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Centre for International  
Governance Innovation

Conference Report – Hong Kong, November 17, 2025

# New Features of Digital Governance in Mainland China and Hong Kong

Alex He and Paul Samson



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## About the Authors

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Prior to joining CIGI in 2014, Alex was a senior fellow and associate professor at the Institute of American Studies at the Chinese Academy of Social Sciences (CASS) and a visiting scholar at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, in Washington, DC (2009–2010). Alex was also a guest research fellow at the Research Center for Development Strategies of Macau (2008–2009) and a visiting Ph.D. student at the Centre of American Studies at the University of Hong Kong (2004).

Alex is the author of *The Dragon's Footprints: China in the Global Economic Governance System under the G20 Framework*, published in English (CIGI Press, 2016) and Chinese editions, and co-author of *A History of China-U.S. Relations* (Chinese Social Sciences Press, 2009). Alex has published dozens of academic papers, book chapters, and newspaper and magazine articles.

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# Introduction

The Centre for International Governance Innovation (CIGI) hosted its fourth conference on Digital Governance in China on November 17, 2025, in Hong Kong, collaborating with the Centre on Contemporary China and the World (CCCW) at the University of Hong Kong (HKU). For the first time, the conference was held as an in-person, public seminar to examine the evolving features of digital governance in mainland China and Hong Kong.

Over the past three years, the rapid advances in artificial intelligence (AI) and digital assets, particularly those driven by distributed ledger technologies such as blockchain, have spurred significant global market growth and drawn increasing attention to digital governance worldwide. Earlier events in CIGI's annual conference series on digital governance in China have explored themes such as data governance, AI governance, emerging technologies, digital trade and digital assets.

In 2025, the intensifying technological rivalry between the United States and China — alongside the regulatory developments surrounding digital assets, particularly stablecoins, in Hong Kong and the United States — has elevated the urgency of understanding the shifting digital governance landscape. This year's conference first examined Hong Kong's strategic position in China's efforts to enter the global stablecoin competition and its broader role in shaping the future of digital assets, and then discussed China's industry-specific AI development path within the context of global AI competition.

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# Key Takeaways

→ **Stablecoins are emerging as foundational financial infrastructure**, offering instant, programmable settlement, particularly for cross-border transactions. The continued dominance of the US dollar in stablecoins, reinforced by US regulation, is pressuring other jurisdictions to build local stablecoin regimes largely as defensive measures to safeguard monetary sovereignty.

- **Interoperability between private and public networks remains the central unresolved challenge for stablecoins.** While cross-chain public transfers exist, the public-private network divide is the biggest technical and policy barrier to mainstream adoption.
- **Stablecoins could significantly reshape global liquidity management.** By enabling instantaneous settlement, stablecoins reduce the need for over-collateralization, potentially unlocking substantial liquidity and affecting asset prices across globally leveraged markets.
- **Stablecoins will not meaningfully accelerate renminbi (RMB) internationalization.** Key constraints, such as capital account convertibility and the depth of RMB fixed-income markets, cannot be solved through stablecoins alone.
- **Hong Kong could play a strategic role in the next phase of digital finance**, particularly in potential basket-backed stablecoin experimentation, digital rails settlement and asset tokenization.
- Under continued US export control on advanced AI chips, **China's AI development is becoming increasingly industry-specific**, leveraging strengths in manufacturing, domain-specific data and engineering optimization rather than pure scaling of computing power.
- **The rise of DeepSeek demonstrates China's ability to advance frontier-level AI**, underscoring both the value of curiosity-driven innovation and the need to accelerate its push toward semiconductor self-reliance.
- **Hong Kong is uniquely positioned to serve as a global hub** offering a testbed for regulatory innovation aligned with both domestic and global AI governance agendas.

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# Global Stablecoin Competition and Hong Kong's Role

## Stablecoin as Infrastructure for Future Finance

Stablecoins should be understood less as digital currencies or digital substitutes for sovereign currencies and more as foundational financial infrastructure. Their original purpose of settling transactions against highly volatile crypto assets has expanded after a decade of development. Today, the primary use cases are cross-border settlement for both peer-to-peer transactions and institutional business-to-business trade flows.

Stablecoins leverage the core functions of blockchain to enable automated transfers with transparency and immutability. Their future applications are promising, as the ability to conduct automatic swaps can support instant transferability and seamless exchange between different currencies and potentially other types of assets in the future.

The global stablecoin landscape is currently defined by the overwhelming dominance of US dollar-denominated stablecoins. The GENIUS Act further reinforces US monetary primacy, prompting other jurisdictions to consider their own stablecoin frameworks as a defensive measure to preserve monetary sovereignty. These emerging non-US-dollar stablecoins, such as Malaysian ringgit and Hong Kong dollar (HKD)-backed versions, will not match US dollar volumes. Instead, as infrastructures, they provide local currencies with on- and off-ramps that go from fiat currencies into stablecoins, particularly relevant for institutional cross-border trade when combined with robust licensing regimes and reserve banking infrastructures. Given those facts, domestic retail use in Asia remains minimal.

The largest technical challenge facing stablecoins now is interoperability between private networks and public blockchains. While cross-chain bridging across public networks has advanced — albeit with ongoing cybersecurity and smart-contract vulnerabilities — the unresolved issue is seamless movement between private and public networks. This interplay will determine the next phase of stablecoin integration into financial systems.

## Limited Prospects for Multi-Currency or Commodity-Backed Stablecoins

Two foundational questions shape the debate on multi-currency and commodity-backed stablecoins: first, whether stablecoins can become reserve assets independent of their underlying collateral, and second, whether they can function as units of account detached from the value of their backing assets.

At present, neither outcome is likely. (At the time of the event, stablecoin issuers do not pay direct interest, making them unattractive as reserve assets. However, the question of interest may evolve and this could impact the equation.) Additionally, multi-currency or commodity-backed stablecoins or quasi-central bank digital currencies (CBDCs) are unlikely to displace the US dollar or other high-quality liquid assets such as US treasuries as global reserve instruments to supply liquidity globally. This mirrors the long-standing limitations of International Monetary Fund Special Drawing Rights. At the present time, nothing, including the change in technology underlying these assets, would change the state of play.

Multi-asset-backed stablecoins also introduce ambiguity about the unit of account, creating uncertainty relative to single-currency stablecoins. Market convergence toward single-currency backing is therefore the most probable path. While geopolitical factors could influence the US dollar's dominance, the RMB remains the only meaningful long-term challenger.

Gold-backed stablecoins are likewise unlikely to scale. Relative to the enormous size of global securities and derivatives markets (for example, US securities alone exceed \$100 trillion<sup>1</sup>), gold represents only a fraction of global liquidity. Unless gold prices rise dramatically, gold-backed stablecoins will remain peripheral.

## Stablecoins in Wholesale Payments and Liquidity Management

Although stablecoins are unlikely to replace traditional reserve assets, they may play

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<sup>1</sup> All dollar amounts are in US dollars.

a transformative role in global wholesale payments and liquidity management.

Since the rise of money market funds in the late 1970s, bank deposits have declined as a share of household financial assets in the United States, limiting banks' role as credit creators. Stablecoins introduce yet another non-bank alternative for deposit-like instruments, placing competitive pressure on traditional financial infrastructure within global wholesale payments.

In liquidity management, stablecoins and digital securities are potentially game-changing. Delayed settlement and uncertainty in timing require market participants to hold excess balances. By enabling near-instant, automated settlement, stablecoins could significantly reduce over-collateralization and release liquidity across markets, potentially influencing asset prices if liquidity availability plays a significant role in valuation dynamics.

## A Basket-Backed Stablecoin in Hong Kong?

With regard to stablecoins in Hong Kong, a proactive policy decision is needed, and that decision need not default to a 100 percent HKD backing. Alternative reserve structures, such as a diversified currency basket, RMB backing or a hybrid model, are all viable options. The selection among these choices could have significant implications for the reserve holdings required to support stablecoins in the future.

The implementation of Hong Kong's fiat-referenced stablecoin regime, defined as being fully backed by fiat currency, has prompted discussions about whether a stablecoin could be backed by a basket of assets, including currencies, commodities or even bitcoin as a form of "digital gold."

Hong Kong's position as a major financial hub and the world's largest offshore RMB centre creates a unique opportunity to explore such models. As digital assets and currencies increasingly migrate on chain in the age of Web3, a basket-backed stablecoin could leverage Hong Kong's strengths in trade, logistics and financial intermediation. If Hong Kong aims to compete with London and New York as a global financial hub, a leadership role in digital currency infrastructure could be a strategic differentiator.

An RMB-weighted basket is plausible given that roughly 80 percent of the underlying value is tied to Chinese companies whose operations are primarily denominated in this currency, despite the fact that most securities trading in Hong Kong is denominated in HKD. Policy choices regarding the composition of stablecoin reserves will therefore have significant implications for both Hong Kong and the evolving global stablecoin market.

## Stablecoins in Hong Kong and RMB Internationalization

Stablecoins are increasingly used for digital transactions across Asia, driven by demand for cross-border trade settlement and providing alternatives for payment channels in cases of difficulties in China, especially amid geopolitical fragmentation and tariff tensions. Many emerging markets are interested in trading outside of the United States and China, including with the rest of Asia, countries in Africa and countries in the Middle East, and so on.

However, Hong Kong-issued fiat-backed stablecoins, whether HKD- or RMB-denominated, will not materially advance China's long-term RMB internationalization objectives. Two key constraints remain. The first is RMB capital account convertibility, and the second is the lack of a deeper, more liquid RMB fixed-income market to facilitate people's interest in holding and managing reserve assets denominated in RMB.

Stablecoins cannot resolve these structural issues. They may offer new pathways to experiment with RMB usage, but they do not fundamentally alter the preconditions for RMB internationalization; these two issues are largely unrelated. The connection between the development of stablecoin infrastructure and markets in Hong Kong and the internationalization of RMB should not be overemphasized.

CBDCs represent a more direct route. The People's Bank of China's e-CNY initiative, including participation in Project mBridge, reflects this strategy. Stablecoins may coexist as parallel experiments rather than competitors, helping policy makers observe market dynamics from a different angle.

## Interplay Between Stablecoins and Real-World Asset Tokenization

There is an interplay between stablecoins and real-world assets (RWAs); however, RWA tokenization is currently a topic that receives more discussion than actual implementation. Not every asset can be tokenized to have instant accessibility and liquidity. For an asset to be tokenized on the blockchain, an on-chain currency is needed for settlement. Significant interaction and interoperability between stablecoins and RWAs will not occur until a sufficient amount of suitable assets is actually deployed onto the blockchain.

The primary types of RWAs gaining momentum are predominantly financial products, specifically tokenized money market funds. For instance, the Union Bank of Switzerland (UBS) offers a product called uMINT, while China Asset Management has introduced tokenized money market funds available in HKD, RMB and US dollar denominations. These instruments offer efficiency gains in capital market and treasury management, particularly for cross-border operations.

For tokenizing equities, there are two emerging paths. The first is fractionalization of existing equities, which increases accessibility but introduces counterparty and custodial risks that are often overlooked. The second is dual listings, where a company lists simultaneously in traditional markets and Web3 markets, a model being tested in some jurisdictions but not yet in Hong Kong. However, dual listings raise questions about liquidity fragmentation, specifically their potential to reduce liquidity rather than increase it, and the need for fungibility across on-chain and off-chain markets.

## Hong Kong's Role in Future Digital Finance

Given Hong Kong's market structure and its central role in offshore RMB markets, the city is well positioned as a testing ground for both RMB-related experiments and stablecoin-enabled infrastructures.

A critical emerging issue is accelerated settlement. The United States' shift from T+2 to T+1 settlement in 2024 had major implications for Asia, particularly the Hong Kong market. Two-thirds of Hong Kong's trading volume comes from overseas, including

many US-based managers and asset allocators. If Hong Kong follows, the extreme time-zone gap with the United States (up to 17 hours) means that many allocations and confirmations would need to occur on trade date (T+0), which is operationally unfeasible without programmable digital securities.

To meet these demands, Hong Kong, by inference, may need a fully digital cash-leg settlement system, whether via stablecoins, CBDCs or other digital currency formats. This could make Hong Kong the first major market to shift its entire securities settlement infrastructure to digital rails, despite the high transition costs and the uncertainty of achieving a system demonstrably superior to traditional infrastructure.

Because of these time-zone challenges, Hong Kong may require a regulatory-driven, top-down shift to digital rails settlement. This also implies that stablecoin adoption in Hong Kong could reach a scale far beyond current global projections. While Citigroup estimates that the global stablecoin market may reach \$2-\$4 trillion by 2030 (up from approximately \$280 billion today), Hong Kong's equity market alone is worth around \$6 trillion and its broader securities ecosystem, including Stock Connect and Bond Connect, reaches \$40-\$45 trillion. If Hong Kong transitions to digital settlement rails, the potential demand for stablecoin-like instruments could be far larger than current forecasts anticipate.

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## China's Industry-Specific AI Path in Global Competition

### Application-Oriented AI Development Approach in China

China has adopted a distinct, industry-driven approach to AI development. Rather than pursuing broad frontier models in the style of US firms such as OpenAI, Chinese companies have prioritized application-oriented, domain-specific models with a strong emphasis on commercialization and near-term returns. This strategy reflects both China's comparative advantages in manufacturing and supply chains and the constraints created

by US export controls on advanced AI chips. By relying on sector-specific data sets and lower compute requirements, Chinese firms have been able to advance AI adoption across targeted industries. Major companies such as Baidu and Alibaba are now focused on deeply integrating AI into their existing product ecosystems.

The emergence of DeepSeek has been a game changer. While built on the same transformer foundation as Western models, DeepSeek's performance stems from engineering innovations and architectural optimization. Its success, achieved despite restricted access to cutting-edge chips, demonstrates that Chinese firms can produce foundation models approaching US performance benchmarks. Confronted with strict and consistent export controls on advanced AI chips, China has come to recognize that it must rely on its own capabilities. This realization has strengthened its resolve to accelerate the development of its domestic semiconductor industry, particularly in semiconductor manufacturing.

China's rapid progress is also rooted in a robust open-source ecosystem, with firms such as DeepSeek and Alibaba contributing models and tools that broaden adoption. DeepSeek stands out as one of only a few Chinese players openly pursuing artificial general intelligence, reflecting a curiosity-driven research culture that could reshape China's foundational AI ambitions.

China's application-oriented strategy has produced a swift uptake of models, especially DeepSeek's, in sectors such as robotics, finance and health care. Investment trends show particularly strong funding flows into robotics, even though humanoid robots are unlikely to achieve widespread commercialization in the near term.

Meanwhile, US technology companies continue to invest heavily, often at trillion-dollar scales, in computing power. However, future US-China AI competition might hinge less on model size alone and more on computational efficiency and the ability to embed AI innovations into real-world industries at scale.

## AI Governance

Two conceptual frameworks currently shape thinking on AI governance. The first treats governance as a balancing act, weighing competing priorities and managing trade-

offs. The second frames governance as a design process — “moulding” AI systems to meet multiple objectives simultaneously by addressing systemic concerns such as bias, privacy and data quality from the outset.

A key governance concern is algorithmic injustice, particularly when models draw from skewed or drifting data sets that reinforce social inequalities. A second concern is data privacy, especially the opaque relationships among state agencies, militaries and corporate actors that enable data flows without public consent, oversight or accountability.

Bias in the data collection process remains pervasive. Expanding data sources without robust quality control has magnified risks. Addressing these challenges requires intentional interventions at every stage of the AI pipeline, from data collection and labelling to model training and evaluation. Effective oversight also demands a rigorous gatekeeping function for model outputs. While this may slow deployment, it is essential for ensuring reliability and aligning systems with broader societal interests.

Regarding labour impacts, AI is unlikely to cause mass unemployment. The more meaningful issue is the quality of employment and how AI may exacerbate inequalities within the workforce.

A major governance risk is the militarization of AI, particularly its integration into autonomous weapons systems without transparency, accountability or humanitarian safeguards. Similar concerns apply to AI's potential role in nuclear command-and-control systems. Mitigating these risks will require renewed international dialogue, including track two engagements, to establish clear red lines and shared principles.

Another critical challenge is AI safety. While many companies acknowledge safety risks, funding and implementation often lag. As major powers race to deploy AI systems, safety testing may be deprioritized. This acceleration without adequate safeguards poses significant global risks.

## Hong Kong's Role in China's AI Governance

Hong Kong is well positioned to cultivate a niche as a regional, and potentially global, hub for AI governance, ethics and regulatory

innovation. With expertise spanning Eastern and Western philosophical traditions, common law and civil law systems, and a concentration of academic and professional talent, Hong Kong can serve as a platform for cross-cultural and cross-jurisdictional governance frameworks.

The city could also function as a regulatory sandbox for AI model governance. In line with Beijing's Global Governance Initiative, Hong Kong can take a more proactive role by positioning itself as a centre for global governance efforts, whether in AI, food safety or climate standards. Establishing Hong Kong as a testbed for governance innovation would strengthen its relevance in China's broader international engagement strategies.

developing standards, testing oversight frameworks and facilitating cross-border dialogue.

Taken together, Hong Kong's role in stablecoin infrastructure and its potential as a governance hub, in addition to China's evolving AI development path, reflect a broader transformation in regional digital governance, one in which Hong Kong helps build and shape the rules and systems underpinning future digital finance and AI.

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## Conclusion

The development of stablecoins in Hong Kong and AI in mainland China illustrate how the two regions are shaping the next phase of digital governance. For Hong Kong, stablecoins represent more than a new digital asset class — they are emerging as critical financial infrastructure. As global markets move toward faster, programmable settlement, Hong Kong's role as an offshore RMB hub and international financial centre positions it to lead experiments with fiat-backed or basket-backed stablecoins and to potentially adopt digital settlement rails at scale.

China's AI strategy, meanwhile, continues to emphasize industry-specific applications and computational efficiency. The success of firms such as DeepSeek shows that China can achieve near-frontier performance through engineering optimization despite restricted access to advanced chips. This application-driven model is accelerating AI deployment across key industries while underscoring the necessity for China to rely on domestic semiconductor capabilities to support future AI development.

These shifts create a growing governance opportunity for Hong Kong. With its hybrid legal system, international connectivity and academic strengths, the city is well placed to serve as a hub for AI governance and regulatory experimentation. It can act as a bridge for

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# Agenda

November 17, 2025

- 9:30 a.m.-9:40 a.m.      **Opening Remarks and Keynote**
- **Cheng Li**, Director, CCCW
  - **Paul Samson**, President, CIGI
- 9:40 a.m.-10:40 a.m.      **Panel 1: Global Stablecoins Competition and Hong Kong's Role**
- **Moderator: Bo Tang**, Head, Hong Kong University of Science and Technology Institute for Financial Research
  - **Speakers:**
    - **James A. Fok**, Chief Commercial Officer, Central Moneymarkets Unit OmniClear; Distinguished Fellow, CCCW
    - **Tao Wang**, Head of Asia Economic Research and Chief China Economist at UBS Investment Bank; Non-resident Senior Fellow, CCCW
    - **Sean Lee**, Co-founder, IDA; Senior Advisor, Crypto Council for Innovation
- 10:40 a.m.-10:50 a.m.      **Health Break**
- 10:50 a.m.-11:50 a.m.      **Panel 2: China's Industry-Specific AI Development Path in the Context of Global AI Competition**
- **Moderator: S. Yash Kalash**, Senior Fellow, CIGI
  - **Speakers:**
    - **Jinghan Zeng**, Professor, Department of Public and International Affairs, City University of Hong Kong
    - **Alex He**, Senior Fellow, CIGI
    - **Brian Wong**, Assistant Professor in Philosophy, HKU; Fellow, CCCW
- 11:50 a.m.-12:00 p.m.      **Wrap-up and Closing Remarks**
- **Paul Samson**, President, CIGI



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