

Digital currency adoption

by Douglas Tan

In the first part of this report, I discussed the barrier to adoption of digital currency from the community point of view. The community of adopters, whether locally in any given country or globally in the world, constitutes the pull effect of the digital currency needs. However, this pull-effect needs can further be catalyst if there is push-effect by the central bank or government of the country into the adoption of digital currency. This second part of the report discusses the pull-effect at the national level.

The push-pull effect is the insights that I have learnt after watching the videos discussions by panelists in the Singapore Blockchain Week 2020. The videos have greatly enhanced my learning in the blockchain talents development course. Although the world has entered the era of digital transformation, the barrier to the adoption of digital currency both locally and globally, is not a textbook question that can be easily answered.

The needs to go digital

CBDC and policy makers felt the pressure to revisit the needs of adopting digital currency not only because of the increasing widespread of stablecoins, they also realise the opportunities that it could bring. The opportunities such as:

- Payment efficiency in terms of speed as compared to the current fiat currency.
- There is a decrease usage of fiat cash and cheque that were made possible by the current infrastructure, which facilitate users in familiarisation of online and electronic transactions. This is a new norm that they could take advantage by developing more digital solutions as the world evolves into a digital economy.
- For the developed country, there is still a low-income percentage group that is under served. These marginal group can be offered with financial inclusion products that grant them access to cheap capitals through cheaper digital transaction overhead.
- Tokenization of assets allow digital assets to be traded as a new trading instrument.

The challenges to go digital

While CBDC and policy makers may see the opportunities to implement digital currency, the adoption does have the following challenges:

- Developed countries, where majority of people have access to traditional financial services, may not see an urgent need to provide digital currency. Though the marginal group may benefit, a well-designed digital currency infrastructure that enable fast transaction at cheaper cost will jeopardize banks whose business model is built on charging late fees and penalty for slow payments. There will still be minority who are under-bank and continue to rely on fiat. The progress of digital currency will further make these minority group disconnected to the digital economy. A substitute for access (such as a hardware token) would be needed as a fallback and this could further increase the investment cost, which may not yield the necessary returns.
- The current system provides a transparency for policy makers to understand the circulation of fiat currency which is needed as one of the sources for formulating monetary policy. The privacy

advocated by digital currency may obstructive central authority from doing their job in addressing economy problem that the country may face.

- If CBDC allows the tokenization of fiat currency into digital equivalent, there could be a massive withdrawal of fiat which in their balance sheet, would reflect their credit ability to provide financial services that still utilize fiat. In other words, credit can become “squeeze” but yet, there is a huge amount of digital currency “floating” around that cannot be used to regenerate money as fiat currency could. There is also a concern of any erroneous⁴ fault or fraud resulting in massive loss of digital currency which may not be reversed because of the “closed” system that digital currency advocate as beneficial?
- As the world comprises under-developed, developing and developed countries, it is inevitable that different governments will see a different opportunity in using digital currency to address the different problem statements that were presented differently in its country. This will lead to different kinds of digital solutions skewed toward different priorities, which over time, will lead to even more cross-border interoperability and multi-currencies challenges. Therefore, a global standardization is needed before any country could consider any huge leapfrog investment, which further delay the rapid adoption of digital currency implementation globally.

The pressure by stablecoin such as Libra has caused central bank and policy makers around the world to revisit the adoption of digital currency as an alternative. Whether is it the tokenization of its fiat currency or the introduction of a completely new digital currency asset, governments around the world, especially the developed countries, do not want to miss out in this race. With China taking the lead and demonstrating that it can be done, the gear has now been shifted into catching up the race. Following the examples of China, perhaps CBDC could further liberalise the adoption by facilitating private institutions to creating business solution within each specific industry domain. This can come in the form of regulations, funding, education, and even through the introduction of digital currency (like digital RMB in China) for transacting in the new solutions created for each industry domain.

Appendices

¹ True Story Documentary Channel, “[Banking On Africa – The Bitcoin Revolution \(full documentary\) – True Story](#)”, Oct 1 (2020)

² Perianne Boring, Chris Banbury, Pradyumna Agrawal, Prof Andreas Park, Prof David Lee, “Panel – From Fiat to Crypto – Central Bank Evolution of Money Technology and Power”, Singapore Blockchain Week 2020, Nov 22 (2019)

³ Chris Dolmetsch, Katherine Dhoerty, “<https://www.bloomberg.com/news/articles/2020-09-29/citi-can-see-info-it-says-it-needs-in-suing-over-revlon-payout>”, Sep 30 (2020)

⁴ Matt Sorum, John Probandt, Farah Jaafar-crossby, Mai Fujimoto, “Panel – Blockchain for Good – Tackling Global Challenges Pre- and Post-Pandemic from sgfintech on”, Singapore Blockchain Week 2020, Nov 22 (2019)

⁵ IDE-JETRO report, “China’s Infrastructure Footprint in Africa”, https://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_10.html, Oct 1 (2020)