FORUM:	Economic and Social Council
ISSUE:	Measures to Promote a Valid Usage of Cryptocurrencies to Ease Diverse Economic Activities
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Introduction

The Global Financial Crisis caused the emergence of the cryptocurrency

In 2007, the Global Financial Crisis emerged from the United States, and this crisis is considered as the most serious financial crisis that happened after the Great Depression in the 1930s. Workers from various fields have lost their jobs, banks have bankrupted, and stock markets have crashed. These factors have unexpectedly caused an excessive deceleration of the United States commerce. As the United States is taking an enormous role in the world's economy, this crisis was widely dispersed to the rest of the world and its impact was not minor. According to the Chapter 2 of the October 2018 World Economic Outlook published by the International Monetary Fund, the economic activities around the world has diminished in half after the crisis, and the output level in some countries still did not recover until these days. Additionally, the impacts of the Global Financial Crisis continue on global population. Multiple organizations, including the International Monetary Fund, Organisation for Economic Co-operation and Development (OECD), World Bank, World Development Indicators, have suggested the potential possibilities that decreasing fertility rates, increasing migration rates, and rising income inequality are the consequences of the crisis. Due to this crisis, the voice of people desiring for a currency, which is decentralized, and not affected by real-world components, such as the politics, governments, economies, and stock markets, has proliferated. Therefore, the first cryptocurrency on the world, Bitcoin has been established. Other than the Bitcoin, the Ethereum has been serving as the similar purpose, as well as the Litecoin. Although the Bitcoin dominates the cryptocurrency market by fluctuating between 40%~60% of total market capitalization, its average amount of daily transaction did not surpass the average amount of daily transaction of Ethereum. Nowadays, because of the escalating trend of cryptocurrencies, there are more than 6,000 types of cryptocurrencies in the market, and the popularity of a cryptocurrency varies depending on its value and the trend.

Background

On January 3rd, 2009, Satoshi Nakamoto presented the first ever cryptocurrency, Bitcoin, to the world with its monetary value of $0. Although a number of developers previously attempted to utilize digital technologies for a monetary purpose, Bitcoin has been considered as the first digital currency. Until now, Satoshi Nakamoto, the founder of Bitcoin, is presupposed as a pseudonymous name, and his true identity has not been revealed. Since the establishment of Bitcoin, clients were attracted by the decentralized and digital currency, so they began trading the digital currency. Ceaseless trading led Bitcoin's value to increase, and in 2011, as majority of users started to use in black markets, the price of Bitcoin had reached $1. Seeing the growth of the Bitcoin, many other cryptocurrencies have been established at this point with their own monetary value. The monetary value of Bitcoin has continuously ascended, and in 2013, the Bitcoin exceeded $1,000. The uptrend of the monetary value of the Bitcoin did not stop. However, the uptrend of the Bitcoin price did not last forever, and the fluctuation of the Bitcoin price has begun. Although in 2017, the Bitcoin price has arrived at $20,000, the price plummeted to $3,300 in 2018. The price of Bitcoin has soon recovered, as it crossed $20,000 by December 2020. On April 13, 2021, the price of Bitcoin has recorded $63,729.5, which was the highest price all-time in the history. The major reason why the cryptocurrency gained popularity is that people can buy at the low price and make profit by selling at higher price, just like earning profits in the stock market. However, people can generally use cryptocurrencies to make purchases as long as the seller provides cryptocurrency service, so this is the reason why people consider cryptocurrency as the future of currency.

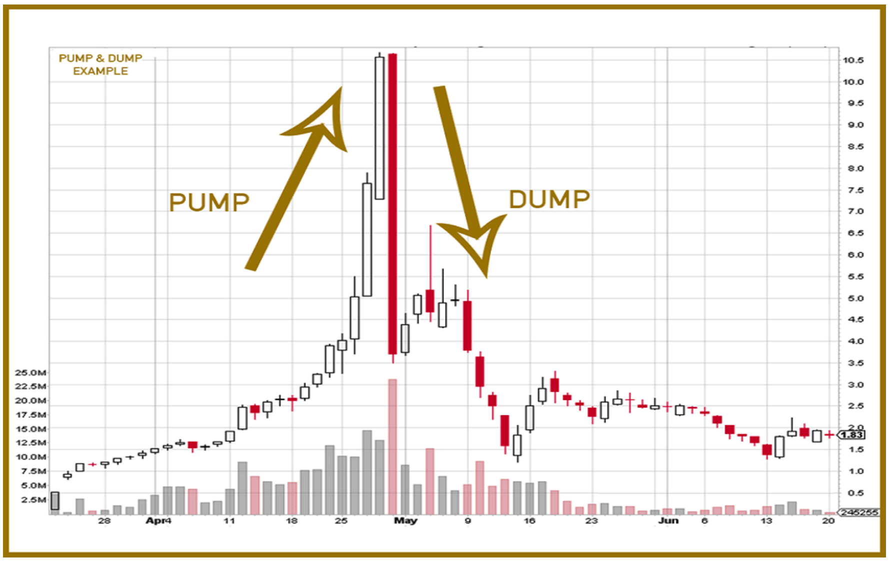
The excessive fluctuation of the Bitcoin's price has started since 2017, and it is unpredictable

Problems Raised

Proliferation of Illegal Exchange Through Cryptocurrency

As the member state of the United Nations, each nation should be responsible for ensuring security. To successfully manage a nation’s security, strict control on not only the exports and imports, but also the illegal transactions through cryptocurrency are necessary. Because of its high anonymity level, the dark web is a platform that allows buyers and sellers of weapons, drugs, confidential documents, and etc., to interact and communicate. In the dark web, almost all the transaction processes are proceeded with cryptocurrencies, and this is because cryptocurrencies make the operation to track criminal down challenging. Due to these characteristics, the exchange of illegal items has increased. Once the purchase is completed, the procedure of delivering items varies depending on the types of commodities. Some of the physical products, such as weapons and drugs, can only be delivered through the shipping process. In order to do so, the vendors would have to send the items through official postal services. At this point, the procedure is no longer hidden behind anonymity, so the buyers and sellers would have to take risks. To prevent such illegal trading, the nation would have to strengthen its borders and reinforce illegal transactions made through cryptocurrencies.

Cryptocurrency Fraud and Scams



The cryptocurrency fraud has always been unexpected, so the users should be aware of the risks

The surprisingly rapid growth of cryptocurrency markets has allowed the number of people around the world to make a huge profit in a short period of time. Along with people making a huge profit and the growth of the cryptocurrency markets, the cryptocurrency fraud has also increased in different forms. One of the common cryptocurrency frauds is “imitated cryptocurrency website.” Some of the fake cryptocurrency websites attempt to imitate in order to make their websites appear to be the authentic website. By doing so, the users accessing the imitated website may interpret it as the authentic one and proceed trading. Once the transaction has been accomplished, the user would become a victim of the cryptocurrency fraud. Even when the transaction process seems to be indistinguishable from the proper process, completed transactions are usually unable to be retracted.

Another type of common cryptocurrency fraud is “pump-and-dump” scheme. This scheme is usually initiated by the owner of the cryptocurrency, influencers, and investors. These people, the scammers, would make an effort to raise the value of their cryptocurrency by influencing people to invest in certain cryptocurrency. As the social media platforms are highly developed these days, influencing people became very important. When individuals start investing in their cryptocurrency, and once the value has increased to their goal, the scammers will suddenly sell their cryptocurrency coins. By selling, scammers will be able to earn profits, while individuals will lose their money due to the dropping value of cryptocurrency.

Since cryptocurrency currency markets include people from all over the world, once the crime happens, the process of tracking criminal is significantly difficult.

International Actions

Regulations Imposed in China

Strict cryptocurrency regulations in China have caused not only the miners to leave the business, but also fluctuations of cryptocurrency price

Due to the increasing popularity of cryptocurrencies, several governments have imposed domestic regulations to protect their users, which influence cryptocurrency markets. China is one example that demonstrates the government’s regulation of cryptocurrency markets. Since the Chinese law does not include contents related to cryptocurrency trading, in other words, the law cannot protect people from conducting cryptocurrency trading, the government has been emphasizing the risk of cryptocurrency trading. In May 2021, China has prohibited financial institutions and payment processing corporations from accommodating services related to cryptocurrency transactions. Due to this regulation, any domestic transaction through banks and online payment platforms would not allow customers to use cryptocurrencies. Also, as the cryptocurrency market is frequently fluctuating, the Chinese government has also warned investors to refrain from speculative cryptocurrency investing. The government has contended that in order to promote healthy economy and protect citizen's property, such regulation was necessary. However, this is not the first time that the Chinese government has enforced such regulation. Since 2017, China has begun to shut down domestic cryptocurrency mining hubs, which was responsible for a huge portion of global cryptocurrency trading. Due to this regulation in China, a number of cryptocurrency miners in China have no choice but to leave the business. The reduced tendency to mine cryptocurrency in China eventually influenced the global cryptocurrency trading market by devaluing multiple cryptocurrencies.

The Establishment of Cryptocurrencies Guideline in the United States

As the cryptocurrency trading market is still growing and altering over time, a country's stance towards acknowledging the plausibility of cryptocurrencies varies. Although there are permissive nations, allowing investors and consumers to use cryptocurrency, there are a number of countries that impose strict regulations against cryptocurrencies for the purpose of preserving the real-economy.

In 2013, the United States Department of the Treasury had declared that the value of decentralized virtual currencies is decided through an electronic form, and the Bitcoin has been mentioned as an example of a decentralized virtual currency. By mentioning the Bitcoin, the United States Department of the Treasury has legalized cryptocurrency and established certain guidelines for cryptocurrency businesses.

Key Players

European Union

The European Union wishes to mitigate the risks of cryptocurrency by setting regulations

The European Union has acknowledged the necessity of classifying legality and regulatory framework for blockchain and cryptocurrency trading markets. With the purpose of protecting users and investors, the European Commission has negotiated and approved the Digital Finance package. By following the trend of growing cryptocurrency markets, the Digital Finance package has been established to encourage the development of the digital finance, including applications of technologies into the financial services, within the European region, while alleviating the risks that investors and consumers may encounter. The regulations posed by the European Union seem to be favorable since the European Union has emphasized that their regulatory framework should be "innovation-friendly" and the framework should not act as a barrier in the process of innovation.

China

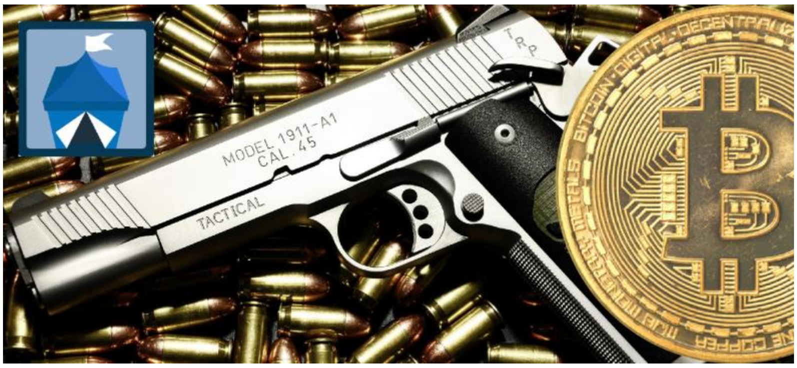
Just as previously mentioned, China has possessed the global cryptocurrency transactions until the government has enforced regulations. As long as the government maintains the regulations on the cryptocurrency trading markets, the miners in China would not be able to impact the price of cryptocurrencies. However, once the government relieves the regulations, the miners in China will again emerge into the global cryptocurrency trading markets and resume the mining process. Once this happens, along with the trend, the value of various cryptocurrencies will fluctuate. As an excessive fluctuation of the cryptocurrency trading markets indicates that the market is unstable, worldwide investors and consumers will be cautious depending on the decision of the Chinese government.

Possible Solutions

Realizing the Significance of the Trend of Cryptocurrency Market

As the market of cryptocurrencies continue to grow and alter, each nation must be aware of the significance of markets' trend. Although different nations have different stances on the cryptocurrency market, every nation should firmly declare whether the usage of cryptocurrency is legal or not. Even if a nation is willing to enforce a regulation, nations should also be aware that reckless regulations may only cause side effects. At this moment, no one can expect the future trend of cryptocurrency, and no one has a definite answer to correct cryptocurrency market. Therefore, the nations should deliberately discuss on the matter of cryptocurrency.

Reinforcing Management in International Exports and Imports



Illegal transactions of cryptocurrencies may be prevented through strengthening border management

Border management is significantly important for a country as it can prevent illegal products from entering and exiting the country. The government border agencies should be responsible for observing goods being transported. As the nation’s border management gets strengthened, this would eliminate possible routes for buyers and sellers of illegal goods to transfer them into the country, which will eventually lead to security in a country. Since users on the dark web would not be able to exchange illegal products due to strengthened border management, this may mitigate the issue of illegal usage of cryptocurrencies.

Glossary

Cryptocurrency

Cryptocurrency refers to the digital currency, which only exists in an electronical form, but not in a physical form. Nowadays, the most common purpose of using cryptocurrency is to buy and sell it to earn margin of profits. Other purposes of using cryptocurrency may include purchasing commodities or processing transaction between individuals.

Blockchain

Blockchain directs to a database that operates through security technology. In the case of cryptocurrency, each block will be stored with data related to transactions, and one block will be chained with another block. Blockchain was also invented by Satoshi Nakamoto, the creator of the Bitcoin, in order to execute the transaction of the cryptocurrency.

Mining

Mining is an essential concept in the field of cryptocurrency. This is the process completed by high specification computers to earn a new cryptocurrency coin without paying for its price. Computer systems will be solving a computational puzzle, and once the system completes the puzzle, the miners will gain a cryptocurrency as a reward.

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