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m-Bridge Project: We Can Do Without Dollar

A few weeks ago the global trade world witnessed a very important landmark event. The Saudi Arabian Monetary Authority (SAMA) became a full participant in an m-Bridge innovative project, designed to accelerate and simplify settlements between lending financial institutions from various countries and areas of the world. Therefore, this international digital platform has added a player with massive weight in political, monetary and commodity spheres.

This story speaks volumes of the degree of the commitment of Riyadh political and monetary authorities to m-Bridge. “SAMA is actively researching the potential of wholesale central bank digital currencies (CBDC) to evaluate the feasibility for their use in expanding geography of cross-border payments to facilitate cheaper, faster, more inclusive and more transparent payment transactions for crude oil and oil products supply operations”, as the Saudi regulator commented on this step. This makes the strategic interest of the Kingdom clear: by using m-Bridge, it wants to achieve maximum country diversification and maximum profits from export sales of its energy resources.

Meanwhile, experts now are quite cautious about prospects for the project, recognizing its revolutionary essence and potential benefits. In theory, it could become a real viable alternative to the global currency settlement system, which has been dominated by the dollar since time immemorial. But it would take a lot of work to get there, it would literally require moving heaven and earth – in the digital domain.

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Asian Currency Pool

So, what is this m-Bridge, also called Multiple CBDC Bridge (The Digital Currency Bridge of multilateral central banks)?

This is a multiplatform system, based on m-Bridge Ledger blockchain. Blockchain is a distribution base for all transactions, conducted by the system participants, presented as a chain of blocks (each block recording a certain number of transactions).

The purpose of m-Bridge is to support peer-to-peer cross-border payments (P2P-payments — transfer of funds from one person to another without direct participation of a third party) in real time and foreign currency transactions with the use of CBDC.

A pilot project was launched in 2021 by the Bank for International Settlements, the Bank of Thailand, the Central Bank of the UAE, the Digital Currency Institute of the People's Bank of China, and the Hong Kong Monetary Authority. In February 2024 the UAE and China jointly performed the first cross-border transaction in CBDC for the total amount of $13,6 million, using digital dirham and yuan.

“In the structure of m-Bridge, a pool of Asian currencies led by yuan has the most weight, - said Vladislav Antonov, BitRiver financial analyst in his interview to BM. – The platform can do without a SWIFT interbank information transfer system and does not use the exchange rate of the American dollar as intermediary. These features set off alarm bells with the West, because m-Bridge, as viewed by US and Europe officials with good reason, could further on become a base for breakthrough mechanisms to implement wholesale cross-border payments.

The project seems to be very flexible, and this is its major upside. It is based on direct transfer of digital currencies of participating regulators. The arrangement is in line with the global idea to ditch the US dollar hegemony, which is of special interest to Asia and the Middle East”.

No agency network of a SWIFT type makes transactions cheaper and more available. Transfer of payments to a decentralized payments base seems no less secure than traditional arrangements, and is more progressive due to its scalability. Does it have any downsides?

American experts point to yuan’s low liquidity, which, in their opinion, is significantly reducing m-Bridge opportunities, keeping the project away from weakening the domination of the dollar as a global payments system in the near future.

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As Antonov underscored, the share of yuan in international settlements is indeed rather low now, but it has been growing incrementally. The process could have been going faster, but it is of no great necessity to China today.

As for the current share of the yuan in the m-Bridge architecture, things look quite adequate. The project development dynamics envision its gradual integration into the global system of cross-border payments. According to Antonov, first actual tangible results will come through in at least five years.

China’s Involvement

Naturally, the m-Bridge project would not have taken off if not for China with its interest in the latest financial technologies, if not for government level support to development of such innovations as artificial intelligence, blockchain, cryptocurrencies, Big Data, quantum computing.

Back in 2014 the country established a special group to study international experience on digital currencies. In 2017 the People's Bank of China set up the Digital Currency Institute and started engaging a number of banks to conduct joint development of the digital yuan, which was launched in late 2019 in a pilot mode in Shenzhen, Suzhou, Chengtu, and in 2022 at the Winter Olympic Games.

Today the digital yuan is used in 17 out of 22 provinces and in 26 cities, including major metropolitan cities – Beijing, Shanghai and Tianjin. It is accepted in over 6 million points of sales. The total volume of payments has long exceeded the 100-billion-yuan mark (about $14 billion).

China has its own international settlement developments. The country has succeeded in creating an actual alternative to SWIFT: in 2015 the CIPS (Cross-border Interbank Payment System) was launched into operation. And unlike SWIFT, the system provides not only for exchange of financial messages, but also for settlements and clearing. In 2023 the CIPS performed transactions for about 123 trillion yuan ($17,25 trillion). Today the system includes about 1400 organizations in 110 countries, and in total the business encompasses over 4400 banking companies in 182 countries.

“China’s leaders view m-Bridge as a part of the global revolution of cross-border payments”, - says Alexei Maslov, MP Bank Board of Directors member, co-chairman of the Payment Systems Committee of the Association of Banks of Russia. According to him, the blockchain technology enables the platform to make transactions significantly simpler: payments and transfers of funds, including cross-border ones, are carried out in 2-10 seconds. At the same time the system ensures major savings:

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according to PwC agency estimates, special m-Bridge algorithms bring costs down by about two times of the costs of an agency banking model. However, Maslov noted that comprehensive development of the project would require at least 10 years. This is related to different CBDC development levels in each country. International multi-currency payments are more complex than their domestic counterparts: special efforts would be required to support cross-currency compatibility, exchange rate balance and political arrangements.

How to kick the dollar habit?

Generally speaking, the current status of the project is debatable. Is m-Bridge a prototype, a concept of a promising global system, or is it a product, which could satisfy customers (due to availability of minimal sufficient functions)? And there is yet another question: does m-Bridge, being just a work tool, pose any threat, even a minimal one, to the domination of the US dollar in the global trade? It's quite probable over the long term, but obviously not today. In light of the latest IMF data, the US dollar share makes up for more than 80% of trade operations (and 60% of currency reserves), the answer for now is unequivocally negative.

A great advantage of the United States is based on its correspondent banks being central nodes in cross-border payments, plus, America hosts major fintech companies – Visa, Mastercard, PayPal and others.

"Today we cannot speak of m-Bridge as of a promising alternative to the dollar-based payment system, - says Nikita Maslennikov, lead expert of the Political Technologies Center. – Just as the yuan is no rival to the dollar due to its low liquidity and small (4%) share in the total volume of international settlements. We may dislike the dollar given the geopolitical context, as a currency of an unfriendly country. But from the economic point of view the dollar is ultimately convenient as a universal equivalent of product and service costs. It is a habitual currency for everyone and it would be impossible to find a suitable replacement for it now. m-Bridge means multi-lateral currency clearing, it is an attempt to take cross-border payments to a whole new level, to make them more secure and profitable. But this raises a crucial question – what would operate as a universal value measure function in this settlement system?"

According to Maslennikov, the digital yuan is not fit for this role due to essentially being an electronic wallet (and a very unsophisticated one at that), and not a full-fledged digital currency. By the way, even our digital rouble, which is being tested now, looks better in this regard. Indeed, it is convenient: one could bypass SWIFT, avoid sanction risks, related to the use of dollars and euros in trade operations. However, in the case of m-Bridge it is about the form and not the substance. On the new

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practice of digitalizing cross-border settlements: how values of different national currencies could be matched, where does one get (outside of the dollar system) a common equivalent of commodity prices, a standard which would be agreeable to all participants of the m-Bridge startup (including in political terms), – this key strategic issue remains unresolved.

It is clear, as Nikita Maslennikov sums up, that in 10-15 years the whole financial world would definitely get digital, that it is rapidly going to digitalization of national currencies. Today more than 90 central banks are either developing or testing prototypes. But for now this is still a process: the high-speed train, named “global currency system”, which has only a few vacant seats, carries a passenger named m-Bridge. What’s in store for this passenger along this long journey, which stops and surprises await it, - we do not know.

Georgy Stepanov.

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