research Center at the Fanhai International School of Finance at Fudan University, has [called](#) the BSN the “infrastructure of infrastructures,” explaining that the permissionless blockchain ecosystem “allows the vertical integration of cloud computing, 5G communications, industrial IoT, AI and big data, with fintech and other application-level services.”

The new blockchain ecosystem, which currently connects more than 100 city nodes, reduces the costs for developing blockchain-based applications and is designed to streamline efforts to support the digital economy as well as smart city projects. But importantly, the BSN is also expected to form the backbone of the Digital Silk Road, providing interconnectivity to all of China’s economic partners along the BRI.



*Chinese President Xi Jinping speaks during a briefing on the final day of the Belt and Road Forum in Beijing on May 15, 2018.
Photo: AFP*

[Huobi exchange](#), a blockchain company barred from China during a government-led crackdown on crypto exchange in 2017, is now actively working with the Chinese authorities to internationalize the initiative. According to a company spokesman, [Huobi has](#) “already deployed some international nodes in other countries, such as the US, Japan, Australia, Brazil, South Africa, Singapore and France.”

By simultaneously rolling out the BSN and the digital yuan, China is poised to capture the economic gains of a rapidly digitizing global economy. But there is also an important geopolitical dimension to these developments, the underlying logic of which is certainly not novel.

As historian Daniel Headrick documented in the 1980s, British control over telegraph-cable infrastructure played a vital role in projecting the Empire’s power. By the late 19th century, the British commanded a massive international communications network comprising around 160,000 kilometers of submarine cables stretching the globe.

The speed of communication was of paramount strategic importance, but so too was control: because important information including military and diplomatic secrets that traveled along the network was susceptible to surveillance when passing through foreign territory.



Collage image of US dollar and Chinese yuan notes. Photo: iStock

Today, it is the United States that controls (whether directly or indirectly) the vast majority of the infrastructure upon which the world relies for its digital experience. Just like the British, this control has afforded the US immense power – maintaining the current unipolar order. The international financial system serves but one compelling example.

For the past 75 years, the US dollar has enjoyed an undisputed hegemony, serving as a powerful tool to realize American foreign policy objectives. The sanctions regime imposed on such countries as Iran by the US government has led to discontent among many countries that wish to do business with the Islamic Republic but face secondary sanctions for doing so.

The source of this [financial power is structural](#): the centrality of the dollar to international finance and American influence over institutions like the Society for Worldwide Interbank Financial Telecommunication (SWIFT) provides leverage that the US can utilize to shape the behavior of others. This power has long invoked worry in Beijing.

As the former president of the Export-Import Bank of China, Li Ruogu, has noted, “The US used this method [manipulation of the dollar] to topple Japan’s economy, and it wants to use this method to curb China’s development.”

China wishes to address this power asymmetry. But some seem to miss the fact that Beijing’s efforts are not purely reactive in nature. Instead, they are clinical, calculated, and coordinated – part of a broader plan to create a multipolar world.

The People’s Republic has been rather open about the geopolitical nature of their strategy. As stated in China’s [2016 National Strategy for Innovation-Driven Development](#), “disruptive technologies are constantly emerging, continually reshaping the world’s competitive

landscape, and changing the balance of power among states.”

Since the 2008 global financial crisis, Beijing has encouraged monetary diversification, created parallel interbank messaging systems (like CIPS, or Cross-Border Interbank Payment System), and established new financial entities such as the Asia Infrastructure Investment Bank and BRICS Bank.

As other countries wish to reduce dependence on the dollar, there has been growing momentum in both [Africa](#) and [Europe](#) to adopt the yuan as a reserve currency. The International Monetary Fund even added the yuan to its Special Drawing Rights (SDR) basket in 2016 – placing it on par with the dollar, euro, yen, and British pound.

A digital yuan would go even further in promoting the renminbi’s internationalization and redistributing power in the financial system.

Thanks to digital payment systems like Alipay and WeChat, which together boast about

2 billion active users, the Chinese are accustomed to using digital financial technology. While the first distribution phase of a digital yuan would be limited to a domestic audience, international adoption of China’s currency might not lag far behind.

Developing countries along the BRI with weak currencies that rely on China economically are likely to be the first non-Chinese digital-yuan users. China could incentivize these trading partners to use the digital yuan for purchasing both Chinese and local goods by offering favorable tariffs, infrastructure development projects, and other economic benefits.

According to a recent [report](#) by JPMorgan, “There is no country with more to lose from the disruptive potential of digital currency than the United States.” The analysts at JPMorgan understand that if Beijing’s efforts are successful, it could in essence craft a China-centric financial system that runs parallel to the current one dominated by the US.



A leaked image of the mobile phone-based e-RMB payment interface. Four cities across China have been trialing the digital yuan. Photo: WeChat

In this system, it would be Beijing that has the panopticon of all transactions across the network, and the CPC would dictate the rules of the game instead of Washington.

Like the digital yuan, the Blockchain Services Network could also emerge as a currency of power.

According to a [white paper](#) penned by the BSN Alliance, the technology “will become the only global infrastructure network that is innovated by China, whose gateway access is controlled by China.”

From the British Empire to the Edward Snowden leaks, history has continually affirmed just how critical control of digital infrastructure becomes in terms of projecting power, whether by surveillance, exclusion, or other means. Washington believes that Beijing wishes to utilize its new architecture to create “[a world antithetical to US values.](#)”

This is why the US has been critical of its allies enlisting Chinese entities to build, fund, and operate their critical infrastructure – from fifth-

generation (5G) communication technologies to the Haifa Port and Hambantota.

The BSN and digital yuan will join China’s 5G bay stations, undersea fiber cables, satellites, and other structural innovations to create a China-centered transnational infrastructure network.

If successful, it will allow the CPC to feed immense amounts of data into its AI (artificial intelligence) machines, create new standards for emerging technologies, and shape the future of governance in both the digital and outside worlds.

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