

Addressing Cryptocurrency Rise in Developing Countries

Forum: Economic and Social Council

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Introduction

What exactly is a developing country, and how are they determined? According to the dictionary, a developing country is described as a poor agricultural country that seeks to become more advanced economically and socially. They have a lower gross domestic product (GDP) than other developed countries, with a less mature and sophisticated economy. These groupings, or classifications are known to be made from the World Bank, who divides the world's economies into four groups based on the gross national income per capita.



Then, what exactly is a cryptocurrency? Cryptocurrency is a digital currency which is not maintained by a centralized authority. In another words, it is a digital currency, which is an alternative form of payment created using encryption algorithms.

Due to wars or terrorist attacks in several developing nations, hyperinflation is often seen as a vague threat. Even the modest inflation is a difficult situation for any country to handle. The adoption of cryptocurrency has proven to be a lifeline in developing economies. In developing nations, citizens are not given a plenty of payment methods. These digital currency is predicted to help stabilize the economy and prevent particular risks.

Background

Again, to start with, cryptocurrencies are a type of digital currency decentralized and not controlled by any government. The history of this digital payment method goes back to the 1980s. Even if it was first discovered in the late 1980s, it started to develop as a truly decentralized digital currency in the early 1990s. Cryptocurrencies first started gaining people's attention in 2008, when Bitcoin was introduced to the public. Bitcoin is a type of cryptocurrency that was created by an anonymous programmer or group of programmers under the name Satoshi Nakamoto. As time went by, Bitcoin kept on developing and got more people investing on them.

To explain more about Bitcoin, the world's first decentralized cryptocurrency, it now became a worldwide payment system. This digital currency was very popular among people who needed to send money across borders without interference from official banks or governments. During the early 2010s, cryptocurrencies were only worth a few cents and therefore were easy

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for people to access. However, now that it entered new markets, their prices rose and fell along with Bitcoin. Due to this sudden change, many people lost faith in cryptocurrencies as a payment method. But still, cryptocurrencies reached \$820 billion in January 2018 and kept on seeing steady growth.

Experts predict that the cryptocurrency's popularity will continue to grow as more people are becoming aware of how these payment methods are decentralized.

International Actions

The United Nations Conference on Trade and Development (UNCTAD) is an intergovernmental organization within the United Nations that promotes the interests of developing countries in world trade, with its headquarters in Geneva and Switzerland. They support developing countries to access the benefits of a globalized economy more fairly and effectively. In order to achieve their goals, they provide analysis, facilitate consensus-building, and also offer technical assistance. These help the developing countries to use trade, finance, and technology as tools for their development.

Recently, the UNCTAD has called for actions to curb cryptocurrencies in developing nations. The organization urged authorities to regulate crypto exchanges, digital wallets, and decentralized finance to ensure the usage of cryptocurrencies. Also, they believe that regulated financial institutions should be banned from holding cryptocurrencies or offering these products to their clients. Not only that, the advertisement related to cryptocurrencies must also be regulated, since it might cause several other high-risk financial problems.

Places of High Concern

El Salvador



A government worker is seen at an ATM of the state-owned Chico electronic wallet

El Salvador, the smallest country in Central America, is considered as a developing country because of its lower economic performance. In 2021, El Salvador became the first country to accept Bitcoin, a type of cryptocurrency, as legal tender and held it on the country's balance sheet. Later, El Salvador's president, Nayib Bukele, invited monetary authorities and central banks from 44 countries to the country's Bitcoin Conference. The conference had mostly authorities from African countries and other developing nations. It is known that Bukele's government has already purchased 2,381 Bitcoins for \$107 million. Currently, Bitcoin is traded below \$20,000, after hitting \$68,000 in November 2021. One concern would be that if Bitcoin crashes in El Salvador, all the businesses will have to highly increase their prices, and there might show other economic problems, such as inflation.

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However, according to the survey of 1,269 people, just 17% said that the Bitcoin brought a great success in the country's economy, while 66% said it was a failure. Also, it was found that 77% want Bukele to stop using public funds to buy Bitcoin.

Ukraine

Ukraine is classified as a developing country, ranking 77th on the Human Development Index. It is known as the poorest country in Europe with a low GDP compared to the other European countries. According to research, by the end of 2020, 45% of the population of Ukraine fell into the poor category.

Ukraine now ranks second in the world for cryptocurrency use. The reason why Ukraine is the second country after the United States of the cryptocurrency use is because of the recent war. Since February 24, when the Russian troops invaded the country, Ukraine's economy started shaking. The country had started using cryptocurrency before the beginning of the war and was already ranked fourth for cryptocurrency adoption among its citizens in 2021. When the war against Russia broke out, the Ukrainian government decided to expand its use of digital currency to support its economy from falling apart.



Ukraine appeals for cryptocurrency donations in Tether, Ether, Bitcoin

India

India has emerged as the world's sixth largest economy with a GDP of \$2.7 trillion. Since this country has a high density of population with high infant mortality rates and comparatively lower life expectancy compared to the developed countries, it is classified as a developing country.

The Indian central bank still believes that cryptocurrencies should be prohibited. However, there is no certain ban on it in India, so cryptocurrencies are widely used among people. Bitcoin is the most popular cryptocurrency in India, since it is the longest living cryptocurrency which is valued the highest, along with a finite supply currency like gold.

The Stances of the P5 Nations

United States of America

The US ranks first place of the use of cryptocurrency. It is known that Coinbase is the most popular and successful cryptocurrency exchange in the country, so it is the best choice for traders and investors to use. More individuals start to accept Bitcoin payments today, and many stores also accept Bitcoin as a medium of exchange.

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United Kingdom

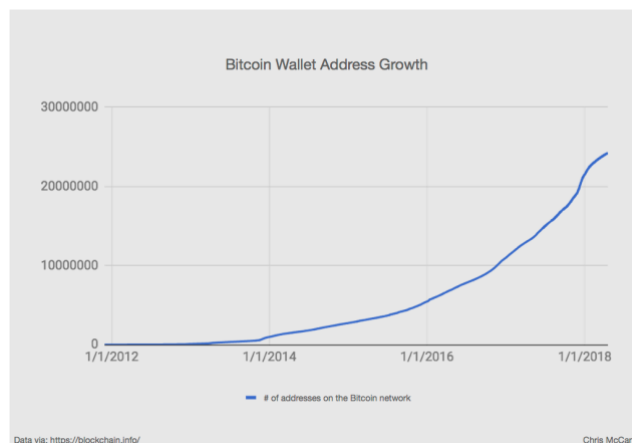
The UK hosts many cryptocurrency exchanges, cryptocurrency gambling firms and online brokerages that specialize in cryptocurrency transactions. There are cryptocurrency ATMs, machines where people can easily access and buy a variety of coins and tokens for cash.

France

Cryptocurrency ownership in France has risen rapidly growing 1.7% in a single year, from 3.3% in 2021. It is known that Bitcoin remains the most popular choice for crypto owners in France, with more than 72% of crypto owner respondents also own Bitcoin.

China

China is leading the way from cash to cryptocurrency with a new central bank digital currency (CBDC), the e-CNY, also known as the digital yuan. They are issued by China's central bank, the People's Bank of China (PBOC). Not only that, by September 2021, China made up just over 22% of the total Bitcoin mining market.



Russian Federation

Russia is actively turning to cryptocurrency these days, planning a digital payment method. They are seeking to modernize its financial system and increase the global financial system as well. The Russian government became more open about its laws and regulations on cryptocurrencies in the past months.

Possible Solutions

As there are many aspects to this problem, many solutions can be proposed. Among the many problems that exist within this issue, the three of the most grave are the following:

1. Use the factors that cause crypto to rise (production costs, regulatory developments, media coverage, demand, supply),
2. Build more effective and accessible digital banks around the country,
3. Increase the demand of cryptocurrency by using the classic investment strategy (buying low, selling high). The users could increase the value of crypto by buying and holding coins. Therefore, the buying will increase the demand, which would increase the crypto value.

Developing countries are adopting cryptocurrency because most cryptocurrencies have limited maximum supply and are designed to be deflationary. The use of crypto could help fight hyperinflation in developing countries while giving them stable money that is easily transferable and accessible.

Glossary

Cryptocurrency: a digital currency in which transactions are verified and records maintained by a

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decentralized system using cryptography, rather than by a centralized authority.

Developing Country: a country having a standard of living or level of industrial production well below that possible with financial or technical aid; a country that is not yet highly industrialized.

Inflation: a persistent, substantial rise in the general level of prices related to an increase in the volume of money and resulting in the loss of value of currency (opposed to deflation).

Hyperinflation: monetary inflation occurring at a very high rate; extreme or excessive inflation.

Timeline

2008. – Domain name bitcoin.org is first registered. Two months later, a paper detailing a decentralized “peer-to-peer cash electronic cash system” is published by Satoshi Nakamoto.

2010 – The first sale of an item using Bitcoin happens, with a customer swapping 10,000 Bitcoin for two pizzas.

2011 – Other types of cryptocurrencies start emerging, including Litecoin, Namecoin, and Swiftcoin.

2013 – RBI releases first press release on cryptocurrencies, which says Virtual currencies are not backed by a central bank and their value isn’t underpinned by an asset and thus a matter of speculation.

2014 – Tether, a “stablecoin” theoretically tied to the value of the US dollar is issued. Hackers starts to attack major Bitcoin exchange Mt.Gox, swiping \$450 million in bitcoins from owners — forever. Later, Mt.Gox soon goes bankrupt.

2017 January – Japan allows Bitcoin as a legal payment method. Norwegian online bank Sbanken allows Bitcoin in customer accounts.

2017 February – RBI releases its second press release that repeats the concerns mentioned in the first release.

2017 October – Two PILs are filed in the Supreme Court, one asking it to ban buying and selling cryptocurrencies in India, the other asking for them to be regulated.

2017 November – The Japanese government forms a committee to study issues around virtual currencies and propose actions.

2017 December – The RBI and the Ministry of Finance issue statements on cryptocurrencies. The ministry compares them to Ponzi schemes.

2018 – Goldman Sachs announces it’s opening a Bitcoin trading desk while also stating it isn’t “sold” on cryptocurrency.

2018 April – The RBI issues a circular preventing commercial and co-operative, payments, small finance banks, in virtual currencies and providing services to all entities which deal with them.

2019 November – Finance acquires WazirX and explicitly says that the WazirX acquisition and integration is part of the company’s strategy to enhance its growing list of global partners, in an effort to provide the global crypto community with easy access to cryptocurrencies in a fast and secure manner.

2020 March – The Supreme Court strikes down RBI’s banking ban on crypto, terming the April 6 circular unconstitutional.

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2021 January – The government says it will introduce a bill to create a sovereign digital currency and simultaneously ban all private cryptocurrencies.

2022 February – The Finance Minister Nirmala Sitharaman announces that there will be a tax of 30% on income from cryptocurrencies. For taxation purposes, cryptocurrencies have now been included in the Definition of Virtual Digital Asset (VDA).

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