

A large, light gray wireframe sphere is positioned in the upper left quadrant of the slide. It is composed of numerous interconnected lines forming a complex, faceted geometric shape.

CBDs: Geopolitical and Political Motivations

Brunello Rosa
28 October 2022
SRC Conference



Agenda

Friday 28 October 2022

CBDCs Geopolitical and Political Motivations

- **Part 1: Context - Cold War 2 Between US and China and Its Implications**

1. Trade wars
2. Tech Wars
3. Balkanisation of Global Supply Chains
4. A De-Globalised and Polarised World
5. Digital Sovereignty: Cold War 2 Moving to the Cyber Space

- **Part 2: CBDCs And Cold War 2**

1. CBDCs: Central Banks Entering the Cyber space
2. Rise of Authoritarianism and Surveillance Economics
3. Motivations behind China's e-CNY
4. A new World Order
5. Western Response



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Today's Geo-Strategic Topography

Topography 1 (Historical Evolution – Time Series)

- Traditional powers: US, Europe
- Emerging new powers: China, India

Topography 2 (A Cross-Section Picture Today)

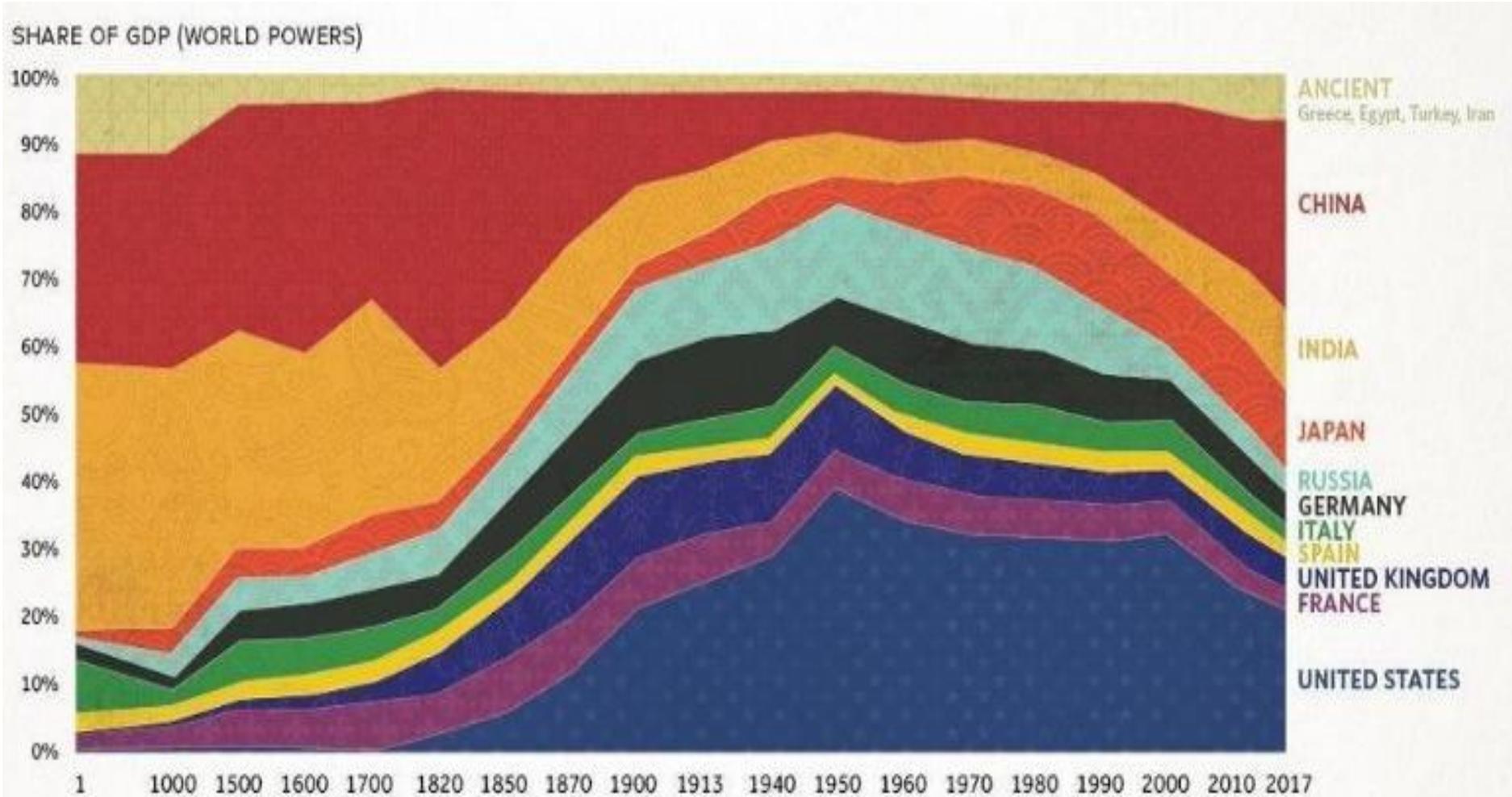
- Super-Powers: US, China
- Regional Powers: EU, Japan, Russia, India

PLUS Revisionist Powers: Russia, Iran, Pakistan, North Korea etc. challenging the international economic and security order that was designed by the West after WWII.

Irrespective of the chosen topography, China is on track to become the largest economy in the world and challenge the US not only in the economic, financial, and commercial realms but also in the military, security and geopolitical ones. In this sense, it could also be considered a Revisionist Power.



China Returning To Its Long-Term Weight



Source: Angus Maddison "Statistics on war population, GDP, and per capita GDP, 1- 2008 AD", IMF



Thucydides Trap?

NATIONAL BESTSELLER

"Thucydides's Trap identifies a cardinal challenge to world order."

—HENRY KISSINGER, *former US secretary of state*

DESTINED FOR WAR

CAN AMERICA AND CHINA
ESCAPE THUCYDIDES'S TRAP?

GRAHAM
ALLISON

- Harvard scholar Graham Allison has written the book *Destined for War: Can America and China Avoid the Thucydides Trap?*
- In the book, Allison shows that in 12 out of 16 historical cases when a rising power has faced an existing power, war has eventually ensued as a result.



Cold War 2

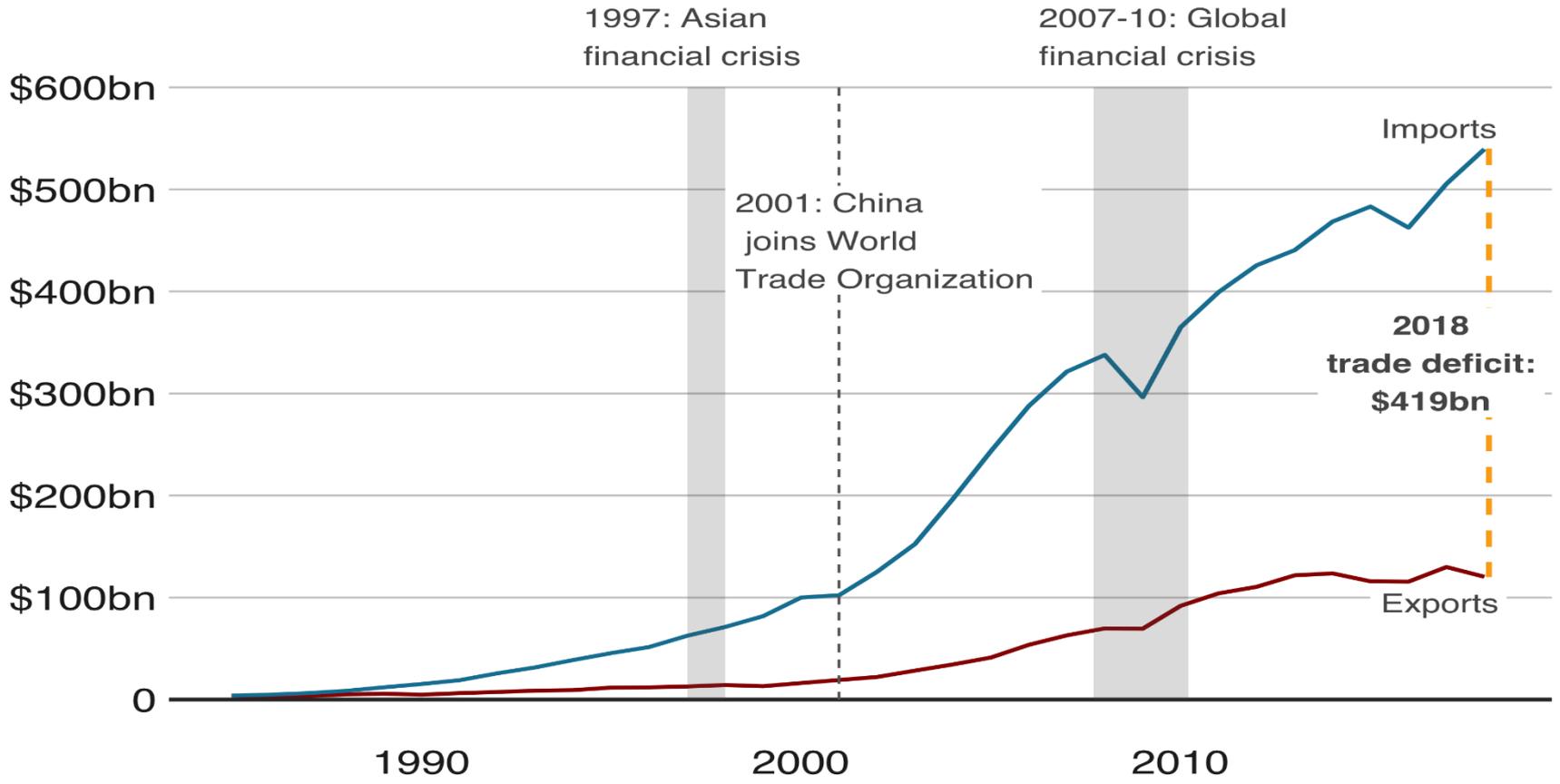
Cold War 2 between US and China has three legs:

1. A trade war
2. A technological war
3. Disruption of global supply chains





US vs China Trade War



US laments a large and widening (goods) trade deficit with China
But at the same time it enjoys a surplus in services trade





Becoming world leader in the top 10 industries of the future

Industry sector	Description
1. Information Technology	AI, IoT, smart appliances
2. Robotics	AI, machine learning
3. Green energy and green vehicles	energy efficiency, electric vehicles
4. Aerospace equipment	
5. Ocean engineering and high tech ships	
6. Power equipment	
7. New materials	Semiconductors
8. Medicine and medical devices	
9. Agriculture machinery	
10. New manufacturing	

Made in China 2025 (中国制造2025) was proposed by Premier Li Keqiang in May 2015
Goals include increasing the Chinese-domestic content of core materials to 40% by 2020 and 70% by 2025



BRI and Balkanisation of Global Supply Chains

Key locations along Belt and Road Initiative



From A US-Centric, To a Multi-Polar World



- After the end of **Cold War 1** (US – USSR), the US became the centre of the globalised world, through the so-called *Washington Consensus* forum.
- With **Cold War 2** (US-China) we are back to at least a bi-polar world with two strategic rivals.
- Thanks to the shale oil and gas revolution, the US has reached energetic independence. As a result, the US has lost interest in the Middle East.
- The US is withdrawing its remaining troops from the region (Syria, Afghanistan) and let others (Russia, Turkey) deal with regional crises (e.g. Libya, Lebanon, etc).
- So, a multi-polar world is emerging, with a number of regional actors: US for North America; Brazil for LatAm; the EU in Europe; China, Russia and India in Asia.
- **But now, the war in Ukraine has BI-POLARIZED the World, again.**



What's Digital Sovereignty?

Narrow Definition and Broad Definition

- Narrow Definition: *“Digital sovereignty refers to the ownership of the personal data of users, collected by different websites on the Internet with or without the consent of the users.”*
- Broad Definition of Sovereignty: *Supreme authority within a territory.*



Splinternet and Cyber-Balkanisation

- An emerging phenomenon is that of “Splinternet”
- China has erected A "Great Firewall" via legislative actions and technological choices.
- China has its BAT national champions (Baidu, Alibaba and Tencent), so that its citizens won't use Amazon, Google and Facebook
- Internet can be split by not allowing certain IP addresses in browsers, or by requiring specific hardware to access them.
- Splinternet can intensify and have implications Even for nuclear security.



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CBDCs



Motivations for Introducing CBDCs in China



Two Main Motivations

- Re-gaining control of information about payment systems – *aka* increase domestic surveillance
- Internationalisation of RMB – instrument for BRI expansion

SOURCE: <https://www.bankofengland.co.uk/news/2020/january/central-banks-group-to-assess-digital-currencies>



«It's The Infrastructure, Stupid»



- In the world of digital assets, what really matters is not the “amount” of reserves held, but rather the infrastructure used to create the CBDC itself.
- Not many countries will be able to create their own infrastructure, but they will have to use that created in the major jurisdictions, and mainly US, China, Eurozone (and potentially UK and Japan).
- Think about Apple (USA) vs Huawei (China) for mobile phones. Or the dispute about 5G technology.
- Once you're in, it's very hard to kick you out.



China Helped Russia Circumvent Financial Sanctions



- With the beginning of the war in Ukraine, Russia has been subject to sanctions, including the ban from SWIFT
- To circumvent the sanctions, Russia has adopted two strategies:
 - Moved to CIPS
 - Utilised digital assets, cryptos



FOREX

China's Digital Yuan May Aid Russia Bypass SWIFT Ban, But Will It?

CONTRIBUTOR
Varuni Trivedi — FX Empire

PUBLISHED
FEB 28, 2022 8:50AM EST



Western Response



Executive Order on Ensuring Responsible Development of Digital Assets

MARCH 09, 2022 • PRESIDENTIAL ACTIONS

By the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

- On March 9th, at the beginning of the war in Ukraine, the US President understood the interconnected nature of digital assets and geo-strategic advancements
- Hence Biden issued its all-important Executive Order on Digital Assets



Project New Era



The poster features a dark green background with a digital data stream pattern. At the top left, there are three logos: 'paywith.glass' with the tagline 'the internet, for the world's money', 'pa' (the payments association), and 'BCG BOSTON CONSULTING GROUP Consulting partner'. The main title 'PROJECT NEW ERA' is in large white letters, followed by 'Digital FMI | dSterling' and 'APPG Crypto & Digital Assets: Seminar lunch'. The date '27 APRIL 2022' is at the bottom left.



From Green Paper to Pilot

Project New Era is exploring a future digital currency ecosystem in the UK



'NEW ERA FOR MONEY' PAPER

Feb '22

Publication of market report to explore the case for retail CBDC



'DIGITAL FMI' PILOT

Sep '22 onwards

Cross-industry pilot to build infrastructure & validate use cases

Project architect

Selected participants

Project architect

Selected participants



This cautious framework enables authorities to prepare for lower risk, informed future transitions into any CBDC

Lower risk starting point

The journey

Digital FMI pilot (stablecoin)

Purely for pilot purpose

A stablecoin that is fully collateralised with central bank reserves or commercial bank deposits (TBD)

Issued privately

Option: Synthetic CBDC (sCBDC)

A stablecoin that is fully collateralised with central bank reserves

Issued privately

Option: Central Bank Digital Currency (CBDC)

A digitised form of banknotes, coexisting alongside cash as direct liability of central bank

Issued by central bank

