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Topics *The U.S.-China digital currency race and battle for currency hegemony*

A competition between the U.S. and China for currency dominance is unfolding in the digital currency space. China, which has hitherto championed its central bank digital currency (CBDC), is now also beginning to support stablecoins. It is using Hong Kong as its starting point as it increases efforts to counter the U.S.

■ Supporting stablecoin expansion in Hong Kong

Following the announcement of its "Policy Statement 2.0 on the Development of Digital Assets" on June 26, 2025, the Hong Kong government enacted the "Stablecoins Ordinance" on August 1, which requires stablecoin issuers to obtain a license. These developments mark an acceleration of moves to expand the market for digital assets in Hong Kong, particularly stablecoins. Unlike cryptoassets (virtual currencies) such as Bitcoin and Ethereum, which have no underlying assets, stablecoins are a means of electronic payment collateralized by underlying assets like fiat currencies or international commodities. As such, they are designed so their value does not fluctuate significantly due to speculation. The use of stablecoins is expected to produce benefits such as reducing remittance times and costs as well as boosting cross-border payments. These kinds of policies and legal frameworks are thus aimed at further boosting Hong Kong's function as an international financial center.

■ Different approaches in mainland China and international criticism of stablecoins

In mainland China, transactions involving virtual currencies, including stablecoins, are banned. At the same time, the country is strongly promoting diffusion of the "digital yuan," a CBDC for which transactions are managed by its issuing authority, the People's Bank of China (PBOC). The stablecoin initiative in Hong Kong runs counter to this. The digital yuan was first issued in 2020 and the amount in circulation had grown to 16.5 billion yuan as of June 2023. In addition, the Hong Kong government had previously cooperated with the Chinese government to promote digital yuan usage. Moves to use the digital yuan for cross-border transactions were also progressing; pilot experiments involving the central banks of Hong Kong, Thailand, the UAE, and Saudi Arabia were conducted in June 2024, with 31 other countries as observers. In May 2024, the Hong Kong Monetary Authority (HKMA) announced that it would make the digital yuan usable in Hong Kong stores. From August of the same year, payment with digital yuan became possible at a major drugstore chain in the city.

<Moves Toward Expanding Hong Kong's Digital Asset Market (2025)>

The Policy Statement 2.0 on the Development of Digital Assets in Hong Kong (Announced June 26)
"LEAP" Framework
Legal: Streamlining of regulatory processes
Expanding: Expansion of tokenised product offerings
Advancing: Broadening use cases and promoting cross-sectoral applications
Promoting: Talent development and partnership building
Stablecoins Ordinance (Effective August 1)
Mandatory licensing from the Hong Kong Monetary Authority (HKMA) for stablecoin issuance
Requirements include segregation of client assets, maintenance of robust stabilisation mechanisms, preparation of reserve asset management and redemption procedures
Additional conditions cover anti-money laundering and counter-terrorist financing measures, risk management, disclosure and audit requirements, as well as suitability and appropriateness standards

Source: JRI based on HK government and various media reports

<Concerns on Stablecoins Highlighted by BIS>

Three Criteria Required for Money	
Singleness Elasticity Integrity	→ Not satisfied by stablecoins
Other Concerns	
Risk that issuers may be unable to balance stability with profitability	
Potential loss of monetary sovereignty if excessively dependent on the US dollar	
Possible increase in risks to safe assets as markets expand	
Risk of spillovers to the existing financial system in the event of market instability	

Source: JRI based on BIS

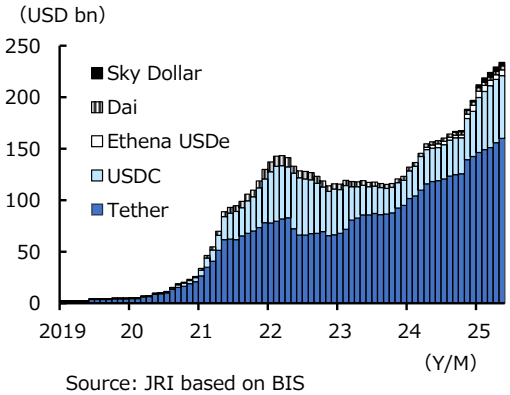
There has also been some international criticism of stablecoins. In its "Annual Economic Report 2025" published in June 2025, the BIS (Bank for International Settlements) pointed out that stablecoins cannot function properly as money when assessed against three criteria: singleness (trading at a 1:1 ratio with the U.S. dollar), elasticity (the appropriate supply and adjustment of money for economic activity through flexible credit provision and repayment), and integrity (measures against illicit use). Many central banks worldwide also support the introduction of CBDCs and seem to harbor concerns about the proliferation of stablecoins.

■ The U.S. rapidly ramps up support for stablecoins

President Trump's support for stablecoins has significantly altered this trend. Soon after taking office in January 2025, he announced a ban on the issuance of a U.S. dollar-denominated CBDC. In June, he signed the GENIUS Act, a law establishing a regulatory framework for cryptoasset stablecoins. Also in the U.S., the "CLARITY Act" for cryptoasset regulation and the "Anti-CBDC Surveillance State Act" to prohibit the Federal Reserve from issuing a CBDC are under deliberation. These developments indicate a strengthening stance of favoring privately issued stablecoins over a CBDC managed by the central bank. The moves can be seen as a U.S. effort to strengthen the greenback's status and enhance national security. They may have also catalyzed the Chinese government's actions in Hong Kong.

There has always been a concern that CBDCs "could become a tool for government surveillance," and this has played a part in the U.S. approach. Some members of Congress had misgivings about CBDCs, such as Representative Tom Emmer of the Republican Party who introduced a bill to ban them in January 2022, citing the potential for abuse in financial surveillance. However, it's not just the concern that matters. A White House press release in June 2025 stated that the GENIUS Act "strengthens the U.S. dollar's reserve currency status, and bolsters our national security," showing a clear focus on reinforcing the dollar's standing. Stablecoins have already grown to become a massive market, with issuances exceeding 200 billion USD and over 99% denominated in USD. While more issuances in other currencies are expected in future, if the proliferation of stablecoins accelerates in the U.S., which was quick to support them, while other regions like China and Europe continue to focus on CBDCs, the U.S. dollar's influence in the overall digital currency market will only grow stronger.

<Market Capitalisation of The Largest Stablecoins>



Source: JRI based on BIS

■Growing attention being paid to the currency hegemony race as the U.S. increasingly follows its own path

The U.S. moves to support stablecoins have spurred steps by the Chinese government, which is conscious of the global battle for currency hegemony. In June 2025, at the Lujiazui Forum in Shanghai, Zhou Xiaochuan, a former PBOC governor, suggested that U.S. dollar-pegged stablecoins could accelerate the dollarization of international finance. On July 3, 2025, Reuters reported that a major Chinese tech company argued in discussions with the PBOC that stablecoins are necessary as a tool to promote the yuan internationalization and proposed issuing an offshore yuan-denominated stablecoin in Hong Kong. It is thought that the Chinese government is moving to liberalize the stablecoin market in Hong Kong to test the waters and secure an environment where it can compete with the U.S., not just with its CBDC but with stablecoins too.

By becoming a hub for the stablecoin market, Hong Kong has the potential to once again elevate its role as an international financial center. At the same time, it is essential to note that a new type of battle for currency hegemony, over digital currencies, has begun with Hong Kong as its stage.

(Minoru Nogimori)

Topics Semiconductor-related tariffs from a global supply chain perspective

U.S. President Trump has warned that he may impose huge tariffs of over 100% on semiconductors. Though the details remain unclear, this has raised concerns about potential damage to Asian economies, where the semiconductor supply chain is concentrated.

■ The outlook for semiconductor tariffs

Since taking office, President Trump has implemented various measures, including reciprocal tariffs with different rates for each country, tariffs aimed at combating the supply of illegal drugs from countries like China, and product-specific tariffs on critical items. While the reciprocal tariffs may be reviewed in the future, the U.S. has started applying additional country- and region-specific tariffs as of August. Attention is now shifting to the potential expansion of the scope of the product-specific tariffs.

The U.S. has been progressively expanding its targets for these tariffs to include automobiles, steel, aluminum, and copper (including related products), and has signaled that semiconductors, pharmaceuticals, lumber, and aircraft may be next. The most significant concern for the future of Asian economies is what happens with semiconductor tariffs. Semiconductors and various products containing them as intermediate goods, such as computers and smartphones, are currently excluded from the reciprocal tariffs and are not subject to additional tariffs. Therefore, the Trump tariffs are thought to have had little to no impact on demand for semiconductors and related products until now. As of the writing of this report, the U.S. is warning of tariffs of over 100% on semiconductors, but it has not clarified whether the scope will be limited to semiconductor chips or expanded to encompass related products. The impact on Asian economies could vary depending on this.

■ Direct impact of semiconductor tariffs on Asian economies

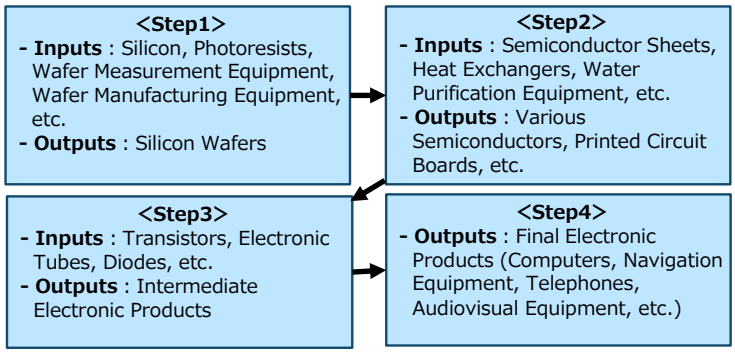
First, let us consider the direct impact of semiconductor tariffs given the positions of Asian countries and territories within the overall semiconductor supply chain.

According to the OECD, the semiconductor supply chain can be broadly divided into four manufacturing steps: silicon wafers, semiconductor chips, intermediate electronic products, and, ultimately, final electronic products.

When we look at Asia's semiconductor-related exports to the U.S. using this framework, we find that the share of total exports to the U.S. occupied by semiconductor chips and their input, silicon wafers, is negligible. In contrast, the share of intermediate and final electronic products that use semiconductors is substantial. This is especially true for Taiwan, where they account for about 50% of exports to the U.S., and for China, Hong Kong, and ASEAN countries, where the figure is around 20%.

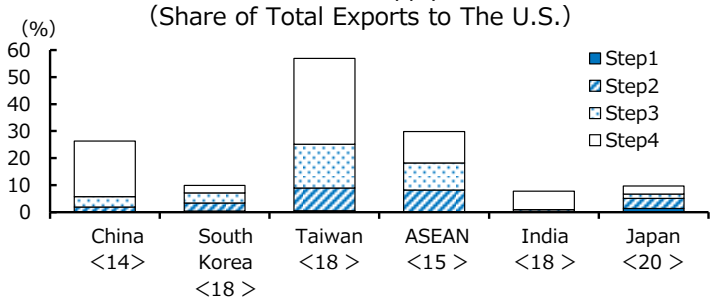
When considering the impact of product-specific tariffs, attention

<Semiconductor Supply Chain>



Source:JRI based on OECD (2019) "Measuring distortions in international markets :The semiconductor value chain"

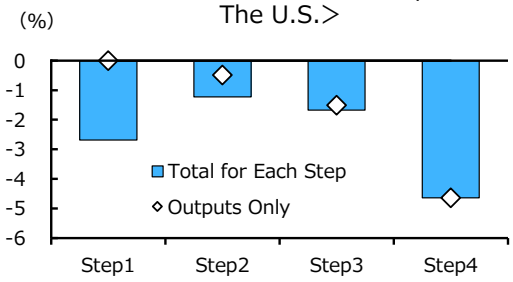
<Exports to the U.S. of Products Related to Semiconductor Supply Chain>
(Share of Total Exports to The U.S.)



Source: JRI based on data from UN Comtrade
Note: Data is for 2023. China includes Hong Kong. Figures in <> are the country/territory's share of total exports to the U.S.

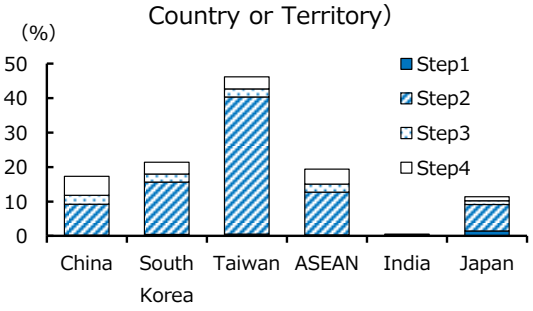
must also be paid to differences in product characteristics. Products downstream the supply chain are more likely to see a decrease in demand when prices rise, as final consumers confront the price increases directly. Meanwhile, upstream products, such as semiconductor chips, are less likely to experience a significant drop in demand as long as demand for the final products is not negatively impacted. Estimates for the price elasticity of exports to the U.S. of products from each of the four manufacturing steps show that, if prices increase by 1%, real exports to the U.S. of final electronic products (Step 4) would drop by nearly 5%. However, for semiconductor chips (Step 2), the decline is estimated to be only about 0.5% to 1.2%, with differences depending on whether manufacturing equipment or other items are included or only outputs are included. Based on these estimates, if the tariffs are limited to semiconductor chips, the direct negative impact on Asian economies is likely to be relatively minor. However, if the scope is expanded to include intermediate and final electronic products, U.S.-bound exports from Taiwan and ASEAN countries among others could drop significantly.

<Price Elasticities for Asian Exports to The U.S.>



Source: JRI based on data from the U.S. Census Bureau and Fontagne, Guimbard, and Orefice (2022), "Tariff-based product-level trade elasticities"
Note: Price elasticities by product, estimated based on bilateral data from over 100 countries from 2001 to 2016 (with non-significant values set to zero), are calculated using a weighted average based on the value of exports to the U.S. for each product. Asia includes China, the NIEs, ASEAN countries, and Japan.

<Intra-Asia Exports of Products Related to The Semiconductor Supply Chain>
(Share of Total Exports of Each Country or Territory)



Source: JRI based on data from UN Comtrade
Note: Data is for 2023. China includes Hong Kong. Intra-Asia means the total for China, the NIEs, ASEAN countries, India, and Japan.

■ Indirect impact on intra-Asian trade

Furthermore, it is important to be aware of the indirect impact on Asian economies via global supply chains. If the tariffs are limited to semiconductor chips, the negative impact from the loss of U.S. export demand would be largely confined to the inputs for that step, such as manufacturing equipment, and the previous step, silicon wafer production. However, if U.S. export demand for final electronic products takes a hit, it would affect all the manufacturing steps, including intermediate electronic products, semiconductor chips, and silicon wafers.

While Asian countries and territories export intermediate and final electronic products to the U.S., the world's largest consumer market, the upstream steps of their manufacturing are divided among different countries in the region. Semiconductor tariffs could therefore have a widespread effect on intra-Asian trade. There is a significant volume of trade in semiconductor supply chain-related products within Asia, and it is centered on semiconductor chips, which are the upstream components for products exported to the U.S. These products account for roughly 40-50% of Taiwan's total exports, around 20% for China, South Korea, and ASEAN countries, and just over 10% for Japan. Consequently, if the tariffs extend to intermediate and final electronic products, the negative impact on intra-Asian semiconductor trade risks causing a sharp slowdown across region.

Approximately 30% of the U.S. trade deficit with Asia involves products in the semiconductor supply chain. The bulk of this figure is intermediate and final electronic products. So even if the threatened semiconductor tariffs are limited to chips, the risk of high tariffs eventually being imposed on intermediate and final products will continue to linger so long as the Trump administration's stance on eliminating the trade deficit does not soften. Regardless of the initial outcome concerning semiconductor tariffs, Asian countries and territories will have to explore measures to reduce risk, including restructuring their supply chains in the medium to long term.

(Shota Muromoto)