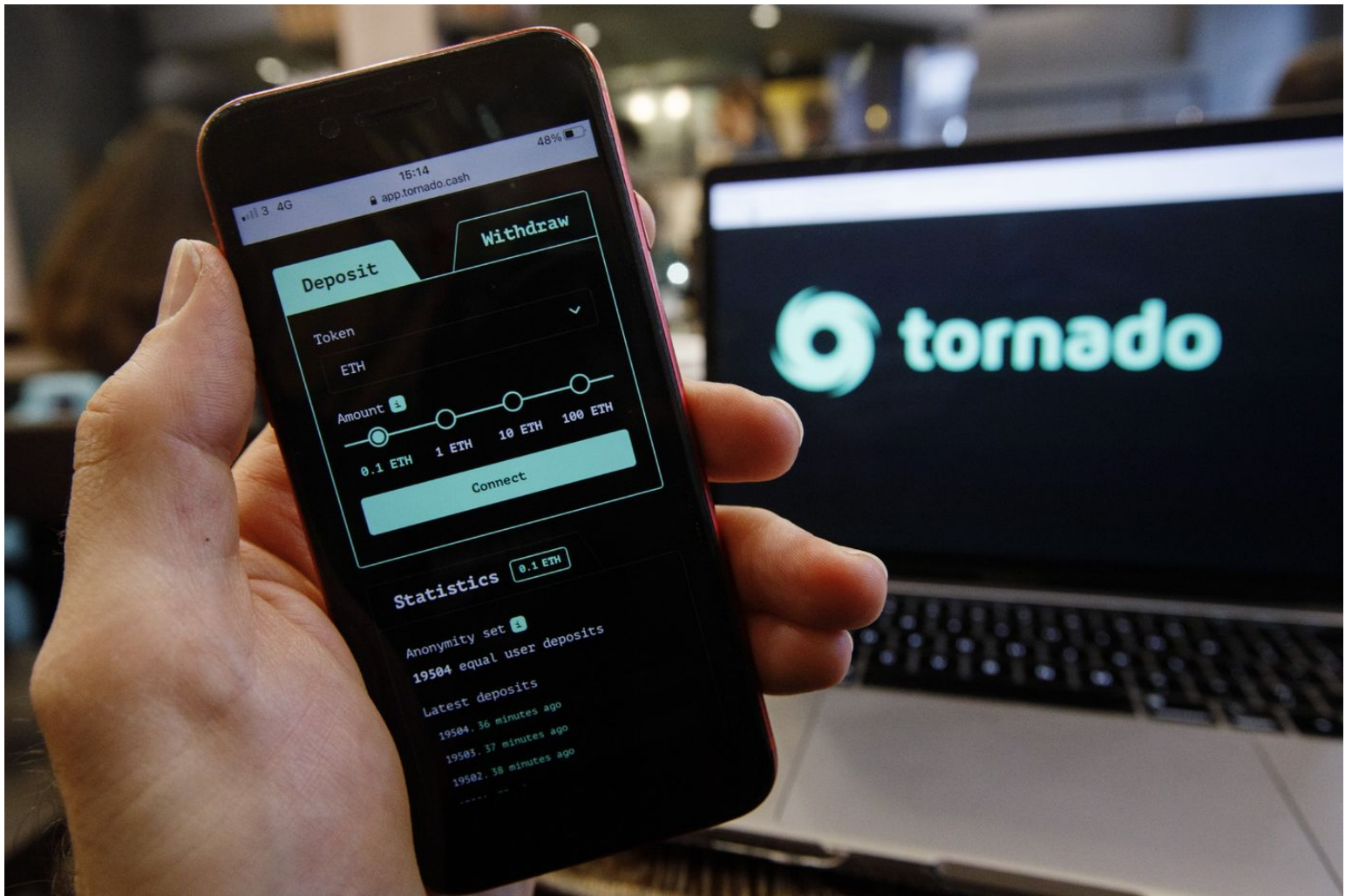


## Opinion

Lionel Laurent

# Crypto Is Failing Where Digital Yuan May Succeed

Cryptocurrency is still no match for the dollar but China could be the game changer on the horizon.



Photographer: Bloomberg/Bloomberg

By Lionel Laurent

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Does an industrial-sized dog whistle go off when advocates boast about cryptocurrency's

ability to evade US government sanctions?

Back in March, a founder of Tornado Cash – a so-called “mixer” service that masks cryptocurrency transactions by mixing them with others – told Bloomberg it would be “technically impossible” for sanctions to be enforced against decentralized protocols. Surprise: Tornado has now been sanctioned by the US Treasury’s Office of Foreign Assets Control, partly because of its use by hackers said to be linked to North Korean money laundering.

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With Tornado down 95% from its all-time high and its source code removed from Microsoft Corp.’s GitHub, it’s the latest blow to the “no sanctions yay” theory of crypto – the three words used by former Ethereum Foundation scientist Virgil Griffith in 2019 when he told a blockchain conference in North Korea how to dodge sanctions by converting cash into crypto, costly advice that resulted in a guilty plea and a 63-month federal prison sentence.

In terms of technology, it shows that even the most decentralized service can’t avoid law enforcement. Exchanges are under pressure to monitor links to regular currencies, as are other service providers, and pseudonymous blockchains can be pored over for suspicious transactions – such as the gains of North Korean cybercriminals that transited through Tornado. As Bloomberg’s Emily Nicolle notes, the crypto industry hasn’t been able to build all its infrastructure yet.

Geopolitically, crypto is also suffering – not surging – amid an economic Cold War. After the Covid-19 pandemic and Russia’s invasion of Ukraine, Washington has been flexing its financial muscles, even amid angst about the kind of blowback that overreach or alternative currencies might bring. Keeping crypto in check fits with the history of US regulation of encrypted tech, like the e-mail mixers of the 1990s, but is also key for US soft power in wartime.

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Ironically, even opponents of a dollar-based global economy have been ambivalent – at best – about crypto. For the likes of Russia and Iran, global pariahs that are also big energy exporters, crypto’s threats undermine its potential. While in theory they might be able to use crypto to facilitate trade and bypass US monitoring, that’s outweighed by the prospect of capital flight, instability and price volatility. Moscow has veered between banning and encouraging digital assets, doubtless recognizing that they can help sanctioned elites on some level. But the ruble still carries muscle – as recent arm-wrestling with the European Union over gas payments demonstrated.

While Tehran this week announced its first official import order using an unnamed cryptocurrency, according to Reuters, this is only one in a long line of crypto tests that have failed to gain traction. Regulation has also been erratic, as Iranian crypto miners have recently found.

Right now, therefore, it looks like even a world permeated by unprecedented sanctions, conflict and inflation will fail to give crypto a big boost. And as economist Eswar Prasad

recently wrote, US dollar hegemony could last a lot longer than expected.

But there's one potential twist in the tale: central bank digital currencies, notably China's e-yuan. These forms of digital money might play a big geopolitical role depending on how they're implemented and who gets there first.

A new book by sanctions experts Astrid Viaud and Paul-Arthur Luzu imagines a world in which China gains a first-mover advantage with a digital currency that is interoperable with others and imposes standards on other countries looking to avoid doing business in dollars.

One scenario wargamed by US officials, according to CoinDesk, is of a “fully portable” digital yuan that sees other countries using banks and payment providers as nodes effectively plugged into China's infrastructure. That might see North Korea or Russia buy materials without reprisals. Iran is pursuing a digital central bank currency of its own.

This is only one future among many – it may be that US and euro area digital currencies take off first, or that such projects end up fragmenting existing systems rather than strengthening them. And either way, it's all far-off.

But it suggests that the payments cold war has a long way to go before threats to the US dollar manifest themselves. It opens up a new zone of conflict that ensures “no sanctions yay” will remain little more than a slogan.

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