

Conditional Acceptance: The Digital Yuan, Dollar Hegemony, and the Digital Colonial Dilemma of the Global South

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Abstract: This paper examines the geopolitical and economic implications of Central Bank Digital Currencies (CBDCs), focusing on China's digital yuan (e-CNY) and its potential impact on the Global South. As digital currencies challenge traditional financial systems, the paper explores how emerging economies, particularly in Africa, Asia, and Latin America, navigate the tension between integrating into new digital financial ecosystems and safeguarding monetary sovereignty. While the U.S. dollar's dominance in global finance remains entrenched, the rise of CBDCs—especially China's e-CNY—presents both opportunities and risks for peripheral states. The paper introduces the concept of conditional acceptance, arguing that e-CNY diffusion will depend on the bundling of digital infrastructure with trade/credit arrangements and the ability of adopting states to maintain autonomy through governance safeguards, such as data privacy, interoperability, and exit options. By bridging the gap between digital colonialism and agency, the paper outlines the conditions under which the Global South may adopt e-CNY, offering a framework for understanding the evolving dynamics of digital currencies in a multipolar global financial system. This analysis contributes to the literature on international monetary relations, digital currencies, and the geopolitics of financial sovereignty.

Keywords: CNY; Global South Economy; e-money

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1. Introduction

The rise of Central Bank Digital Currencies (CBDCs) marks a pivotal shift in global finance, intensifying the rivalry between dominant and emerging powers ^[1]. As digital infrastructure reshapes monetary flows, the contest for financial sovereignty increasingly transcends economics and enters the geopolitical realm ^[2]. The U.S. dollar's dominance—long institutionalized through the Bretton Woods system and reinforced by global networks like SWIFT—has become both a tool and symbol of Western hegemony ^[3]. In parallel, China's rollout of the Digital Yuan represents a strategic attempt to rebalance global monetary power and bypass traditional dollar-denominated systems ^[4].

For the Global South, this transition brings both opportunity and risk. Many economies in Africa, Asia, and Latin America are dollarized and technologically dependent on foreign platforms ^[2,5]. As digital currencies gain traction, states must navigate between preserving autonomy and integrating into digital ecosystems shaped by the U.S. or China ^[6]. This

dilemma encapsulates a form of “digital colonialism,” where infrastructural dependency may mirror historical financial subordination ^[7].

This paper attempts to fill a critical gap in the existing literature by exploring the conditions of adoption for Central Bank Digital Currencies (CBDCs) in the Global South, with a particular focus on China’s e-CNY. While much of the existing scholarship has concentrated on the hierarchical and sticky nature of global monetary systems, the challenges of RMB internationalization, and the technological dimensions of CBDCs, there is less focus on the pragmatic, context-specific conditions under which peripheral states—particularly in Africa, Asia, and Latin America—might adopt or reject digital currencies like the e-CNY.

2. Monetary hierarchy and the persistence of dollar centrality

A long tradition in international political economy (IPE) explains why leadership in international money is hierarchical, path-dependent, and unusually sticky. Classic and contemporary accounts emphasize that the international roles of a currency—as unit of account, means of payment, and store of value—are underwritten by credibility, legal predictability, deep and liquid financial markets, and a global nexus of clearing and settlement infrastructures that reproduce network externalities ^[2,7]. In this view, technology can re-route transactions, but it does not substitute for the institutional and asset-side pillars that anchor reserve demand ^[2,7].

Macro-finance work on the “dominant currency paradigm” (DCP) strengthens this picture: firms price and hedge in the dominant currency to minimize pass-through; global banks manage risks and funding in the same unit; and these conventions propagate through the global financial cycle ^[8]. Consequently, even when new payment technologies appear, balance-sheet complementarities and invoicing inertia keep the incumbent at the core ^[8].

Empirically, the asset-side foundations of dollar leadership remain robust. COFER data show the USD’s outsized share of official reserves relative to the scale of the US economy, while private usage patterns in payments and FX turnover reproduce this hierarchy ^[9]. The implication for central bank digital currencies (CBDCs) is straightforward: unless new rails are accompanied by credible safe assets and legal protections, technological change alone will not overturn monetary hierarchy ^[2].

3. RMB internationalisation: Incremental advances, structural ceilings

The scholarly consensus is that the renminbi’s (RMB) internationalisation has progressed through trade settlement, offshore financial centres, and swap lines, yet remains constrained by capital controls, limited convertibility, and scarcity of globally trusted RMB-denominated safe assets ^[3,6,10]. Large-N evidence on exchange-rate regimes and de facto anchors further associates international currency status with institutional depth and credible policy anchors ^[6].

Usage snapshots reinforce the point. SWIFT reporting and IMF reserve data consistently show the RMB rising from a low base but far behind the USD and EUR across payments, FX turnover, and official reserves—consistent with a hierarchical, core–periphery structure ^[9,11]. These patterns suggest a realistic trajectory of selective expansion where transactional complementarities are strong (e.g., trade links, vendor financing, swap support), rather than broad reserve reallocation ^[3].

A political-economy corollary is that RMB internationalisation is bounded less by payments technology and more by institutional and governance frictions—convertibility, legal recourse, transparency, and central-bank credibility vis-à-vis advanced-economy investors ^[6]. This is central to the later claim that e-CNY’s cross-border prospects will depend on where China can bundle rails with trade/credit and where adopters can insulate monetary sovereignty.

4. CBDCs: Moving value vs. changing what counts as “safe”

Policy research emphasizes that CBDCs primarily reconfigure rails—identity, compliance, messaging, and settlement finality—rather than directly altering the asset characteristics that underpin reserve demand ^[1,12]. Cross-border impact hinges on interoperability, reliability, and shared standards; absent these, fragmentation dulls any scale benefits ^[12].

This distinction matters for e-CNY. China’s approach couples a retail CBDC for domestic M0 and payments modernization with experiments in cross-border prototypes. Notably, the mBridge initiative (with the BIS Innovation Hub, Hong Kong, Thailand, and the UAE) demonstrates atomic PvP and embedded compliance designed to reduce time and cost in multi-currency settlement. Analysts read this as creating option value and sanction-resilient corridors at the margin, not immediate displacement of CHIPS/CLS ^[1,13].

5. Standard-setting and infrastructural power

A growing strand highlights “standard power”: early movers that shape default technical and governance standards can lock in advantages across vendor ecosystems, compliance tooling, and interoperability layers ^[4]. China’s strategy documents and commentary underscore a desire to participate in rule-making and to leverage domestic pilots to influence global norms—from blockchain-based service networks (BSN/UDPN) to wallet schemas and cross-border messaging interfaces ^[10]. Yet OECD central banks formed a CBDC working group that set “foundational principles” without China’s early participation, highlighting a contested standards arena ^[12].

Where Chinese telecom, cloud, and payment connectors (UnionPay, Alipay+) are already embedded, the marginal cost of integrating e-CNY functionality and compliance may fall, creating infrastructural lock-ins even when asset hierarchy remains unchanged. This is precisely the domain—standards and interfaces—where e-CNY could gain traction despite RMB asset-side limits.

6. Digital colonialism: Dependency risks in the data–money stack

Critical scholarship warns that digital infrastructures can reproduce asymmetrical power relations via architectural control, data extraction, and surveillance, especially in the Global South. Kwet ^[14] coins “digital colonialism” to describe how ownership and control over software, hardware, and connectivity translate into rent extraction and political–economic leverage by dominant platform owners (GAFAM), with governance terms embedded in the architecture itself ^[14]. The concern is portable: when monetary rails converge with digital identity and metadata in CBDC ecosystems, governance choices about data access, localisation, auditability, and upgradability become constitutional for monetary sovereignty.

Although Kwet focuses on US platforms, he explicitly flags the possibility of South–South imperialism as Chinese tech giants expand abroad—a caution directly relevant to e-CNY corridors ^[14]. The implication is that Global-South adoption of Chinese rails could swap dollar-centric dependence for China-centric informational subordination unless guardrails exist. This frames “digital colonialism” not as a single-country critique but as a general mechanism of infrastructural power through standards and data governance.

7. Global South agency: Hedging under constraint

Peripheral financialisation research stresses that firms and states at the periphery exercise agency through hedging across currency regimes, combining formal and informal rails, and prioritising transaction-cost relief over ideological alignment ^[5]. Such behaviour is portfolio-rational: use whatever clears the transaction fastest at tolerable risk while preserving reversibility and exit options (to USD rails, to crypto, to informal channels).

Ethnographic and case-proximate work on Africa–China trade aligns with this view: Nigerian entrepreneurs

opportunistically combine RMB settlement (including via swap lines), informal transfers, and—when needed—cryptocurrency, alongside USD cash and correspondent banking. These are pragmatic “workarounds–workwithins–workbetweens,” not wholesale currency realignment. The choice of rail depends on FX scarcity, compliance costs, supplier credit, and speed—precisely the micro-conditions under which a CBDC rail would be adopted conditionally (see sources collated in the Nigeria–China trade study’s bibliography).

8. From “currency wars” to infrastructural hedging

Policy debate often frames CBDCs as theatres of US–China rivalry and sanction evasion, suggesting the rise of “digital currency wars”^[13]. This lens rightly identifies geopolitical stakes but risks overstating short-run monetary displacement. More consistent with the monetary-hierarchy literature and with CBDC policy reports is a scenario of marginal de-dollarisation at the periphery through additional, sanction-resilient, lower-cost rails (e.g., mBridge), even as reserve portfolios and core funding markets remain dollar-centric^[1,11].

9. Policy implications

9.1. Lessons for Global South States

For policymakers in the Global South, the findings underscore the importance of entering China’s digital financial ecosystem selectively and with safeguards. The Nigerian case demonstrates that unstructured adoption exposes traders and regulators to governance vulnerabilities, ranging from opaque settlement practices to heightened exposure to supplier-driven credit risks^[15]. By contrast, Cambodia’s decision to frame Bakong as a sovereign system interoperable with—but not subsumed by—Chinese platforms illustrates a proactive strategy of harnessing infrastructural benefits while maintaining policy autonomy^[16].

This suggests three lessons. First, states should negotiate data governance frameworks that guarantee localisation, auditability, and dispute resolution, thus reducing the risks of informational subordination^[14,17]. Second, adoption should be embedded in multilateral arrangements, as exemplified by mBridge, to dilute bilateral dependence. Third, countries must preserve exit options by maintaining dollar access, alternative CBDC channels, or crypto corridors, thereby ensuring reversibility if Chinese rails become politically or economically costly^[10].

9.2. Strategic choices for China

For China, the analysis highlights the need to balance ambition with credibility. Although e-CNY pilots have demonstrated technical functionality, internationalisation remains constrained by persistent concerns over transparency, capital controls, and political oversight^[4,18]. If China wishes to expand conditional acceptance into deeper and more durable adoption, it must address three key challenges.

First, it must supply credible governance assurances to counter digital colonialism critiques—this includes clearer commitments on data protection, dispute settlement, and interoperability standards. Second, China must avoid over-politicising e-CNY promotion; coercive measures would likely exacerbate sovereignty concerns and drive hedging rather than deeper adoption^[10]. Third, China should consider coupling e-CNY expansion with broader reforms that enhance the renminbi’s asset credibility—greater capital-account openness, legal predictability, and the development of RMB-denominated safe assets^[7]. Failure to act on these fronts risks relegating e-CNY to a marginal role: useful for hedging at the periphery but incapable of reshaping the hierarchy of global money.

9.3. Responses for the United States and Its Allies

For the United States, the persistence of dollar hegemony should not invite complacency. While e-CNY has not displaced

the dollar, its conditional acceptance in the Global South demonstrates demand for alternative payment rails and dissatisfaction with the costs of the dollar system ^[8]. If Washington and its allies fail to address these frictions, they risk ceding incremental influence at the periphery.

Policy responses should therefore focus on three areas. First, the US and EU should accelerate efforts to modernise cross-border payments by supporting multilateral CBDC initiatives under the BIS or IMF framework ^[1]. Second, they should provide inclusive alternatives for Global South actors, such as dollar-backed stablecoin corridors or concessional correspondent banking services, to reduce the appeal of Chinese rails. Third, they must manage the geopolitical narrative: framing e-CNY solely as a coercive tool risks alienating Global South states that see it as a practical hedge rather than a political alignment ^[19]. By offering credible, cost-efficient alternatives, the United States can sustain the centrality of the dollar while accommodating the diversification pressures revealed in conditional acceptance.

10. Conclusion

The paper concludes that the rise of Central Bank Digital Currencies (CBDCs), particularly China's e-CNY, is not leading to the immediate displacement of the U.S. dollar but rather contributing to the emergence of a multipolar payments system. In this evolving landscape, the Global South faces both opportunities and risks as it navigates the integration of digital currencies. The adoption of e-CNY will depend on factors such as trade and credit arrangements, governance safeguards, and the ability to preserve monetary sovereignty through multi-rail interoperability and exit options. While China's digital currency can offer infrastructure benefits, its internationalization remains constrained by concerns over transparency and political control. For the U.S., the rise of alternative digital payment systems underscores the need for modernization and inclusive alternatives to maintain dollar dominance. Ultimately, the paper emphasizes that the future global financial order will be shaped by how states manage their digital financial ecosystems and safeguard their sovereignty in this new digital age.

Disclosure statement

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