

Forum: Economic and Social Council (ECOSOC)

Issue: The question of cryptocurrency

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Position: President Chair

Introduction

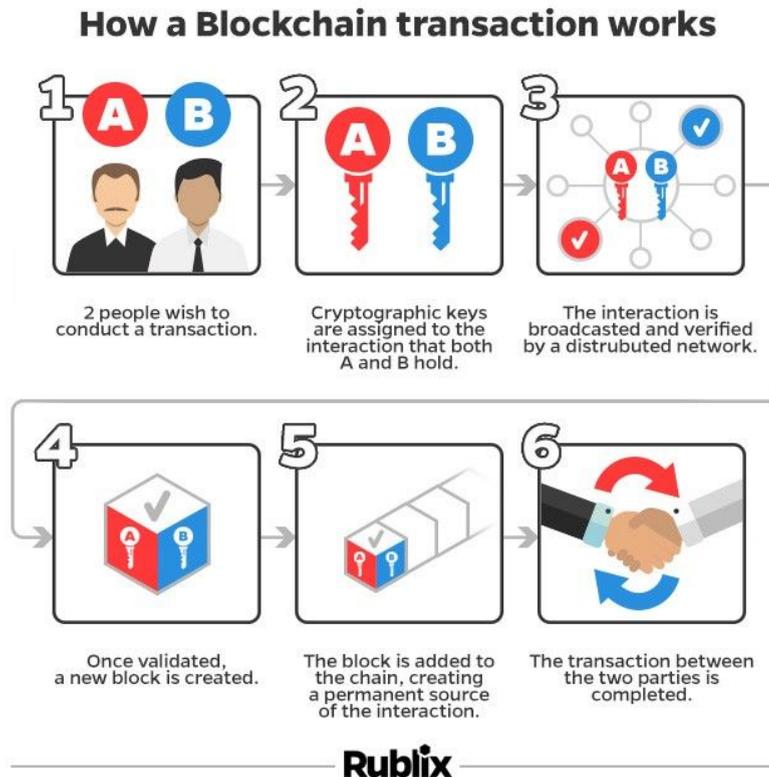
The frenzy behind the digital currency heats up more day by day, as the investments made in the cryptocurrency markets increase and the highly volatile prices keep astonishing the investors. When first introduced, cryptocurrencies were mainly associated with black market trades like drug deals, ransomware payments, money laundering and tax evasion. They were considered as a massive Ponzi scheme or fraud, as little was known about the founder and the dynamics of this new technology. The most famous cryptocurrency, Bitcoin (BTC), was worth very little when it was launched by an unknown person or group of people under the name Satoshi Nakamoto in January 2009, and even as recently as 2013, it was worth less than US\$15. However, since the start of 2017, the price rose up to about US\$1,000 and hit a value of over US\$19,000 in December 2017.

The volatility of cryptocurrencies is the major risk behind cryptocurrency investment. As of today, there are more than 1300 cryptocurrencies around the world- Bitcoin, Ethereum (ETH), Litecoin (LTC), Ripple (XRP), and Dash (DASH) being the most popular among them all. This creates the question of whether cryptocurrency will be dominant over the long-term, although Bitcoin currently has a clear leading position. Several governments have banned the trade of cryptocurrency to avoid its use in illicit activities, yet there is not an international agreement on the faith of cryptocurrencies.

Definition of Key Terms

Mining: The process of confirming cryptocurrency transactions and adding them to the public ledger through solving complex mathematical problems with a special software. Mining ensures that the transactions are made fairly and safely without intermediation of a third party or a central authority like a bank, while miners earn a certain amount of cryptocurrency in exchange. This process surely encourages more people to mine, however, as the number of miners increase, it gets more difficult to solve the mathematical problems in order to prevent the devaluation of the currency. Furthermore, many cryptocurrencies have a finite limit on the amount of units that can be generated, so once this limit is reached, miners won't be able to generate cryptocurrencies at all.

Public Ledgers and Blockchain: Public ledger is where all the confirmed transactions are stored since the very first cryptocurrency was created. Blockchain is what is commonly referred to instead of a public ledger in the cryptocurrency world. Blockchain grows with the addition of new blocks - units that store the most recent transactions - in a chronological order.



How a Blockchain transaction works?

https://cdn-images-1.medium.com/max/674/0*2R8XQ49ZvSCEywS8.

Transactions: The transfer of funds. The transfer of cryptocurrencies are made between two digital wallets with an encrypted electronic signature on a peer-to-peer (P2P) basis, meaning that the two individuals trade directly with each other without intermediation of a third party. This electronic signature provides a mathematical proof that the transaction is made by the owner of the wallet. When individuals make transactions, the transaction first gets submitted to a public ledger and then awaits confirmation that comes from the mining process.

Fiat currency: The currency which is established as a legal tender by government regulation and has value that depends on the relationship between supply and demand rather than the value of the material it's made of. In contrast to physical commodities such as

gold and silver are commodity money, fiat money “represents a claim on commodity that can be redeemed for money.” (Corporate Finance Institute)

General Overview

Cryptocurrencies solve the challenge of double-spending of digital currency with the blockchain - the public digital ledger which records every transaction of individuals and stores the information in block units. Without an intermediary of a third party like a bank or credit card, blockchain technology is able to confirm the transactions and make sure that the same digital money is not spent in multiple places or multiple times. Bitcoins can be considered safe in terms of the reduced risk of thefts, fraud, etc. with the access to bitcoins being through a wallet on an electronic device only. The information from transactions are incorporated to the blockchain through specialized computers that are responsible for solving complex mathematical problems. Once a transaction is validated, it is added to the blockchain as a permanent record. These transactions can be made with a very low transaction fee and the system ensures that all transactions are done anonymously while the loss of money due to unstable exchange rates is prevented. This virtual decentralised system usually exists without the constraints of states and time, as many countries have not passed any regulations on the cryptocurrency trade. The value of cryptocurrencies can rise or fall according to the frequency with which coins are exchanged over the internet just like other fiat currencies.

Since the national currencies are affected by inflation and taxation on the trade of cryptocurrencies are more affordable due to lack of regulations, many people prefer using bitcoins. The lack of regulations makes the misuse of cryptocurrencies to launder money or to fund other illegal activities much easier, while the anonymity and cross-border functionality makes it more difficult for the officials to regulate the international cash flow. “Silk Road”, an underground online market that was shut by the Federal Bureau of Investigation (FBI) for dealing in drugs, stealing goods, and spreading child pornography, is among those illegal industries that used cryptocurrency in transactions between their users for malicious purposes while benefiting from the anonymity of the system.

The cryptocurrency system pays its miners in the very currency that they are mining according to how much information their computer has processed. However, mining process are quite time and energy consuming, and in most of the cases, not profitable due to the fact the cost of electricity can outweigh the value of Bitcoins or other cryptocurrencies gained. And since the amount of Bitcoins that can be generated is finite (which is quite strategic in the sense that the value of Bitcoins can neither be artificially inflated nor deflated by limiting the number of Bitcoins available, and no country or authority can adjust the currency as it wishes), mining process gets harder as more miners get involved. Thus, the prices of Bitcoins increase.

Countries have approached to the issue cryptocurrencies in different ways. On the one hand, some countries do not consider cryptos as a commodity, a stock, or any kind of currency, but as private money. This rule makes sure that trading cryptocurrencies is completely tax exempted if the capital gains are under a specific amount. On the other hand, countries like China pass regulations and ban cryptocurrency trade to avoid all the related illicit activity.

Furthermore, bitcoins have the potential to replace the most popular currencies like the United States Dollar in which the price of a vast majority of the important commodities including petroleum is settled. This dependency on Dollars while settling prices lead countries whose economies are heavily affected by the oil imports or other type of import-export with the United States to maintain large stockpiles of US Dollars and create a constant demand o the currency (and as one can easily predict, this highly contributes to the United States economy). If bitcoins are used as the world currency instead of Dollars to settle these prices, the relations on the global stage will surely change.

Major Parties Involved and Their Views

The United States of America (U.S.A.)

Trump administration's interest in blockchain and cryptocurrency has been relatively positive, as the government is focused toward improving existing government and financial systems.¹ Although most of the states have not passed specific regulations regarding the use of cryptocurrency yet, some states have promoted blockchain technology, while some ensured to deter residents from using it. Margie Graves, acting Federal Chief Officer of the US Office of Management and Budget, revealed that federal government's interest artificial intelligence and blockchain could actually be beneficial for the government, as she said "These kinds of technologies are always something that we should explore. I don't want my customers to be the last to know, or to be the last to be able to take advantage of some of these," at the Data Transparency 2017 conference. Nevertheless, the United States is aware of the immense power of cryptocurrency market. The greatest threat cryptocurrencies are posing to the United States' economy today is the possibility of Bitcoin replacing the United States Dollars, as everyday new individuals invest in cryptocurrencies like Bitcoin and Ethereum. Thus, the country is making sure to avoid the worst case scenario in which Dollar is replaced by another currency as the global reserve currency, the demand for Dollars drastically decrease, and the devaluation of the Dollar leads to nationwide hyperinflation. The country has also expressed its main concern about the issue is to ensure that cryptocurrencies are not used for illicit activity.

¹ <https://www.financemagnates.com/cryptocurrency/news/good-bad-ugly-crypto-regulation-usa/>

People's Republic of China (P.R.C.)

Despite being world's biggest community of Bitcoin miners, People's Republic of China is determined to ban all the cryptocurrency-related activity within its borders. The country firstly banned initial coin offerings, the unregulated and controversial means of crowdfunding centered around cryptocurrency and used by startups, in September 2017 and triggered an instant 6% decline in bitcoin prices. Then, it demanded local exchanges to end the cryptocurrency trade while discouraging bitcoin mining by outlining proposals. China allows the trade of bitcoin and some other types of cryptocurrencies only in over-the-counter markets where commodities are traded directly between two parties and the trade is done electronically. Although the objective of China is not clear, it is fair to claim that China is trying to eliminate any risk from its financial markets, as cryptocurrencies pose the threat of malicious acts like fraud and money laundering according to the state officials. As of January 2018, Bitmain, the company that runs China's two largest Bitcoin-mining collectives, started to set up regional headquarters in Singapore and conduct mining operations in the U.S. and Canada.

Timeline of Events

August 2008	The domain name bitcoin.org was registered.
October 2008	The bitcoin whitepaper, the first decentralized cryptocurrency, was introduced by pseudonymous developer Satoshi Nakamoto.
January 2009	Nakamoto released the first bitcoin software which launched the network and the first units of the bitcoin cryptocurrency. The first transaction of Bitcoin took place between Nakamoto and Hal Finney, a developer and cryptographic activist.
October 2009	Bitcoin exchange rate (1,309.03 BTC to one USD) was established according to the cost of electricity used by a computer to

	generate it, which is the process of mining.
February 2010	The value of the first bitcoin transactions were negotiated by individuals on the bitcointalk forums.
May 2010	A developer ordered two pizzas using 10,000 BTCs.
July 2011	The first major Bitcoin theft took place. A Bitcoin Forum member, allinvain, claimed that 25,000 BTC were stolen from his wallet. The exchange rate put the amount close to \$375,000 at that time.
December 2013	Vitalik Buterin released a white paper on Ethereum where he described in detail the technical design and rationale for the Ethereum protocol and smart contracts architecture.
April 2017	Japan legalized bitcoin as a method of payment and this increased the value of bitcoin even higher than \$1000
September 2017	China banned companies from generating money through initial coin offerings (ICO) and asked local regulators to inspect 60 major platforms.
December 2017	The value of bitcoin rises to it all-time high of \$19,783. In the same month, bitcoin drops below \$13,000 and goes up to \$15,00 over Christmas weekend.
January 2018	South Korea adopted a regulation that required all the bitcoin traders to reveal their identity, while putting a ban on anonymous trading of bitcoins.

UN Involvement

Although countries have been passing laws to regulate the use of cryptocurrency, there have not been any joint attempts to eliminate the risks of cryptocurrency on the global markets.

The United Nations has not made a major progress on the topic, although it's been discussed on various platforms. However, the report published by the UN Conference on Trade and Development (UNCTAD) revealed that the system of currencies and capital rules which bind the world economy was mainly responsible for the financial and economic crises as it is not working properly. The report is the first time a major multinational institution has proposed to replace the Dollar as the world's reserve currency, a suggestion previously made by a number of countries including China and Russia. Detlef Kotte, one of the authors of the report, said, "Replacing the Dollar with an artificial currency would solve some of the problems related to the potential of countries running large deficits and would help stability."

It must be borne in mind that an international cooperation to resolve the issue is vital to set a global frame in which cryptocurrency-related activities are carried out accordingly.

Relevant UN Documents

The following documents bring insight into the previous works done by the UN to document the effect of cryptocurrencies and the blockchain system on the global prospect.

World Economic Situation and Prospects - Monthly Briefing (13 November 2017)

https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/wesp_mb108.pdf

The document first introduces the cryptocurrency technology, then explains what kind of risks it is posing. The report also talks about what regulations have been passed previously by the countries. Delegates can use this source to understand what actions must be taken to resolve the issue.

How can Cryptocurrency and Blockchain Technology Play a Role in Building Social and Solidarity in Finance? - United Nations Research Institute for Social Development

[http://www.unrisd.org/80256B3C005BCCF9/httpNetITFramePDF?ReadForm&parentid=196AEF663B617144C1257F550057887C&parentdoctype=paper&netitpath=80256B3C005BCCF9/\(httpAuxPages\)/196AEF663B617144C1257F550057887C/\\$file/Brett%20Scott.pdf](http://www.unrisd.org/80256B3C005BCCF9/httpNetITFramePDF?ReadForm&parentid=196AEF663B617144C1257F550057887C&parentdoctype=paper&netitpath=80256B3C005BCCF9/(httpAuxPages)/196AEF663B617144C1257F550057887C/$file/Brett%20Scott.pdf)

Just like the previous document, this document first introduced the cryptocurrency and blockchain technology, then discusses the potential points of concern and conflict. The document concludes with suggestions for future research.

Contribution to the UNCTAD Draft Call for Action on the Aid for eTrade Initiative

http://unctad.org/Sections/dtl-Aid4eTrade/docs/dtl_aid4eTrade_c03_WorldBank_en.pdf

The report first explains what e-commerce, then talks about legal and regulatory frameworks and e-commerce skills development.

Possible Solutions

Given the urgency of the issue, delegates must begin their preparations by taking a position on whether to support the cryptocurrency development in the world economy or not based on their countries' views. On the one hand, delegates can propose to recognise all cryptocurrencies including Bitcoin, Ethereum, and Ripple as valid currencies, and promote actions to increase the transparency in transactions to avoid corruption and fraud, while making sure that a bubble in the value of cryptocurrencies won't occur in order to support the secure and controlled development of this digital phenomenon. Trade agreements and partnerships with the private sector related to the issue could also be vital to build up on the trust environment and have positive returns on the national economy. Delegates can also set up committees to inspect the malicious uses of cryptocurrencies with the aid of United Nations to avoid the violation of fundamental human rights and criminal offenses and request Member States to adopt fair policies when interfering in the flow of the digital market. On the other hand, delegates can propose to recognise all types of cryptocurrencies as a threat to the financial markets, thus, urge all Member States to ban any trade of cryptocurrency while setting up special committees in charge of investigating illegal use of cryptocurrency. Delegates must also propose solutions to deal with the individuals or organizations who have previously invested money in the cryptocurrencies. Furthermore, delegates can propose to put new regulations regarding the cost of electricity in order to discourage the miners to continue their mining activity instead of directly banning the use of cryptocurrencies.

Notes from the Chair

During the conference, the delegates of ECOSOC must focus on how an international agreement on the use of cryptocurrency and blockchain technology can be reached. Delegates must keep in mind that the anonymity of the cryptocurrency transactions cause

cryptocurrency to be associated with the money transfers in crimes such as drug dealing and the trade of lethal weapons. Hence, action must be taken to prevent cryptocurrency technology from becoming the platform in which money transfers in such crimes are made.

Lastly, delegates can take a look at the article titled “Bitcoin’s Legality Around the World” and published on the following website while deciding on their positions on the issue.

<https://www.forbes.com/sites/oracle/2018/03/19/the-as-a-service-model-requires-strategic-approach-to-monetization/#77fa3968609c>

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