Martin Chorzempa

Geopolitics of Payments: The Dollar, the RMB, and Digital Currencies

On Wednesday, May 28, Martin Chorzempa joined Markus' Academy for a conversation on "Geopolitics of Payments: The Dollar, the RMB, and Digital Currencies." Chorzempa is a senior fellow at the Peterson Institute for International Economics.

A few highlights from the discussion.[1]

- **A summary in four bullets**
  - The talk addressed 4 questions: (1) What role does the US dollar play in global payments, and how does this reinforce its dominance? (2) Do sanctions risk eroding the dollar's role? (3) Could the renminbi challenge the dollar? And (4) will digital currencies entrench dollar dominance or enable alternative systems?
  - The US leverages its dominance in the dollar-based financial system to enforce sanctions globally. Countries like Russia and China have sought workarounds, though with limited success
  - Stablecoins show more promise than cryptocurrencies or CBDCs, which have seen weak adoption. They are likely to deepen USD dominance and, by broadening access to dollars, offer people worldwide a safe store of value
  - Technology matters much less than you might think. The adoption of a payment system is driven by trust and access to infrastructure, while the economics of payments are still driven by market externalities (people use what's cheapest and most liquid) rather than by technological cost savings

- **[0:00] Markus' introduction**
  - The payment system is one of the "commanding heights" of the economy—whoever controls it controls the country. Who will provide the payment system and the settlement ledger? It could be governments, the financial sector, Big Tech or crypto
  - The US is moving toward a stablecoin ecosystem with programmable tokens tied to social networks. In China, payments are dominated by consumer-focused Big Tech (Alipay, WeChat). Europe's digital euro aims to fend off foreign stablecoins and preserve monetary sovereignty. Emerging markets are exploring CBDCs to avoid digital dollarization
  - Combining a payment and credit ledger could allow Big Tech (and not Fintech alone) to expand credit by enforcing repayment through their platforms, weakening the role of public money (Brunnermeier and Payne, 2025)

[1] Summary produced by Pablo Balsinde (PhD student, Stockholm School of Economics)

- [5:51] **Payment plumbing**
    - Facebook underestimated the political backlash to its proposal for a global digital currency (Libra, which was to be backed by a basket of currencies)
    - Domestically it triggered concerns about the fusion of Big Tech and finance. Middle-income countries feared it would reinforce dollar dominance and undermine their monetary sovereignty—especially during crises, when capital could exit more quickly—prompting interest in launching CBDCs
    - SWIFT is a messaging network, not a payment system. It standardizes financial transactions to allow for outside automated settlement
    - It is based in Belgium, is currency agnostic, and handled 45mn messages per day in 2022 (it has since stopped publishing this data)
    - Clearing and settlement occur outside of SWIFT. In the US the largest systems are Fedwire —which handles $4.5tr per day with real-time gross settlement (no netting)— and CHIPS (Clearing House Interbank Payments System) —which handles $1.8tr per day and uses end-of-day net settlement.
    - CHIPS relies on mutual trust among participating institutions, as final settlement occurs only at the end of the day. The New York Fed backstops the system, guaranteeing that all participants are made whole
    - The two systems highlight the tension between instant payments and recourse. The rest of the world has similar systems (Target II in Europe), while in this field the US is seen as a payment innovation laggard
    - Cross-border USD transactions are highly complex because most foreign banks—and all non-bank institutions—lack access to the US payment systems. They must rely on correspondent banks: large foreign banks that have US subsidiaries with access.
    - This creates chains of intermediary banks to process payments. In 2011-2019 correspondent banking relationships declined by 20% (Holden, 2019), largely due to increased intermediary risk aversion driven by AML, CFT, and sanctions compliance. Chains have lengthened, and those still operating have benefited from greater concentration and higher profits

- [21:31] **Dollar dominance and sanctions**
    - The US dollar is involved in 88% of all FX transactions, and accounts for over 50% of SWIFT messages (McGuire et al., 2024)
    - Rey (2001) attributes this dollar dominance to a “thick” market externality, where it becomes cheaper to trade or hedge through the "vehicle currency" than directly between any two non-dollar currencies
    - Gopinath and Stein (2021) highlight how the dollar’s role in trade invoicing and the demand for dollar-denominated assets reinforce each other
    - However, the USD dominance need not be stable. Eichengreen and Flandreau (2009) show that the interwar period featured a multipolar system with both a dominant dollar and pound
    - McDowell (2023) finds that even countries expecting sanctions rarely reduce dollar—they only switch away when they are forced to
    - The US Treasury’s Specially Designated Nationals (SDN) List effectively cuts entities off from the global financial system. Anyone interacting with a sanctioned entity risks secondary sanctions, compelling global compliance, including by SWIFT

- The EU’s effort to bypass US sanctions on Iran via INSTEX failed
- Despite its use of export controls, the US has never sanctioned major Chinese financial institutions—these tools are so powerful they are treated as a financial "nuclear option"
- Russia prepared for sanctions well before its invasion of Ukraine. Under its "Fortress Russia" strategy, it increased gold reserves and activated a domestic payment system when Visa and Mastercard exited
- The fact that all major reserve currency issuers joined the sanctions limited any shift away from the dollar
- It was a mistake to cut Russian institutions from SWIFT before applying full blocking sanctions. This politicized the infrastructure, while such sanctions would have triggered SWIFT exclusion anyway
- The ruble-yuan trade volume skyrocketed after the invasion from virtually zero. However it dipped in 2023 when the US signaled it would enforce secondary sanctions on China. Russia and China resorted to a barter-style netting system, akin to INSTEX but with a lot less transparency
- There has been some erosion in the dollar’s share of global reserves, but not in favor of the renminbi (RMB)—it has gained no more than currencies like the Australian or Canadian dollars (Arslanalp et al., [2022]). The shift reflects a search for yield and diversification, as such large amounts of reserves are not all needed to cover short-term debts or imports
- Although we don’t know the relative weight of each factor, many pillars of dollar dominance are now in question: rule of law, Federal Reserve independence, sound economic policy, an open capital account, and fears of a “Mar-a-Lago accord”
- It is also worth noting that key US security allies have a larger allocation to USD reserves than one would expect (Eichengreen et al., [2019])

- **[37:02] The RMB and other challengers to the USD**
  - Larry Summers has said that the dollar “is fortunate in its alternatives,” in that it is not clear the challengers are any better
  - Local currency settlement systems have emerged in East Asia in recent years. However these are expensive, offer limited hedging options, and mainly serve as insurance against potential US sanctions
  - China’s Fintech giants have failed to internationalize, partly due to geopolitics. The US blocked Alipay’s acquisition of MoneyGram, and China’s firms have been prevented from serving local customers in countries like Indonesia
  - China’s playbook for RMB internationalization includes:
    - (1) bilateral swap lines, which remain mostly unused,
    - (2) an interbank payment system (CIPS), which is significant but not a systemic challenge as it still needs to use SWIFT for messaging with global banks,
    - (3) linking onshore and offshore capital and currency markets,
    - (4) a digital currency (eCNY),
    - (5) integrating into SWIFT, so that China becomes too integrated to be sanctioned, and
    - (6) instructing SOEs to use the RMB abroad

- The RMB underperforms relative to China's economic weight. From 2019 to 2022, its share of FX turnover rose from 4% to 7%. Only 25% of China's trade is settled in RMB, though this is rising fast
- The RMB as a reserve currency faces major headwinds: capital controls create uncertainty around the ability to repatriate funds, lack of trust, no independent central bank, few strong allies, and a lack of liquidity

- [45:41] **Digital currencies**
    - Decentralized digital currencies fluctuate in value and tend to have low throughput (Bitcoin can handle 7 transactions per second, Alipay 250k). Stablecoins show the most promise
    - Retail's access is what is new in CBDCs, as it is hard to see what makes wholesale CBDCs different from existing access to digital central bank money (if anything it is the possibility of interconnections to other ledgers)
    - China has the most advanced CBDC among major economies, but despite the state-led push Chinese consumers see little need for it and continue to rely on Alipay. Retail CBDC pilots have failed to gain traction globally
    - mBridge, a project by the BIS, aimed to create a new cross-border CBDC payment system that did not rely on the dollar nor US payment infrastructure. However, the BIS withdrew in late 2024 after Russia's "BRICS bridge" proposal due to concerns that the system could help Russia evade sanctions
    - SWIFT is quite efficient; the issue is about access to the clearing infrastructure. In the US, a CBDC faces political resistance, as it would take over functions done by the private sector. The Chinese-style super-app model has not worked well abroad, fueling skepticism toward projects like X Money
    - Stablecoins reinforce USD dominance: their growth has been driven entirely by two USD-denominated coins—Circle's and Tether's. Growth could accelerate if the GENIUS Act passes, creating a legal framework that would also increase demand for the US assets used in their backing
    - Stablecoins are likely to take some cross-border payments business from banks, helping offset the decline in correspondent banking. However they could also fuel dollarization and capital flight in fragile economies. They function like money market funds, raising questions about systemic risks and whether they should be brought under the financial safety net
    - In the future there will be a question of interoperability if the US relies on private stablecoins while the EU, China, and others deploy CBDCs

- [57:46] **Conclusion and Q&A**
    - Technology matters much less than you might think. The core issues are trust and access to infrastructure. The economics of payments are still driven by thick market externalities: people use what's cheapest and most liquid, while the savings from blockchain systems are unclear
    - The biggest threats to the dollar's dominance come not from Chinese innovation, but from US overuse of sanctions, geopolitical pressure on countries to choose sides, and the weakening of domestic foundations
    - Although the Trump administration has been more crypto friendly than the Biden administration, its associations with memecoins (World Liberty Financial) undermine crypto's credibility

- The crypto industry was the largest political contributor in the last election. Even democrats want a balanced regulatory regime rather than to regulate it out of existence
- Traditional banking is more directly threatened by stablecoins than by CBDCs. In emerging markets, CBDCs don't solve the core problem: the vulnerability of local currencies to inflation and depreciation
- Bitcoin users are unlikely to switch to CBDCs, which lack a clear value proposition for individuals—there's no "killer app" driving CBDC adoption
- The Trump administration wants to have its cake and eat it too. It threatens countries that move away from the dollar, yet also pushes for reshoring manufacturing—which many interpret as a reason to weaken the dollar
- Ending on a positive note: by expanding dollar access, stablecoins will offer people around the world a safe store of value

Timestamps:
[0:00] Markus' introduction
[5:51] Payment plumbing
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[57:46] Conclusion and Q&A