# Central banks advance mBridge to challenge US dollar supremacy in cross-border trade



The landscape of global finance is undergoing a seismic shift as countries increasingly look to move away from the US dollar, paving the way for alternative currencies and digital trading technologies. This transition, which is often portrayed as a mere spectre in news cycles, is becoming a tangible reality driven by central bank digital currencies (CBDCs) and innovative digital frameworks.

At the forefront of this evolution is Project mBridge, a collaborative effort launched by the Bank for International Settlements (BIS) alongside central banks from China, Hong Kong, Thailand, and, most recently, Saudi Arabia. Completing its Minimum Viable Product stage, mBridge promises to revolutionise cross-border payments by allowing countries to settle trade transactions using their own digital currencies—without the intervention of the US dollar. As per the latest updates, this platform has reached a level of functionality that not only demonstrates its operational viability but also positions it as a powerful alternative to traditional systems like SWIFT. This is not merely theoretical; the project has already successfully conducted real-time transactions involving real money, thereby marking a significant step toward a decentralised financial ecosystem.

The implications of mBridge extend beyond just technical advancement. The project's architecture reflects the growing desire among non-Western countries to assert financial independence and establish new trade rules. Countries within trading blocs like BRICS+ are drafting frameworks that redefine who gets to participate in the global economy, effectively rejecting the established norms of dollar hegemony. As nations explore these new pathways, they are essentially rewriting the rules governing international trade, finance, and economic sovereignty.

While the United States still clings to its dollar dominance, the reluctance to adopt a digital dollar reveals prevailing fears about the potential risks to its financial system. Current US regulations aim to stymie the development of a digital currency that could threaten its banking sector, showcasing a defensive posture rather than an innovative one. Meanwhile, emerging economies are rapidly progressing with CBDC initiatives, evident in projects planned in India and Brazil, signalling a clear shift in the financial power dynamics.

China's digital yuan stands as a leader among CBDCs, engineered not merely as a digital analogue of cash, but as a programmable unit intricately woven into the fabric of its financial policies. By design, the e-CNY is a tool of state power, capable of being integrated into various sectors, including international trade efforts under its Belt and Road Initiative. In stark contrast, the absence of a tangible digital dollar perpetuates Washington's reliance on a system that increasingly alienates other nations.

Yet, the diversification of financial instruments includes not only state-sanctioned currencies but also cryptocurrency options like Bitcoin. Viewed through the lens of monetary autonomy, Bitcoin serves as a hedge against unwanted governmental control. Countries such as El Salvador have embraced it as an alternative financial lifeline to circumvent disruption in global trade and monetary policies. Similarly, the advent of tokenised gold, represented by financial instruments like Paxos gold (PAXG), provides a compelling alternative for nations wary of the dollar’s opaque implications, further enabling transactions that lack undue attachments.

In essence, these shifts in monetary dynamics signify much more than just changes in currency. They indicate a broader movement towards financial decentralisation, where power is increasingly shifting from traditional institutions to digital frameworks driven by local and regional agendas. The financial independence cultivated by these countries renders them less governable and establishes new norms for cooperation and competition at a global scale.

This digital revolution remains somewhat invisible to everyday consumers until its repercussions take root in daily transactions, such as salary payments or shopping. As the architecture of global finance transforms, the impacts will reverberate through interest rates, inflation, and even geopolitical alignments, leading to a future where the foundations of finance are no longer dictated by traditional gatekeepers.

The race to build robust satellite infrastructures further underpins this technological transformation, highlighting the critical role of connectivity in facilitating these new systems. Next week, the discussion will delve deeper into the personal ramifications of this shift and what it means for individuals navigating an increasingly complex financial landscape.

## Reference Map:

* Paragraph 1 – [[1]](https://www.irishnews.com/life/personal-finance/the-digital-backbone-of-a-post-dollar-world-VD4VV5SVLFDUPJ6ANLV5JI5N6M/), [[4]](https://www.bis.org/press/p240605.htm)
* Paragraph 2 – [[2]](https://www.reuters.com/technology/saudi-arabia-joins-bis-led-central-bank-digital-currency-trial-2024-06-05/), [[5]](https://digitalpoundfoundation.com/project-mbridge-enters-mvp-phase-and-welcomes-new-member-central-bank-of-saudi-arabia/)
* Paragraph 3 – [[3]](https://www.ft.com/content/bfafb8f7-bd1c-48bb-85f4-8ba25475c0a3), [[6]](https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/06/20240605-4/)

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## Bibliography

1. <https://www.irishnews.com/life/personal-finance/the-digital-backbone-of-a-post-dollar-world-VD4VV5SVLFDUPJ6ANLV5JI5N6M/> - Please view link - unable to able to access data
2. <https://www.reuters.com/technology/saudi-arabia-joins-bis-led-central-bank-digital-currency-trial-2024-06-05/> - Saudi Arabia has joined a central bank digital currency (CBDC) trial led by China, potentially reducing the US dollar's role in global oil trade. The project, mBridge, includes central banks from China, Hong Kong, Thailand, and the UAE. With Saudi Arabia's participation, mBridge has reached the 'minimum viable product' phase, enabling broader CBDC transactions. This development could facilitate commodity trading without the US dollar, supported by technologies like China's e-yuan and compatible with Ethereum's Virtual Machine. While some countries have adopted CBDCs, concerns about their necessity and potential for government surveillance persist. China leads with its CBDC pilot, while India, Brazil, and Russia plan launches in the coming years. In contrast, the US has passed legislation to prohibit a 'digital dollar'.
3. <https://www.ft.com/content/bfafb8f7-bd1c-48bb-85f4-8ba25475c0a3> - The Bank for International Settlements (BIS) launched Project mBridge, a cross-border CBDC initiative involving China, Hong Kong, Thailand, the UAE, and Saudi Arabia. However, BIS recently withdrew from the project, possibly due to US pressure to protect the dollar's dominance and prevent sanctions evasion. Despite the dollar's current strength, challenges arise from non-Western payment systems like China's CIPS and increasing gold hoarding by central banks. Washington aims to counter these threats through policies to make the dollar attractive, emphasizing good economic values and cyber innovation. Donald Trump's aggressive stance includes banning CBDCs in the US while promoting dollar-backed stablecoins and Bitcoin, viewing them as tools to enhance dollarization. The role of stablecoins, despite their small market cap relative to US capital markets, reflects a strategy to navigate offshore dollar transactions free from stringent regulations. As financial mechanisms evolve, these issues, especially around CBDCs and stablecoins, are expected to be significant in maintaining America's monetary power.
4. <https://www.bis.org/press/p240605.htm> - Project mBridge, a collaboration between the Bank for International Settlements (BIS) Innovation Hub and central banks from China, Hong Kong, Thailand, and the UAE, has reached the minimum viable product (MVP) stage. The project aims to explore a multi-central bank digital currency (CBDC) platform shared among participating central banks and commercial banks, built on distributed ledger technology (DLT) to enable instant cross-border payments and settlement. The BIS is inviting private sector participants to propose value-added solutions that can be connected to the mBridge MVP platform, and more central banks and commercial banks can join the platform through the mBridge MVP legal framework and perform real transactions on it.
5. <https://digitalpoundfoundation.com/project-mbridge-enters-mvp-phase-and-welcomes-new-member-central-bank-of-saudi-arabia/> - The mBridge cross-border central bank digital currency (CBDC) project has advanced to the minimum viable product (MVP) stage, the initial production phase. This initiative, a collaboration between the Bank for International Settlements (BIS) Innovation Hub and the central banks of China, Hong Kong, Thailand, and the UAE, recently welcomed the Central Bank of Saudi Arabia as its fifth member, along with 26 observer institutions. mBridge employs tokenized wholesale CBDCs for various currencies, facilitating atomic cross-border settlements. Positioned as a potential alternative to the Swift payment messaging system, mBridge aims to enable faster and potentially cheaper international payments. With the MVP launch, the project aims to integrate new technologies and use cases, including interoperability with other platforms. Consequently, the BIS is seeking participation from private sector firms to contribute to the initiative. The mBridge system operates on an Ethereum-compatible distributed ledger technology (DLT) network called the mBridge Ledger, developed by China’s Digital Currency Research Institute (DCRI). In this MVP phase, all participating central banks have operational nodes on the network. Since its 2022 pilot, mBridge has advanced significantly, including the development of a governance model, legal framework, and an operational rulebook.
6. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/06/20240605-4/> - The Hong Kong Monetary Authority (HKMA), together with the rest of the mBridge project team, announced that Project mBridge has reached the Minimum Viable Product (MVP) stage. Project mBridge aims to study how central bank digital currencies (CBDCs) and innovative solutions can be applied to solve the key pain points in cross-border payments. Leveraging the feedback and learnings from the pilot conducted in 2022, the project team has continued to develop and enhance the prototype platform in various areas, including technology, legal and governance. In particular, the four founding central banking institutions have each deployed a validating node in their own jurisdictions. In addition, together with the BIS Innovation Hub, a fit-for-purpose governance framework and comprehensive legal framework, including a rulebook, have been formulated, with a view to matching the unique decentralised nature of the platform.