

Think

new things

Make

new connections

Geofinance: the impact of the Ukraine war, China, cyber security and other strategic issues on the global financial system

A Ditchley conference at Greentree, building on the series of conversations on geofinance launched at Mill Reef in 2019

22-24 April 2022

DITCHLEY

Terms of Reference

This Ditchley discussion, to be held at the Greentree estate on Long Island, New York, will be an in-person event, with no virtual participation. The conference will bring together leading thinkers in finance, foreign policy, defence and national security to discuss the strategic context for the evolution of the global financial system.

What will be the long-term impact of President Putin's war in Ukraine on the global financial system? What do geopolitical tensions with China; ever increasing cyber threats, and other stresses of the global system such as adaptation to climate change, mean for finance in the new context that the war has wrought? What are the opportunities alongside the threats?

We aim to enable a frank and protected conversation, creating a rare opportunity to develop shared strategic thinking. The conversation will build on Ditchley's series of discussions on geofinance, begun at Mill Reef in 2019 and continued virtually in 2021.

Detail

Modern global finance evolved in conditions of relative openness with an expectation that global connections would grow ever stronger and that political liberalism would follow. The Indo-Pacific is increasingly the engine of global growth, but this is likely to be in the context of increasing geopolitical tension. Meanwhile, President Putin's war in Ukraine, a venture that started as a war of choice but may now be existential for him, is remaking the European political landscape.

War in Europe

What will the war mean for the financial character of the EU? Will we see more mutualisation of financial risks, alongside greater political and military integration? What will be the impact strategically for the financial sector from the growing pressure to move more quickly away from Russian energy supplies? Are we likely to see a more statist – French style – financial Europe or, conversely, could the needs of the new situation see a stronger reconnection with the Transatlantic world and capital markets?

How will the precedent-setting sanctions against Russia play out strategically, particularly in terms of the freezing and potential confiscation of central bank reserves and the development of alternative global financial payment systems? Will we see an acceleration of a Chinese-dominated financial system?

What impact will an accelerated move away from Russian energy have on the global financial system? Will this mean continued energy inflation, or could it also trigger a renewables investment bonanza and exploration of new energy sources and especially LNG?

China

China has become more assertive and more far reaching – with increasingly strident demands that relationships are conducted on its terms – but also more insular and closed off from the world. The pandemic emboldened China's stance, but it is also now a matter of policy, imposed not by the United States pushing back against China, but by President Xi Jinping's assessment that openness had served its purpose, but had overshot its mark.

What does the changing domestic scene in China mean for the stability of the global financial system? Is the partial turning inward in China a temporary phase or a permanent change that could intensify if China's growth slows further? Is continued investor interest in Chinese government bonds, especially in Europe, wise engagement or a growing systemic risk in the event of a crisis, for example over Taiwan?

Tension over Ukraine is likely to add to the increasingly fraught systemic rivalry between the US and China. The failed execution of the invasion has presented China with a dilemma. Russia needs Chinese economic, technological and ultimately military help if it is to sustain the war. The US is warning that this would have serious consequences. For the moment, China looks set to stall and wait to see what events bring. On the one hand, Russia as a client state would bring cheap energy and raw materials. On the other, China still needs the western markets with which its production capability is closely entwined. Markets have weathered the Ukraine crisis. What would be the impact of China deciding that, whether it liked the timing or not, the moment of confrontation with the US had come?

The US

The US has made clear that the old European model of taking cheap energy from Russia; exporting expensive goods to China; and relying on the US for security is no longer tenable after Ukraine. What will greater European reliance on US energy mean for the US economy? Will greater burden sharing on defence benefit the US economically, or at least allow it to redirect resources towards its relationship with China?

There is close to political unanimity in an otherwise divided country that now is the time to push back against China, competing across multiple spheres but also co-operating when essential. But can that balance be sustained? How far should the US go on decoupling supply chains in strategic industries?

The AUKUS nuclear submarine deal was in part a response to China's increasing military capability through installations in the South China Seas and the development of hypersonic missiles that could deliver nuclear warheads. In the Indo-Pacific, it has been welcomed by some but seen by others as a raising of the temperature. A number of countries are worried that, increasingly, they will be asked to choose one orbit or another, the US or China. What are the risks of a crisis over Taiwan or some other flashpoint in the South China Seas? What would be the implications for global growth and the financial system, if China moved against Taiwan? What would be the US' options for a reaction (and what could the US and allies do to deter a Chinese invasion)? How would disruption of semiconductor supply chains disrupt the global economy broadly, and finance specifically?

Cyber

Has the war in Ukraine and the ability to protect networks increased our confidence in western cyber defence and decreased fear of Russia and China? Would we be able to sustain such levels of defence on an ongoing and system-wide basis? How vulnerable is the financial system to state-sponsored cyber attacks at scale? Hitherto, it has been assumed that China at least would not want to attack a system in which it is a global player and would not want Russia to do so either. Is this likely to remain the case or, if tensions continue to rise, could this change? Will the development of parallel alternative financial systems (for example an alternative to Swift) alter this calculation? At the high level, what steps could be taken to increase the resilience of the financial system to large-scale cyber attacks? Is a switch to cash a scenario for which Western countries should actively plan? How can finance contribute to cyber deterrence and the establishment of norms? Is the increasing digitalisation and, through blockchain, decentralisation of finance, a risk or an increase in resilience?

Global challenges

Is inflation transitory, taking the edge off the massive government debts accrued during the pandemic, or is there a risk that it will rise out of control, requiring strong central bank action? What are the risks of stagflation? What will be the impact of government stimulus and infrastructure packages, as for example in the US? Quantitative easing has pumped the world full of cash, driving up debts. How is this now to be handled in the context of recovery from the pandemic and confrontation with Russia?

Can the financial system remain insulated from political turmoil in the US? Is a move away from a dollar-centric world inevitable, given the imbalance between the use of the dollar in global finance and the US contribution to world GDP? How is the use of the dollar as an instrument of policy changing and what are its effects?

Finance as a sector is committing itself seriously to ESG and particularly to action on climate. Economic growth now needs to pay for the green transition. What are the financial risks of this transition? Does the restriction of funding for fossil fuel development risk escalating and prolonging inflationary pressures on the global economy by restricting supply of fuels before renewable alternatives are available at reasonable prices? What are the potential consequences, intended and unintended, on industries critical to national security such as steel and weapons? What is the right balance between the relative prioritisation of energy security, national security and climate action? What will be the impact of the current crisis on climate action? Will we see further delays or will the move away from Russian energy ultimately have a positive impact?

For the middle part of the conference, we will split into three working groups so as to be able to discuss these issues in more depth.

Group A will look at the **global economy and global financial system** as it is impacted by the war in Ukraine, precedent-setting sanctions and other systemic issues such as recovery from the pandemic. Will we see two financial systems emerge? What are the implications for the dollar? What could be the impact of heightened tensions with China?

Group B will look at **trade, financial flows and supply chains, especially energy**. How will the war and sanctions shape these flows? What would be the impact of China aligning more closely with Russia?

Group C will look at **cyber security and the digitisation of finance** in the context of the war, rivalry with China, and broader technological shifts. What can we do to make the global financial system more resilient?