

Digital Currencies and the New International Payments Infrastructure for One Belt One Road

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History of international payments

- Commodity money – Spanish dollars 1500-1900
- Commodity linked fiat currencies – 1900 to World War II
- Bretton Woods – World War II until 1971
- US Reserve currency – 1971 until 2020(?)

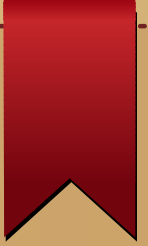
The currency system



- International trade is mediated by a single reserve digital currency – USFedCoin
- Trading nations other than the US must maintain vast stores of USFedCoin in order to conduct trade



Problems with the international trading system



- The current system requires the United States to sustain persistent trade deficits in order to maintain a supply of USFedCoin
- This in turn requires that the major trading nations maintain export oriented economies to generate USFedCoin



What next?

- The lack of thinking as to alternatives for the current trading system is the result of end of history ideology. If the world is perfect, then there is no need to change. But the world is not perfect.
- Obvious next step – Another reserve currency or a basket (SDR)

Problems with another reserve currency

- Euros (?) - Requires asset equivalent of US Treasuries. Not a long history. Requires Europe to run trade deficits. Links world trade with internal EU politics.
- RMB – People do not trust China to be an economic hegemon. China does not want to be an economic hegemon. Requires China to run persistent trade deficits
- SDR – Lack of mechanism to store value. Lack of settlement systems

What about bitcoin?


- Lessons from bitcoin
 - A settlement currency does **not** have to be a standard currency
 - Value settlement can be different from value storage
 - Payments infrastructure matters. The fact that you can settle in seconds means that volatility does not better
 - Tech matters
 - One person can make a difference. You do not need massive committee meetings

Problems with bitcoin

- Limits on transactions per seconds. Bitcoin is reaching limits of scaling
- No backup in case there is a critical flaw in system
- Not possible to issue new series of coins or to incorporate new tech

Proposal



- Asset backed digital currency
 - Digital tokens which are redeemable for physical commodities – Oil, gold, silver, copper
 - Issued by trusted intermediary
 - Uses current technology infrastructure
 - Used only for international trade settlement, not for value storage
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Advantages

- Allows for faster RMB internationalization. Allows for RMB / Non-USD transactions
- Micro/mini payments for international trade
- More resilience. Issues in currency issuance decoupled from issues of storage
- Allows nation-states to maintain more diverse domestic economic policies
- Allows China to restructure economy to be less dependent on exports
- Allows US to restructure economy to be less dependent on imports

Possibilities

- Anyone can issue a receipt, but what matters is whose receipts you trust
- Ideal receipt issuer – Small resource rich government issues receipts that are backed by natural resources (oil or gold). Allows government to engage in international trade without maintaining spot sale of commodity

Where to start

- Major commodities exchanges already have infrastructure for storage
- Have trusted intermediary (stock exchange, tech company, government) issue digital depository receipts for stored commodities
- Use existing bitcoin exchange infrastructure to trade receipts
- Natural center for currency technology – Hong Kong