Chinaâ??s Digital Yuan and the Fight for Southeast Asiaâ??s Financial Infrastructure

Description

While Chinaâ??s Belt and Road Initiative often emerges in headlines, a far less visible but potentially more critical campaign is underway in the digital domain. Across Southeast Asia, Beijing is expanding its financial infrastructure reach through the digital yuan, operating firmly in the gray zone by leveraging emerging technology to export digital authoritarianism.

As a result, digital payment systems, financial data flows, and blockchain technology have become the new â??operating systemsâ?• of national sovereignty. In this sense, adopting Chinaâ??s digital yuan is akin to a nation outsourcing its economic master keys. While the â??user,â?• which in this case represents Southeast Asian-based central banks or monetary authorities, gains a sleek and efficient interface for trade, Chinaâ??s â??system administratorâ?• status retains the ability to monitor traffic and potentially shut down the network. In effect, the digital yuan has the potential to displace local currencies. If successful, this provides Beijing additional leverage at the expense of other nationsâ?? monetary sovereignty.

For those focused on great power competition, this dynamic is one to watch: if Chinaâ??s state-controlled model prevails, it establishes a new global standard where surveillance and economic coercion are built-in features of digital financial infrastructure. Conversely, Japan and South Korea advancing their own alternative versions of digital money diffuses risk by relying on a diverse ecosystem of private issuers, rather than a singular state-controlled ledger. If this model succeeds, it denies any single government a â??kill switchâ?• over anotherâ??s economy, ensuring that Southeast Asiaâ??s digital financial infrastructure remains interoperable, yet competitive and free from geopolitical manipulation.

Digital Money in the Context of Irregular Competition

While stablecoins and central bank digital currencies (CBDCs) are both forms of digital money emphasizing price stability and liquidity, CBDCs are issued and regulated by a countryâ??s central bank. Chinaâ??s digital yuan (also called the electronic Chinese yuan, or e-CNY), a CBDC, exemplifies this model, enabling seamless integration of payment systems within existing surveillance and policy tools. Using this model, China has positioned itself over the past two decades as the dominant liquidity provider across Southeast Asia, with initiatives like the Belt and Road Initiative, the Digital Silk Road, and most recently, the cross-border expansion of Chinaâ??s digital yuan with the Bank of Laos.

In contrast, stablecoin issuers are most often private, quasi-private, and/or decentralized organizations, with stablecoins operating within state-provided regulatory frameworks. Japan and South Koreaâ??s embrace of stablecoins reflects an approach that prioritizes interoperability and private sector innovation while retaining regulatory oversight. Rather than rolling out a CBDC over time, both governments have enabled stablecoin issuance under strict regulatory frameworks, with both countries showing a preference for bank-issued stablecoins.

The difference between a centralized state-controlled infrastructure (i.e. CBDCs) and private sector innovation is significant from an irregular warfare perspective. State-controlled digital currencies can function as instruments of influence, whether through the implementation of state policy, the manipulation of interest rates, or the facilitation of state-sponsored surveillance.

In contrast, stablecoins are more easily embedded into existing financial systems. In contested environments, this difference is critical, as a centralized CBDC could enable an issuer to freeze the assets of dissidents at any time through a â??kill switch.â?• Conversely, decentralized stablecoins are less influenced by direct state restrictions, serving as a financially resilient lifeline for a nationâ??s population.

Digital Yuan as Strategic Infrastructure

Chinaâ??s digital yuan is among the most robust CBDC projects globally. First piloted in early 2020, it has evolved into a significant tool for consumers, enterprises, and the Chinese government alike. The digital yuan gained visibility at the 2022 Winter Olympics and has continued to expand through pilot programs with other jurisdictions, including Hong Kong and Thailand in 2024. However, usage of the digital yuan has predominantly been relegated to government entities and institutions, with Chinaâ??s massive consumer base primarily accessing digital payments solely via Alipay and WeChat Pay.

Seeking to incentivize wider adoption, on December 29, 2025, the Peopleâ??s Bank of China (PBOC) announced that it would begin paying interest on the electronic Chinese yuan (e-CNY), making it the worldâ??s first interest-bearing CBDC. Allowing the e-CNY to accrue interest addresses a key barrier to retail uptake. Expanded access through commercial banks, combined with the prospect of returns, is expected to further incentivize consumer use.

In the same December 2025 announcement introducing interest on the e-CNY, the PBOC also unveiled a new management and operational framework for the digital currency, aimed at further promoting its international use. This announcement followed the September 2025 launch of a Shanghai-based international operations center for the e-CNY, focused on growing a cross-border digital payment platform, blockchain service platform, and a digital asset platform. While innovative, these new use cases cannot be separated from Chinaâ??s broader regulatory approach to digital finance.

One such regulatory approach is the Chinese governmentâ??s continued prohibition of cryptocurrency-related activities, which further highlights the digital yuanâ??s role as the only state-sanctioned, blockchain-based digital payments alternative. By remaining steadfast in its cryptocurrency ban, Beijing has effectively limited competition that could undermine its monetary sovereignty or capital controls. In this context, the digital yuan serves as a policy tool to solidify state control over Chinaâ??s financial system while expanding Chinaâ??s influence in the evolving global digital payments landscape.

Although Chinaâ??s e-CNY stands out in terms of scale and state sponsorship, adopting it for usage by Southeast Asian countries would undoubtedly increase dependency on Chinese-controlled infrastructure, data standards, and regulatory assumptions. In irregular warfare terms, this creates leverage, with China potentially holding influence over everyday economic activities both domestically and abroad.

Digital Currency Experimentation in Southeast Asia

As China, Japan, and South Korea advance competing models of digital money, Southeast Asia has become the testing ground in which their strategic visions collide. The region is a hotbed for digital currency experimentation, particularly given its propensity for digital payments and mobile-first approach to Internet access. Under these conditions, digital payments serve as a critical part of digital infrastructure sovereignty, with control over retail and wholesale trade flows being a significant economic lifeline for states.

Several experiments stand out. For instance, in early 2023, the Bank of the Lao Peopleâ??s Democratic Republic tested its digital lap kip (DLak) with help from Japan-based Soramitsu, which previously helped launch Cambodiaâ??s Project Bakong in late 2020. Additionally, Soramitsuâ??s Mutsumi project, launched in mid-2023, leverages Bakong and stablecoins to support Japanese Small and Medium-sized Enterprises that need digital payments for e-commerce to other countries within Southeast Asia.

However, while the Bakong and DLak have seen increased usage, with Bakong volumes comprising a significant portion of Cambodiaâ??s overall gross domestic product (GDP), the digital yuan stands out among other CBDCs in the region due to its volume. Additionally, Chinaâ??s strength as the leading trading partner for most, if not all, countries in Southeast Asia makes yuan-denominated trade a preferred choice for reducing payment friction, a particularly important note for both trade and tourism.

Stablecoins as Shadow Infrastructure in Contested Environments

Stablecoins currently function as a de facto financial infrastructure across parts of Southeast Asia, particularly in areas with significant economic instability. For example, Myanmarâ??s exiled National Unity Government adopted popular stablecoin Tether (USDT) as its official currency in 2021. Moreover, stablecoin usage is on the rise in high-growth economies like the Philippines and Thailand. And efforts to legitimize stablecoin usage in Japan and South Korea are adding legitimacy to its use in Southeast Asia, especially when compared to the risks associated with the digital yuan.

From an irregular warfare perspective, this is significant because stablecoins rapidly fill governance vacuums. When state financial institutions lose legitimacy, stablecoins can maintain functionality, creating an alternative financial layer that exists outside direct state control yet can be used at the everyday level. In such environments, power stems from platforms that convert other types of money into digital assets, along with digital wallets and compliance mechanisms, in contrast to control over physical infrastructure.

Both Japan and South Korea are enabling bank-issued stablecoins that can easily integrate into existing regional payment systems. In contrast, the digital yuan centralizes monetary authority and data visibility. As a result, stablecoins, particularly those issued by Japan and South Korea, are increasingly attractive to countries seeking to build their own digital infrastructure sovereignty, whether this be sovereignty from authoritarian governments or other external powers.

Conclusion

Chinaâ??s digital yuan represents one of the worldâ??s most advanced and strategically deployed CBDC projects globally. With the introduction of its first-ever cross-border pilot like the China-Laos settlement system, reinforced by the addition of interest-bearing e-CNY accounts, the PBOC has effectively released a â??system updateâ?• designed to lock Southeast Asia into Beijingâ??s proprietary â??operating system.â?•

If the digital yuan were to achieve wide-scale adoption beyond Chinaâ??s borders, participating nations could find their monetary policy dictated by Beijing through a reliance on foreign digital financial infrastructure. In contrast, despite sovereign CBDC projects by Southeast Asian nations being more limited in scope and influence, stablecoins preserve a degree of financial neutrality, allowing national economies to remain interoperable with the free market without relinquishing digital infrastructure sovereignty.

As digital currencies become increasingly embedded in trade, tourism, and everyday commerce, competition over financial levers will shape the structure of irregular warfare campaigns. Understanding digital money as infrastructure, and ensuring digital infrastructure sovereignty for countries, is essential for policymakers and practitioners alike to navigate the realm of competition in Southeast Asia and beyond.

Hugh Harsonoâ??s research interests focus on emerging technologiesâ?? impact on international security, technology policy, and strategic competition. Hugh received his graduate and undergraduate degrees from the University of California, Berkeley.

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