

Greengage



The Modern Great Game

Facebook's Crypto Project

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WHITE PAPER



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The growing critiques of Facebook's digital currency

The world is inevitably becoming more and more digital, and Facebook's digital currency dubbed Libra is a step toward this future.

Since Facebook's digital currency project, Libra, was announced in June 2019,¹ there has been a growing chorus of central bankers and policy makers pushing back against its ambitions. Germany's Vice Chancellor Olaf Scholz and France's Finance Minister Bruno Le Maire have both, separately, made it clear that they are not impressed with Libra and that the issuance of currency is the exclusive duty of the state and intrinsic to the sovereignty of a nation.^{2,3} The irony of this stance is apparently lost on both men, as neither France nor Germany have issued their own currency since 1999.

Although the Facebook subsidiary Calibra — which was setup to facilitate Libra — is based in Switzerland, Facebook may have been expecting a more favourable reception in the United States as a heavyweight of Silicon Valley. However, when Calibra CEO David Marcus was summoned to Washington D.C. on July 16 and followed by Facebook's Mark Zuckerberg on Oct. 23, it became apparent that the social media behemoth had not done enough networking on Capitol Hill.⁴



1 <https://cointelegraph.com/news/facebook-releases-cryptocurrency-white-paper-for-libra-currency>

2 <https://hackernoon.com/germany-says-nien-to-facebook-xfederal-prosecutor-blocking-libra-will-bring-national-problems-frdm32e9>

3 <https://www.cnbc.com/2019/07/17/france-fin-min-comments-on-libra-digital-tax-us-probe-ahead-of-g7.html>

4 <https://www.brown.senate.gov/newsroom/press/release/brown-opening-statement-at-facebook-hearing>

Policy makers from across the aisle lined up to chastise both men for Facebook’s failings on issues such as data privacy and Russia’s meddling in the U.S. elections. Despite some indications of appreciation for Facebook’s innovation, many showed their disapproval for the Libra project.⁵ Zuckerberg was probably not expecting his testimony to be a pleasant experience, as members of the Senate Banking Committee earlier that month had caused Stripe, Visa and Mastercard to leave Libra’s governing body, the Libra Association, by threatening them with increased regulatory scrutiny should they move forward with the project.^{6,7} Despite these events, Marcus has remained upbeat about Libra’s launch going ahead in 2020, but many believe the project is mortally wounded.

The dominance of the U.S. dollar in international trade and America’s overarching control of the world’s payment rails serve as immense soft power tools for the U.S. and the West. So, it is not surprising that the meddling of a billion-dollar tech giant, whose internal motto up to 2014 was “move fast and break things,” has elicited such a backlash.⁸ Uncle Sam would likely be much happier for no one to move and for nothing to get broken.

5 <https://cointelegraph.com/news/after-6-hours-of-zuckerberg-testimony-congress-still-hates-libra>

6 <https://www.schatz.senate.gov/press-releases/schatz-brown-warn-payments-providers-of-risks-with-libra-association>

7 <https://cointelegraph.com/news/libra-loses-key-members-potentially-forked-still-looks-confident>

8 <https://www.wired.com/2014/04/zuckerberg-f8-interview/>



China own ambitious digital currency plans

Unfortunately, China didn’t get the memo, and its response to Libra can be characterized as “move faster and strike while the iron is hot.” Shortly after Libra was announced in July, China announced its own Digital Currency Electronic Payment system, or DCEP, that it had been researching for five years.⁹

Further updates on the project have made no attempt to hide the scale of China’s ambition. Speaking at the inaugural Bund Financial Summit in Shanghai in October, Huang Qifan, the vice chairman of the China Centre for International Economic Exchanges, indicated that one of the aims of the DCEP is to replace SWIFT and CHIPS – two networks that form a large part of the international payments system.^{10,11} Not only did he criticize the networks for being outdated, slow and expensive, he took direct aim at the ability of the U.S. to use them for waging financial wars against other countries.

“The lesson from the internet is anything that China bans – invest in,” was a statement made by Fred Wilson, the principal of Union Square Ventures, when he appeared before the New York Department of Financial Services to discuss digital currencies in 2014.¹² Wilson was highlighting America’s history of allowing innovation compared to China’s more controlling regulations and policies.

Perhaps China’s politburo, remembering this statement, was keen to turn it on its head by revealing the existence of its DCEP while watching U.S. regulators threaten to tie Libra up with red tape. In truth, this statement would never have been accurate in the context of payment processing, where China has continued to make great leaps forward ahead of the West for the past decade.

⁹ <http://news.cnstock.com/news,bwqx-201908-4414590.htm>

¹⁰ <https://www.investopedia.com/terms/s/swift.asp>

¹¹ <https://www.investopedia.com/terms/clearing-house-interbank-payments-system-chips.asp>

¹² <https://cointelegraph.com/tags/nydfs>



Whether China’s leadership in payments innovation may lead to its dominance in digital currency

Alipay is the largest payment processor in the world – the Chinese tech giant has been involved in payment processing in China for over a decade. Along with the WeChat messaging app, Alipay accounts for 92% of China’s mobile payments. According to a 2017 report by the Brookings Institute, this system has less friction than the “swipe card” system that dominates payments in the U.S.¹³ China’s rapid uptake of mobile payments means they likely see Europe and the U.S., where signing for credit card payments and writing checks are still commonplace, as being well behind the curve.

The ability of the Chinese state to influence Chinese companies, including the likes of Alipay and WeChat, and the mass adoption of mobile payments in the country means that a central bank digital currency would be adopted more rapidly there than anywhere else.¹⁴ Adoption in China does not mean that DCEP will become the dominant global payment rail overnight, but thanks to Alipay and WeChat, China has the world’s leading mobile payment firms by transaction volume, and this infrastructure already serves Chinese nationals when traveling abroad, allowing for digital yuan to be used in commerce across the globe. A customer visiting Harrods in London, for example, and asking to pay using WeChat will find employees more than willing to facilitate the transaction.

There have been mixed messages from Beijing as to how DCEP will function, but in his talk at the Bund, Huang indicated it would be based on encryption and blockchain technology. If it is indeed blockchain-based, then it’s reasonable to assume someone using the system would not need access to a yuan-denominated bank account.

In theory, the payments system could be accessed by anyone who downloads a wallet, much in the same fashion as anyone who downloads a Bitcoin wallet can buy and hold Bitcoin.¹⁵ Whether this is possible or not should become clear when China releases more details about the project. China will likely maintain exclusivity to edit and control access to the DCEP, which it could – using consistent language here – use to “wage financial war” by using it in the same way the U.S. has done with the existing payments systems.

¹³ https://www.brookings.edu/wp-content/uploads/2019/05/ES_20190617_Klein_ChinaPayments.pdf

¹⁴ <https://cointelegraph.com/tags/cbdc>

¹⁵ <https://cointelegraph.com/bitcoin-price>



In the third quarter of 2019, 2.8 billion¹⁶ people were using at least one of Facebook’s core products (Facebook, WhatsApp, Instagram or Messenger) each month – close to double the population of China.¹⁷ If Facebook were a religion, it would be one of the largest in the world.¹⁸

Conclusion

While Zuckerberg is far from the second coming and the U.S. dollar is not in need of a miracle to save it just yet, the U.S. may want to reconsider its policy on Libra. The current international payment rails are likely to see disruption over the next decade whether the U.S. likes it or not. Perhaps it is better that the disruption comes from a U.S. tech giant than a foreign state.

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To find out more about this topic please do not hesitate to contact us at info@greengage.co

¹⁶ https://s21.q4cdn.com/399680738/files/doc_financials/2019/q3/FB-Q3-2019-Earnings-Release.pdf

¹⁷ <https://www.worldometers.info/world-population/china-population/>

¹⁸ <https://www.pewresearch.org/fact-tank/2017/04/05/christians-remain-worlds-largest-religious-group-but-they-are-declining-in-europe/>



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