India reaches out to Pakistan to fight locusts

Analysts say that despite established protocols, it is not clear whether Pakistan will respond positively to India’s proposal, given the downturn in ties.

• India has reached out to Pakistan to counter a locust invasion which threatens to destroy crops and undermine food security in south and southwest Asia — a region where the COVID-19 pandemic has already disrupted farming.

• An official source who did not wish to be named said India had proposed a trilateral response in partnership with Pakistan and Iran to combat the desert locust wave sweeping across the Afro-Asian region.

• “India has suggested to Pakistan that both countries coordinate locust control operations along the border, and that India can facilitate supply of Malathion, a pesticide, to Pakistan,” the official said.

• Desert locusts pose a major threat to food security in the region, including India. A typical locust swarm, which can vary from less than one square kilometre to several hundred square kilometres, can devastate farmlands. A one square kilometre swarm, containing about 40 million locusts, can in a day eat as much food as 35,000 people, assuming that each individual consumes 2.3 kg of food per day, says the Food and Agriculture Organisation (FAO). In India, small swarms of desert locusts, in the past weeks, have already arrived from Pakistan, moving east into Rajasthan, and reaching Jodhpur.
• “We are preparing for a worst-case scenario. Starting from the Horn of Africa, and joined by desert locusts from breeding grounds en route, one locust stream can travel over a land corridor passing over Yemen, Bahrain, Kuwait, Qatar, Iran, Saudi Arabia, Pakistan and India, impacting farmlands in Punjab, Haryana and the Indo-Gangetic plain. But another stream passing over the Indian Ocean can directly attack farms in peninsular India, and then head towards Bangladesh,” another official had earlier told The Hindu.

• The official source said India and Pakistan had a regular mechanism, led by their “Locust Officers,” who hold six annual border meetings, between June and November. This dialogue is held either at Munabao in Rajasthan or Khokhropar on the Pakistani side. Officials of the two neighbours are also in wireless contact with each other during these months from their perches in Jodhpur and Karachi.

• India is also offering to energise another mechanism marshalled by the Locust Warning Organisation, to coordinate a robust joint response by New Delhi, Islamabad and Tehran. So far, Iran has welcomed India’s offer of pesticide to control desert locusts in its and South Khorasan province, and Sistan-Balochistan province that borders Pakistan, the source said.

• Analysts spotlight that despite established protocols, it is not clear whether Pakistan will respond positively to India’s proposal, given the downturn in New Delhi-Islamabad ties — evident in their inability to work together on a collective regional response against COVID-19 under the SAARC framework. The source said that it remains to be seen whether Pakistan will come forward with “cooperation on coordinated desert locust control operation with India,” rising above, what he described was Islamabad’s “narrowminded approach,” as seen during the COVID-19 initiative.

• Despite apprehensions, it is clear that Pakistan’s requirement for international support to contain the locust attack is substantial and urgent. An editorial in the Pakistani daily Dawn, exhorted the “international community” to support the FAO’s call “for funds to help Pakistan and Iran in their fight against a new locust invasion.” “Unless this war is won, the locust plague in Pakistan may wipe out more livelihoods than the COVID-19 contagion and worsen food security in the coming months,” it observed.

• China has, so far, stepped up its counter-locust backing for Pakistan, but Beijing’s support alone is unlikely to meet Islamabad’s mounting needs, observers say, pointing to the window for a trilateral initiative.

Will exit Open Skies Treaty, announces U.S.

Russia ‘continuously and flagrantly’ violated the treaty, says Mike Pompeo

• The U.S. has given notice that it will exit the Open Skies Treaty (OST), an agreement that allows countries to monitor signatories’ arms development by conducting surveillance flights over each other’s
territories. U.S. Secretary of State Mike Pompeo, who announced the withdrawal, said Russia had “continuously and flagrantly” violated the treaty.

• U.S. President Donald Trump said the deal could be amended or a new one could be made.

• “I think we have a very good relationship with Russia. But Russia didn’t adhere to the treaty, so until they adhere, we will pull out. But there’s a very good chance we’ll make a new agreement or do something to put that agreement back together,” he said on Thursday.

• The idea behind the OST, first proposed in the early years of the Cold War by former U.S. President Dwight Eisenhower, came to fruition decades later and was signed in 1992, during the George H.W. Bush presidency and after the Soviet Union had collapsed. The OST came into effect in 2002 under the George W. Bush administration and it allows its 34 signatories to conduct unarmed reconnaissance flights over the territory of treaty countries. The U.S. has used the treaty more intensively than Russia. Between 2002 and 2016, the U.S. flew 196 flights over Russia (in addition to having imagery from other countries) compared to the 71 flights flown by Russia, as per a BBC report. Chris Ford, a senior U.S. diplomat for non-proliferation, also cited changes to the security environment as a reason for the U.S. exiting the OST.

• The U.S.’s exit last year from another arms deal the West had signed with Russia — the Intermediate-Range Nuclear Forces (INF) treaty — as well as its imminent departure from the OST has raised the strong possibility that the Trump administration may not renew the New Start Treaty, an agreement signed by the Obama administration with Russia that caps Russian and U.S. nuclear arsenal. The New Start Treaty is due to expire next February.

• The Trump administration has been worried that extending New Start would negatively impact an arms deal with China and Russia. The State Department told the U.S. Congress earlier this year that it is concerned that China’s nuclear stockpile could be doubled if the New Start Treaty continued as is, without including China, as per a report in Foreign Policy magazine.

• Marshall Billingslea, the Trump administration’s Special Envoy for Arms Control, said, on Thursday, that the New Start Treaty suffered from “some serious verification inadequacies”, and that the U.S. intended to establish a new arms control regime which would include China.

• Meanwhile, Russia said it would continue to honour its commitments under the treaty. “As long as the treaty is in force, we intend to fully follow all the rights and obligations that apply to us,” Deputy Foreign Minister Alexander Grushko told RIA Novosti news agency.

RBI cuts repo rate again, down to 4%

Loan moratorium extended till Aug. 31
• The Reserve Bank of India (RBI) further reduced the key interest rate or the repo rate by 40 bps on Friday, after a yet another out-of-turn Monetary Policy Committee (MPC) meeting as the COVID-19 pandemic induced lockdown continues, albeit with calibrated relaxations.

• The central bank also extended the loan repayment moratorium for another three months till August 31.

• The six-member MPC announcement has reduced the repo rate to 4% with five members of the panel voting for the steep cut while one member, Chetan Ghate, voted for a 25 bps cut.

• The MPC also decided to continue with the accommodative stance ‘as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy’, while ensuring that inflation remains within the target, RBI said.

Demand collapse

• RBI Governor Shaktikanta Das termed the risk to growth outlook “gravest”.

• “Domestic economic activity has been impacted severely by the two-month lockdown. The top six industrialised States that account for about 60% of industrial output are largely in red or orange zones,” Mr. Das said.

• “High frequency indicators point to a collapse in demand beginning in March 2020 across both urban and rural segments,” he added.

• The central bank refrained from giving a projection for GDP growth for the current financial year and stopped at saying that growth expected in the “negative territory” with some pick-up in growth impulses from the second half of 2020-21 onwards. “It is in the growth outlook that the MPC judged the risks to be gravest,” Mr Das said.

• Inflation target has also been held back by the central bank.
**Revival plan**

The RBI has announced another set of measures to buttress the economy from the COVID-19 fallout

- Interest on working capital can be converted to a **term loan**
- Banks’ group exposure limit upped to **30%**
- It refrains from projecting growth, inflation figures for FY21
- **₹15,000 crore** liquidity facility for Exim Bank extended by up to 90 days

• “The MPC is of the view that headline inflation may remain firm in the first half of 2020-21, but should ease in the second half, aided also by favourable base effects,” Mr Das said.

• “By Q3 and Q4 of FY20-21, it is expected to fall below target. Thus, the MPC’s forward guidance on inflation is directional rather than in terms of levels. Going forward, as and when more data are available, it should be possible to estimate the path of inflation with greater certainty,” he added.

• Since February last year, the RBI has reduced the policy repo rate by a cumulative 250 bps, from 6.5% to 4%.

• And there could be further scope for a rate cut if the inflation trajectory evolves as expected RBI said.

• The central bank also extended the loan repayment moratorium for another three months, till August 31. All other conditions for the facility remain unchanged — a loan will not be classified by the lender as non-performing and there will not be any impact on individual credit scores. In addition, interest payment deferment for working capital loans has also been extended by another six months.

• RBI has also decided to increase the group exposure limit of banks from 25% to 30% of its capital base. The regulator said the decision was taken to facilitate flow of resources to the companies as...
many of them were unable to raise funds from capital markets and are predominantly dependent on funding from banks.

• A liquidity facility for Exim Bank of India was also opened as it has been decided to extend a ₹15,000 crore line of credit for a period of 90 days to enable it to avail a U.S. dollar swap facility to meet its foreign exchange requirements.

• Also to alleviate difficulties being faced by exporters in their production and realisation cycles, it has been decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from the existing one year to 15 months, for disbursements made up to July 31, 2020.

• “Uncertainty associated with pandemic, normalisation of economic activity and relaxation made in social distance makes it imperative that policy response is calibrated and swift,” SBI chairman Rajnish Kumar said.

• “In this context, extension of moratorium till August 31, enlargement of the Large Exposure Framework and option to convert accumulated interest for moratorium period into term loan are welcome measures. On the export side, increase in export credit period to 15 months from 1 year and buttressing EXIM Bank through ₹15,000-cr line of credit is also timely,” he added.

Cold neighbourhood: On India-Nepal ties

India and Nepal must not let their differences grow into a full-blown diplomatic crisis

• India and Nepal have reached a flashpoint over the Kalapani territorial issue that appears to threaten the basis of their special relationship, which has nurtured open borders and the free movement of people. Nepal Prime Minister K.P. Sharma Oli took New Delhi by surprise this month with an aggressive posture on the issue, especially over the inauguration of a motorable road to the Lipulekh pass, near the disputed Kalapani area, which is used by Indian pilgrims to Kailash Mansarovar. For India, the Lipulekh pass has always been part of the road to Tibet, and was mentioned as one of the border passes for trade in a 1954 agreement with China, which was also reaffirmed in another trade agreement in 2015. Since 1981, when China re-opened the Kailash-Mansarovar pilgrimage route for Indians, they have also used the pass to walk into Tibet. The road built now follows the same alignment, and would essentially cut down their travel time by three days each way. As a result, the government has been even angered by Nepal’s strong protests, followed by fiery speeches by Mr. Oli and Foreign Minister Pradeep Gyawali, threatening to send more forces to the India-Nepal border. The Nepali cabinet’s decision to adopt a new political map that claims not only Lipulekh but other areas that are in Indian territory that have been claimed by Nepal invoking the 1816 Sugauli treaty with the British, was described by India’s MEA as “artificial”, “unilateral” and “unacceptable”.

Tensions have also been fuelled by Mr. Oli’s jibe that the “Indian virus looks more lethal than the one from China” and the Indian Army Chief’s contention that Nepal raised the dispute at the “behest of an external force”, namely China.
•Boundary disputes are common ground for countries that have an ancient history and shared borders, and the Kalapani issue is one such dispute that India and Nepal have resolved to sort out. It is unfortunate that the respective Foreign Secretaries, tasked by Prime Minister Modi and then Nepal leader Sushil Koirala in 2014 to discuss the matter, have failed to find an acceptable date for a meeting since then. India must concede it has dragged its feet on the issue: even two weeks ago, when matters came to a boil in Kathmandu, the MEA’s response that it would convene the meeting after the pandemic had been dealt with, was unnecessarily dismissive of an issue important to Kathmandu. Mr. Oli’s government had raised it last November as well; its offer to send a political envoy to New Delhi was rebuffed. It is clear that the struggle within the ruling Nepal Communist Party has spurred Mr. Oli’s more combative posture. Given the importance of ties with Nepal, often romanticised as one of “roti-beti” (food and marriage), India must not delay dealing with the matter, and at a time when it already has its hands full with the pandemic and a faceoff with China in Ladakh and Sikkim.

Time after time: On RBI repo rate cut

The RBI might have played out its hand for now with the latest repo rate cut

•The RBI has once again stepped up to the plate at the right time with measures that will reduce the cost of capital and ease the financial burden on businesses due to the extended lockdown. With Friday’s repo rate cut of 40 basis points, the RBI has shaved off 1.15 percentage points from the rate chart in the 58 days since the lockdown began, bringing the repo rate down to 4% and the reverse repo rate to 3.35%. With this, it does appear that the central bank may have played out its rate cut card for now as prudence would dictate that it reserves some leverage for the future if economic conditions deteriorate even further. In fact, there are those who believe that the latest cut may be no more than a sentiment booster as economic activity is at its nadir and there are not many investment proposals on the anvil that may benefit from the lower interest rate. Existing borrowers may be the only beneficiaries of the rate cut at this point in time. That said, the RBI deserves a pat on the back for listening to feedback over some of its moves initiated earlier during the lockdown. Thus, the extension of the repayment moratorium on loans is a welcome measure. A large proportion of commercial borrowers have availed themselves of the moratorium but retail borrowers have not taken to it in a big way. Yet, going forward, there may be more opting for it given that the extended lockdown has left many a business in a shambles and salaries have either not been paid or are being disbursed with delays.

•The RBI has also shown empathy by allowing accumulated interest on working capital loans to be converted into a term loan repayable by the end of this fiscal. Borrowers would otherwise have been faced with the daunting prospect of paying up their interest dues in one shot at the end of the moratorium period. The extended period given may however still not be enough as it will offer borrowers only about seven months from the end of the moratorium period during which they will have to crank up their businesses and service their loans. The RBI could have put off accumulated interest repayment by one year; it might well find itself in a situation where it is forced to offer
another extension in the next few months. The increase in group exposure limit for banks to 30% from 25% will help large corporate borrowers who may find themselves handicapped in raising funds from the markets now. There was some disappointment in the markets that the RBI did not relax norms for loan restructuring by lenders. The central bank has played its cards well here because there is no way of knowing the true extent of distress now, and hence it will be difficult to propose the right restructuring norms. Chances are that this may well form part of the RBI’s next announcement.

Lower the temperature, defuse the issue

The border trouble between India and Nepal is a matter best handled bilaterally, through quiet diplomacy

• The inauguration of a road from Dharchula to Lipu Lekh (China border) by India’s Defence Minister Rajnath Singh (an event over videoconferencing on May 8) has now been followed by Nepal’s charge claiming that the stretch passes though Nepalese territory.

• This road follows the traditional pilgrim route for the Kailash-Mansarovar yatra. This is an arduous walk, which I did in 1981, the year the yatra re-started after about 25 years, when India and China agreed to reopen the pilgrim route via Lipu Lekh. The conversion of the trekking route to a metalled road is a boon to both pilgrims and traders.

Explaining Nepal’s stand

• The controversy has given Nepal’s Prime Minister K.P. Sharma Oli an opportunity to hide his government’s incompetence and failure to meet the basic needs of the people, and to divert attention away from the rising tide of opposition from within his own party. His intemperate remarks in the Nepalese Parliament are best ignored in the interest of preserving India-Nepal ties.

• Nepal deployed its armed police at Chharung, close to Kalapani, in its Sudoor Paschim. While there is nothing untoward in deploying the armed police, whose mandate is to man the borders of Nepal, it is the manner and timing of the deployment that raised eyebrows in New Delhi. The Nepalese contingent was dropped to the location by helicopters, very visibly.

• The Indo-Tibetan Border Police is also located in Kalapani since it is close to the India-China border. Indian forces are not there because of Nepal.

• The Nepalese government has raised the stakes further and has made a negotiated settlement more complex by authorising a new map extending its territory across an area sensitive for India’s defence.

The Sugauli Treaty

• The boundary delineation has a long history. Before the 1816 Treaty of Sugauli, the
Nepalese kingdom stretched from the Sutlej river in the west to the Teesta river in the East. Nepal lost the Anglo-Nepalese War and the resulting Treaty limited Nepal to its present territories.

•The Sugauli Treaty stated that “[t]he Rajah of Nipal [Nepal] hereby cedes to the Honourable [the] East India Company in perpetuity all the under-mentioned territories”, including “the whole of the lowlands between the Rivers Kali and Rapti.” It elaborated further that “[t]he Rajah of Nipal [Nepal] renounces for himself, his heirs, and successors, all claim to or connection with the countries lying to the west of the River Kali and engages never to have any concern with those countries or the inhabitants there of.”

•The present controversy has arisen since the Nepalese contest that the tributary that joins the Mahakali river at Kalapani is not the Kali river. Nepal now contends that the Kali river lies further west to the Lipu Lekh pass.

•The British used the Lipu Lekh pass for trade with Tibet and China. The Survey of India maps since the 1870s showed the area of Lipu Lekh down to Kalapani as part of British India. Both the Rana rulers of Nepal and the Nepalese Kings accepted the boundary and did not raise any objection with the government of India after India’s Independence.

•As a reward for the military help rendered by Jung Bahadur Rana in quelling the 1857 uprising, the areas of Nepalgunj and Kapilvastu were restituted to Nepal soon thereafter. The British did not return any part of Garhwal or Kumaon, including the Kalapani area, to Nepal.

•India did not exist in 1816 when the Treaty of Sugauli was concluded. And India’s present borders, not just with Nepal, but with many of its other neighbours, were drawn by the erstwhile British regime. India inherited the boundaries of British India. It cannot now unravel the historic past.

On the way to resolution

•The Nepal–India Technical Level Joint Boundary Working Group was set up in 1981 to resolve boundary issues, to demarcate the international border, and to manage boundary pillars. By 2007, the group completed the preparation of 182 strip maps, signed by the surveyors of the two sides, covering almost 98% of the boundary, all except the two disputed areas of Kalapani and Susta. It also ascertained the position of 8,533 boundary pillars.

•The remaining issues concerning the boundary are not difficult to resolve unless they are caught up in domestic or international concerns. The next steps are the approval of the strip maps by the respective governments (that of the Nepalese Government is still awaited), the resolution of the differences of opinion over Kalapani and Susta, and speeding up the erection of damaged or missing border pillars.

•India has successfully resolved far more intractable border issues with Bangladesh not so long ago, covering both the land and maritime boundaries. The land boundary settlement required an exchange of territories in adverse possession of the two countries, including the transfer of population, and a
constitutional amendment (Number 100 of May 15, 2015) to give effect to the 1974 India-Bangladesh Land Boundary Agreement.

• The maritime boundary issue was even more difficult. India agreed to go to the Hague-based Permanent Court of Arbitration, knowing well that if the Court applied the principle of equity, India would lose up to four-fifths of the disputed area, as India had established its claim on a baseline that took into account the curved nature of the India-Bangladesh shoreline, thus boxing Bangladesh’s maritime claims to within Indian and Myanmar waters. The Court ruling accepted much of Bangladesh’s claim. Despite the Indian member of the tribunal giving an adverse entry, the government of India accepted the ruling.

• Compared to what was accomplished between India and Bangladesh, the India-Nepal border issues appear more easily solvable, so long as there is political goodwill and statecraft exercised on both sides. The way to move forward is to formally approve the strip maps, resolve the two remaining disputes, demarcate the entire India-Nepal boundary, and speedily execute the work of boundary maintenance.

Ties are unique

• India’s leadership and the Indian people have been conscious of the self-respect and pride of the Nepalese people. Jawaharlal Nehru wrote in The Discovery of India as also in Glimpses of World History that Nepal has been the only truly independent country of South Asia.

• Nepal, in turn, has in the past responded to India’s needs as a friendly neighbour. Its political leaders contributed to India’s struggle for freedom. The only time since Independence that foreign troops were deployed on Indian soil was when, in 1948-49, Nepalese soldiers under the command of General Sharda Shamsher Jang Bahadur Rana came to India’s northern cantonments, depleted by deployments in Jammu and Kashmir and Hyderabad.

• The people-to-people relationship between India and Nepal is unmatched. In the far corners of India, sometimes locals turn against those from other Indian States, but seldom against the Nepalese. It is the government-to-government relationship that generally lags. There is nobody in India that wishes ill for Nepal.

• For India’s Chief of Army Staff, General Manoj Mukund Naravane, to charge at an interaction at the Institute for Defence Studies and Analyses, New Delhi, that Nepal, at someone else’s behest, has objected to India laying a road connecting the Lipu Lekh pass, was ill-advised. It widens the door for that someone else to foment more trouble. This is a matter best handled bilaterally, through quiet diplomacy.

• The Official Spokesperson of India’s Ministry of External Affairs, Anurag Srivastava, has said recently that India and Nepal have an established mechanism to deal with all boundary matters. He has affirmed that India is committed to resolving outstanding boundary issues through diplomatic
dialogue, in the spirit of India’s close and friendly bilateral relations with Nepal. The best is to activate the existing mechanisms as soon as possible, before any further damage is done.

- The more the trouble festers, those who stand to gain by deteriorating India-Nepal relations will benefit. There is need for the two countries to lower the temperature and defuse the issue. They must invest time and effort to find a solution. Raking up public controversy can only be counterproductive to the relationship.

Notes on a digital currency plan, made in China

The expansion of the central bank’s pilot is the first such serious initiative in the world

- While the world is grappling with the fallout of COVID-19 and speculating on how far China can be blamed for the pandemic, a silent digital revolution is taking place in China. On April 29, 2020, the People’s Bank of China (PBoC), the country’s central bank, issued a cryptic press release to the general effect: “In order to implement the FinTech Development Plan (2019-2021), the People’s Bank of China has explored approaches to designing an inclusive, prudent and flexible trial-and-error mechanism. In December 2019, a pilot programme was launched in Beijing. To intensively advance the trial work of fintech innovation regulation, the PBoC supports the expansion of the pilot program to cover the cities of Shanghai, Chongqing, Shenzhen, Hangzhou, Suzhou, as well as Xiong’an New Area of Hebei, by guiding licensed financial institutions and tech companies to apply for an innovation test.”

- This expansion of the pilot marks the initiation of China’s central bank digital currency (CBDC). Christened Digital Currency Electronic Payment (DCEP), available via a mobile wallet app, pegged 1:1 with fiat currency, and designed to replace M0 (comprising currency issued by the PBoC less the amount held by banking institutions), this is the first such serious initiative in the whole world.

- Historically, monetary authorities everywhere have been sceptical of cryptocurrencies. Wild fluctuations in the value of cryptocurrencies, the implied challenge to the monopoly of central banks in issuing fiat currencies, the looming possibility of software bugs, the tainted shadow of the dark web have all been responsible for the unwelcome reception. In contrast, authorities were far more intrigued by CBDCs. In fact, the Basel-based Bank for International Settlement (BIS) has been conducting surveys on this issue for some time. The recent survey of 2019 (“Proceeding with Caution – a Survey on Central Bank Digital Currency”, BIS Papers No 101, January 2019) revealed that while in general, central banks have been proceeding cautiously towards introducing central banks digital currencies, some have been planning to issue a fiat digital currency in the short to medium term. In particular, the survey revealed that nearly 25% of central banks have the required authority to issue a CBDC, while a third do not, and 40% remain unsure.

Logical outcome
Chinese investors, however, were always enamoured of cryptocurrencies. With the bearish turn in the Chinese stock market in 2015-16, bitcoins became increasingly popular as an alternative asset class in China. As in media reports, in the recent past, China has emerged as the capital of the crypto ecosystem, accounting for nearly 90% of trading volumes and hosting two-thirds of bitcoin mining operations. The PBoC tried hard to curtail this exuberance but achieved limited success. According to the China Daily, by the end of 2017, the Chinese Cabinet approved the PBoC’s own digital currency development programme, conducted jointly with qualified commercial banks and institutions. The recent move to introduce the CBDC in China is a logical outcome of the efforts to curb and tackle its runaway cryptomarket practices. Or, the philosophy of the PBoC could simply have been, if you cannot beat them, join them.

Advantages and a concern

• At a practical level, the benefits of CBDC are manifold. First, paper money comes with high handling charges and eats up 1% to 2% of GDP. Second, by acting as a powerful antidote for tax evasion, money laundering and terror financing, CBDCs can materially boost tax revenues while also improving financial compliance and national security. Third, as a tool of financial inclusion, particularly in emergencies, direct benefit transfers can be instantly delivered by state authorities deep into rural areas, directly into the mobile wallets of citizens who need them. On this count, it is noteworthy that the U.S. Congress recently debated the merits of implementing digital dollars in the context of the COVID-19 stimulus bill. Fourth, CBDCs can provide central banks an uncluttered view and powerful insights into purchasing patterns at the citizen scale. In the long run, it is believed that CBDCs will make cross-border payments fast and frictionless. That said, all these salutary benefits come packaged with a deep and abiding concern about the relentless rise of a surveillance state and the concomitant erosion in citizen privacy and anonymity. If face-recognition technology enables states to spy on the physical movement of citizens, will CBDCs be used to spy on every movement of their money?

• What is the design of DCEP, the Chinese CBDC? An earlier research paper by PBoC Deputy Governor Fan Yifei favoured a two-tier CBDC model where instead of directly interacting with the public, the central bank would involve financial intermediaries such as commercial banks. In tier 1, the central bank would interface with financial intermediaries. In tier 2, the financial intermediaries would interface with the general public. Such a model is accretive in that it preserves the power of existing financial systems and extends their influence further. It is believed that the DCEP uses a DLT architecture (with central controls) which preserves the primacy of the monetary authority, unlike private cryptocurrencies such as Bitcoin (BTC) and Ethereum (ETH) that are truly decentralised.

Signals from the move

• What may China be signalling with the launch of DCEP? It is possible that China has decided to use DCEP as its silver bullet to slay three dragons. First, on the world economic stage, it may want DCEP to challenge the hegemony of the U.S. dollar as the default global reserve currency. Second, in its war with American BigTech, it may want to showcase DCEP as its weapon of choice to counter FB or Facebook’s Libra, which is planning to offer a common cryptocurrency to 2 billion-plus FB users across
the world. Third, and still in the realm of speculation, it may wish to use the DCEP to clip the wings of AliPay and WeChatPay, gigantic fintech duopolies that control 90% of the China’s domestic digital payments, and whose ambitions may one day pose a threat to the aura and authority of the central bank.

• From gold to silver to paper to digital, the march of currencies goes on. China has rolled the dice on central bank digital currencies, challenging other nations to follow. Welcome to the future of money.