China Is Building Parallel Dollar Rails and the US Answer Is Already Running

e-CNY at 2.3 Trillion. mBridge at 55 Billion. Interest-Bearing CBDC Since January. Warsh Says It Threatens Dollar Dominance. -- Q2 2026

China and the United States are simultaneously executing opposite strategies for the future of digital money -- and the outcome of that competition will determine which country controls the payment infrastructure of the global economy for the next 50 years. China's strategy is the e-CNY: the world's largest live central bank digital currency experiment, which had processed more than 3.4 billion transactions worth approximately 16.7 trillion yuan -- approximately $2.3 trillion -- by the end of November 2025, an 800% expansion since 2023. Alongside the e-CNY's domestic expansion, Project mBridge -- the cross-border CBDC platform China developed with the central banks of Hong Kong, Thailand, the UAE, and Saudi Arabia -- had processed more than 4,000 cross-border transactions totaling approximately $55.5 billion as of early 2026, a 2,500-fold increase since 2022. On January 1, 2026, China made its e-CNY interest-bearing -- allowing verified holders to earn returns on digital yuan balances, making it directly competitive with bank deposits and dramatically more attractive than non-yielding stablecoins. People's Bank of China governor Pan Gongsheng has explicitly framed the goal as building a more multi-polar monetary system less vulnerable to politicization. He means: a system the United States cannot weaponize through SWIFT exclusion, stablecoin sanctions, or dollar dominance. Kevin Warsh -- the incoming Federal Reserve chair whose first FOMC meeting is June 16-17 -- told senators during his confirmation hearing that China's digital yuan project threatens the dominance of the US dollar. The United States has an answer to China's digital monetary strategy. It is already running. And it is winning. But most investors are not connecting the two stories into the single geopolitical monetary competition that defines the entire crypto regulatory environment of 2026.

01 -- CHINA'S DIGITAL MONETARY STRATEGY: THREE SIMULTANEOUS MOVES

China's digital monetary strategy in 2026 operates on three simultaneous tracks that each address a different dimension of dollar dominance -- the domestic payment layer, the cross-border settlement layer, and the competitive yield layer.

Track one is domestic e-CNY scale. The digital yuan has processed 3.4 billion transactions worth $2.3 trillion as of November 2025. China launched its e-CNY International Operation Center in Shanghai in September 2025, explicitly designed to encourage cross-border use. The PBOC reclassified e-CNY as deposit liabilities in January 2026 -- a technical change that allows the digital yuan to earn interest and function more like a bank account product than cash. China's 15th Five-Year Plan for 2026 to 2030 explicitly mandates active participation in international digital-currency governance. The e-CNY framework is not a payment experiment. It is the foundational infrastructure of a state-controlled digital monetary system designed to extend Chinese financial reach without dependence on dollar rails.

Track two is mBridge cross-border expansion. Project mBridge -- the cross-border CBDC platform involving the central banks of China, Hong Kong, Thailand, the UAE, and Saudi Arabia -- processed $55.5 billion in cross-border transactions as of early 2026, with the digital yuan accounting for 95% of settlement volume. The Atlantic Council confirmed a 2,500-fold increase from mBridge's 2022 pilot volumes. The PBOC's 2026 work plan includes new cross-border pilots with Singapore, Thailand, Hong Kong, the UAE, and Saudi Arabia. A retail e-CNY pilot is now operating in Laos, where Chinese tourists can settle directly in digital yuan. The BIS departed from mBridge in 2024 in what it described as a graduation -- meaning the platform has progressed beyond needing the institutional cover of the BIS and is advancing on its own institutional momentum.

Track three is the interest-bearing CBDC. China's January 1, 2026 decision to make the e-CNY interest-bearing is the most commercially significant change to the digital yuan since its 2020 launch. A non-interest-bearing CBDC competes with physical cash -- people use it for convenience but have no financial incentive to hold balances in it over bank deposits. An interest-bearing CBDC competes directly with bank deposits -- people can earn returns on their digital yuan balances at a rate set by the PBOC. PIIE analysis confirmed that the interest-bearing e-CNY is designed to compete more directly with dollar stablecoins -- particularly the USDC reward programs that Coinbase offers, which effectively pay 3.5% annually while Chinese bank deposits earn only 0.05% to 0.5%.

CHINA THREE-TRACK STRATEGY: e-CNY $2.3T domestic at 3.4B transactions. mBridge $55.5B cross-border at 2500x growth. Interest-bearing CBDC since January 1 2026. PBOC governor Pan Gongsheng: building a more multi-polar monetary system less vulnerable to politicization. Translation: a system the US cannot weaponize.

02 -- THE US ANSWER: DOLLAR STABLECOINS AS MONETARY DOMINANCE 2.0

The United States did not respond to China's digital monetary strategy by building a competing CBDC. President Trump signed an executive order prohibiting the Federal Reserve from researching, designing, building, testing, or issuing a central bank digital currency absent congressional authorization. The CBDC Anti-Surveillance State Act passed the House in July 2025 and is expected to be appended to the fiscal year 2026 National Defense Authorization Act. Kevin Warsh, despite warning about China's digital yuan during his confirmation hearings, has proposed issuing a US CBDC only as a competitive response if China's strategy makes it unavoidable.

Instead of a CBDC, the United States answered China's digital monetary strategy with dollar stablecoins. The GENIUS Act -- signed July 18, 2025 -- creates the regulatory framework for private, regulated, dollar-pegged stablecoins that carry US Treasury bill backing and operate under US compliance oversight. USDC at $77 billion and USDT at $190 billion are the operational deployment of this strategy. Fidelity's FIDD, JPMorgan's JPMD, and the 11 OCC-chartered stablecoin issuers advancing through federal banking approval are the institutional scaling layer. The $316 billion in outstanding dollar stablecoins represents a privately operated global digital dollar system that does not require the Federal Reserve to issue digital currency and does not create the government surveillance concerns that a US CBDC would generate.

The strategic logic of the dollar stablecoin response to China's e-CNY is more sophisticated than it appears. A US CBDC would require every holder to have a direct relationship with the Federal Reserve -- creating the same financial surveillance capabilities that critics of China's e-CNY identify as its most dangerous feature. Dollar stablecoins issued by private entities like Circle, Tether, and the OCC-chartered bank stablecoin issuers provide the same global digital dollar access without requiring the Federal Reserve to surveil individual transactions. They are programmable, globally accessible, 24/7 settlement-capable, and backed by US Treasury securities -- the exact properties that China's mBridge is trying to replicate for the yuan.

Circle CEO Jeremy Allaire confirmed the competitive dynamic directly in an April 16, 2026 interview with Reuters in Hong Kong: there is a tremendous opportunity for a yuan-backed stablecoin, and he predicted China could roll one out within three to five years as digital currencies become more integrated into global trade and finance. Allaire's statement is the most commercially informed assessment of the digital money race available: the CEO of the world's second-largest stablecoin issuer, speaking in Hong Kong, is confirming that China will eventually attempt to replicate the dollar stablecoin model for the yuan -- and that the US has a three-to-five year structural head start.

03 -- WHY CHINA CANNOT WIN THE STABLECOIN WAR

China's digital monetary strategy has a structural vulnerability that the e-CNY's scale, mBridge's cross-border reach, and the interest-bearing CBDC cannot overcome: the yuan is not freely convertible. PIIE analysis published February 10, 2026 confirmed the fundamental constraint -- a true yuan stablecoin would require Beijing to make the currency fully convertible, meaning China's decision will hinge more on capital-control policy than on technology.

The USDC and USDT stablecoin model works because the US dollar is freely convertible -- anyone anywhere in the world can hold a dollar, convert it to USDC, use it for payments, and convert it back to local currency through exchange markets without government permission. China's capital controls, which limit the outflow of yuan from the Chinese financial system, make it structurally impossible to replicate this model for the yuan without fundamental changes to China's monetary policy architecture that the PBOC has shown no willingness to make.

The PBOC's domestic ban on crypto trading and mining -- maintained and strengthened in 2026 -- reflects the same concern that makes a freely convertible yuan stablecoin impossible: capital flight. If Chinese citizens could freely convert yuan into a yuan-backed stablecoin that circulates on global blockchain rails, they would have an effective mechanism to move wealth outside China's capital control system. The internet and smartphones have already made dollar stablecoin adoption by Chinese citizens a documented phenomenon -- Chainalysis data confirms that Chinese nationals use offshore USDT holdings for capital flight at significant scale. A yuan stablecoin without capital controls would accelerate this dynamic rather than prevent it.

The mBridge cross-border network -- which specifically addresses trade settlement between China and its trading partners in the Gulf, Southeast Asia, and eventually further afield -- is the realistic perimeter within which China can expand yuan digital reach without making the yuan freely convertible. mBridge is not a dollar replacement. It is a dollar-bypass -- a payment network that allows specific bilateral trade corridors to settle in yuan without going through SWIFT or dollar correspondent banks. Its $55.5 billion in total transactions since 2022 represents approximately one day of Fedwire volume. The scale gap between mBridge and dollar payment infrastructure is not a technology problem. It is a convertibility problem.

CHINA STRUCTURAL VULNERABILITY: Yuan is not freely convertible. Capital controls prevent a freely circulating yuan stablecoin. mBridge is a dollar-bypass for specific corridors, not a dollar replacement. $55.5B total mBridge volume since 2022 equals approximately one day of Fedwire. The gap is convertibility, not technology.

04 -- WARSH, THE FED, AND THE US COMPETITIVE POSTURE

Kevin Warsh's statement during his Federal Reserve confirmation hearing -- that China's digital yuan project threatens the dominance of the US dollar -- is the most significant Fed leadership statement about digital currency competition since the category was created. It reflects a genuine competitive awareness that was absent from Jerome Powell's public statements during his tenure.

Warsh's competitive framing has direct policy implications for the June 16-17 FOMC meeting and the broader monetary policy environment in 2026. A Fed chair who views the dollar's global position as a competitive asset to be defended -- rather than a structural given that requires no active maintenance -- will approach monetary policy decisions differently. Interest rate decisions that weaken the dollar's attractiveness relative to yuan-denominated alternatives, balance sheet management that expands rather than contracts the Fed's footprint, and communication strategies that emphasize dollar reliability and stability all become geopolitically weighted under Warsh's competitive framing.

The specific intersection of Warsh's competitive dollar framing and the stablecoin regulatory environment is the GENIUS Act's structural role in the digital monetary competition. Every dollar of GENIUS Act-compliant stablecoin issued globally is a dollar of demand for US Treasury bills -- demand that simultaneously finances the US national debt and expands the global reach of the US dollar through private digital infrastructure. Treasury Secretary Bessent's description of the GENIUS Act as an important feature of financing the US captures only the fiscal dimension. The geopolitical dimension -- that GENIUS Act-compliant dollar stablecoins are the most effective instrument of dollar dominance extension available to the US government in the digital era -- is the dimension that Warsh's competitive framing makes explicit.

05 -- THE INVESTMENT IMPLICATION: POSITION IN THE INFRASTRUCTURE OF DOLLAR DOMINANCE 2.0

The geopolitical monetary competition between China's e-CNY and dollar stablecoins has a specific, actionable investment implication that extends beyond the macro narrative: the assets and infrastructure that carry dollar dominance 2.0 are directly identifiable, currently undervalued relative to the strategic importance of the role they play, and structurally protected by the same US government that is deploying them as instruments of monetary geopolitical strategy.

USDC is the primary beneficiary of the dollar stablecoin geopolitical strategy. It is GENIUS Act-compliant, backed by US Treasury bills, regulated by a federal banking framework, and backed by Circle's OCC national trust bank charter. Every geopolitical event that increases demand for dollar-denominated assets in countries that cannot access the traditional dollar banking system -- inflation crises in emerging markets, sanctions evasion countermeasures, trade settlement in dollar-adjacent corridors that cannot use SWIFT -- increases demand for USDC as the most accessible, most regulated, most institutionally credible dollar alternative available.

Ethereum and Base are the settlement infrastructure that carry the dollar stablecoin geopolitical strategy at scale. USDC's primary deployment is on Ethereum and Base. JPMorgan's JPMD is on Base. The x402 AI agent payment protocol's 97 million transactions ran on Base. Every dollar of dollar stablecoin that circulates outside the US banking system and contributes to dollar dominance 2.0 is a dollar that settles on Ethereum or Base infrastructure. The geopolitical monetary competition between China and the US is, in blockchain terms, a competition between mBridge's centralized CBDC settlement and Ethereum and Base's decentralized stablecoin settlement. One of these architectures is winning at $316 billion in outstanding supply. The other is at $55.5 billion in total transactions since 2022.

06 -- CONCLUSION: THE RACE IS REAL AND THE US IS WINNING

The digital monetary competition between China and the United States is the most consequential geopolitical competition of the next decade -- more economically significant than the military competition in the Indo-Pacific, more strategically durable than any trade agreement or sanctions regime, and more directly relevant to crypto investors than any Bitcoin price movement in 2026.

China is building parallel dollar rails through mBridge and the e-CNY -- a system that allows specific trade corridors to settle without dollar dependence and that may, over time, create the precedent for a more multi-polar international monetary system. The PBOC governor's explicit framing of this goal as building a system less vulnerable to politicization means China is building infrastructure that limits the US government's ability to use dollar dominance as a sanctions weapon.

The United States is answering with dollar stablecoins -- private, regulated, Treasury-backed digital dollars that circulate on public blockchain rails accessible to anyone with a smartphone, that generate structural demand for US government debt, and that extend dollar reach into every economy where the traditional dollar banking system cannot operate. The GENIUS Act is the legislative foundation. The CLARITY Act is the market structure framework. The OCC charter wave is the institutional deployment. And the $316 billion in outstanding dollar stablecoins versus China's $55.5 billion in total mBridge transactions is the current scoreboard.

China: e-CNY at $2.3T processed domestically. mBridge at $55.5B cross-border since 2022. Interest-bearing CBDC since January 2026. Yuan not freely convertible. US: $316B in dollar stablecoins. GENIUS Act. CLARITY Act. 11 OCC charters. Tether $141B in US Treasuries. The race is real and the US is winning.

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