

An Assessment of Cryptocurrency Risk on Stability of World Economy

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I. Background

With digitalization of world economies, cryptocurrencies have taken a center stage, being adopted as a socially adjusted mechanism that could be used for transactions, when faced with the uncertainty of the digital world.

It is indeed, this pillar of safety against the potential dangers of a digital society, that cryptocurrencies are traded worldwide. When innovations were started, in the form of a latest digital technology, often the funding mechanism were crypto-based, suggesting the unknown impact of the uptake of the particular technology against the backdrop of existing economic practices. When an innovative new solution replaces certain existing traditional methods, the perceived regulatory and social practices that it may challenge, was to be captured by the cryptocurrency in providing such mechanism if required to be monetized in a real world.

However, with the growth and rapid uptake of digital technology including online methods of popular transactions, such as online banking, shopping, studies and conceivably any economic transaction, the risk based assessment that the crypto had originally provided, has subsided, and the difference between the digital world and the real world, that the crypto would have provided a safety net against becomes a need that has depleted over time.

II. Contemporary Status of Cryptocurrencies

In the modern world that has successfully adopted the digital economy, cryptocurrencies have increasingly become surrogate. This surrogacy is evident by several significant economies of the world, making Cryptocurrencies unlawful.

The particular case of Hong Kong SAR, is certainly considerable for this issue. Hong Kong, till recently, was a source of major funding for digital startups worldwide. It was not only a matter of financing Chinese owned startups, but infact this financial prowess of Hong Kong had taken a large chunk of the financial sector worldwide, including in Australia and the United States. Several large digital companies, especially online, have been funded by such sources, indeed initially having some safety net against the perceived risks, by use of cryptocurrencies.

Also, that Hong Kong was legislated to be handed over to China by British Authorities, and to be under Chinese control, provided a further reason for the mass uptake of cryptocurrencies, exponentially increasing the real technology risk by mixing it with such political changes. The exceptional popularity of Cryptocurrencies in Hong Kong and related economies, suggest that the fact of Chinese handover, would have over-valued the cryptocurrencies against world currencies, given the unknown risk of Chinese interpretation of legitimacy of Hong Kong economy post handover to China.

The above case, suggests that cryptocurrencies are widely used as a deregulating currency, when mitigating the risk of not only a digital uptake, but also any political upheaval that an economy may face due to other reasons. Hence, cryptocurrencies would contain a basket of goods that is weighed with such political changes, as opposed to the pure nature of technology risk that it may have originally been conceived.

Original Crypto Model :

Cryptocurrency Value per AUD (USD) = fn (Technology Risk from Digitalization)

..... formula (1)

Contemporary Crypto Model :

Cryptocurrency Value per AUD (USD) = fn (Technology Risk from Digitalization + Political Economy Risk)

..... formula (2)

Also evidenced, that an unrealistic appreciation of the Cryptocurrency, as well as some of the popularly listed digital companies in the US and China, could be correlated.



Figure 1 : Comparison Graph between BitCoin and Online Company in the United States

The above comparison is between Bitcoin which is a major Cryptocurrency and an exceptionally financially endowed online digital company in the United States. It is noticeable that around the end of year 2020, when China was increasing financial monitoring of Hong Kong, the value of Cryptocurrency had gained market value. Closely, and not far is the market price of the example online company listed in the United States, that gains such a momentous price in its valuation.

Therefore, it can be derived that the market price for online companies who are listed in the United States, and possibly previously funded from places such as Hong Kong, are dependent upon and appreciated by the price of cryptocurrencies in the market, providing formula (2) as presented above.

As per formula (2), such an exceptional gain could not be attributed to any specific technology breakthrough, as would be in the original model of formula (1), but that changing political landscape from where such financing are sourced, are facing a financial upheaval, that would cause this unexpected rise, as presented and including in the function for formula (2).

Therefore, as per formula (2), such momentous increase in market capitalization is infusing and transferring a political economy risk into the United States economy, that would increase the risk of the United States economy, including causing rising inflations, unexplained recessions, financial breakdowns and unexplained climate changes.

III. Advances of Cryptocurrency Regulation

It is known that China has now declared that all Cryptocurrencies are banned and unlawful. This is an important step forward for the stability of world economy. Whilst China may have had certain hurdles to stabilize Hong Kong economy post handover from Britain, to reduce financial fraud and to reduce risk of the world economy, this has been an important step forward. Cyberterrorism, in its various forms, that were potentially funded with cryptocurrencies, would now have a reduced incentive to undertake such violations, together with Chinese crackdown on crypto-dealers and their associated assets overseas.

On the other hand, whilst China is attempting a recovery of a safe world economy post Handover, economies who may have had a larger dependency on Hong Kong for trade and commerce, may find it fruitful to retain legitimacy of cryptocurrencies. Such traditional economies, may attempt to defy such developing world re-order and have an economy faith in the past economic beliefs which may have currently been changed in a new world order.

Hence in a tug-of-war for the disappearing assets of a past British Colony in East Asia, cryptocurrencies have become a legend for those who want, and those who don't, for such contentious assets of a developing world.

IV. Climate Impacts of Cryptocurrencies

As cryptocurrencies provide a mechanism to dilute digital technology advances with world political causes, disguised in an unregulated currency, it has the risk of posing imminent dangers to society if used for any financial purpose.

Whilst unregulated, there is nothing to check and balance the proposals of a Cryptocurrency payout for technological changes that maybe harmful for global climate. Technology that possibly adopts nuclear advances, biological weapons and other otherwise regulated transformations, could easily be funded and implemented by using cryptocurrencies. Whilst in places such as United States and Australia, to obtain funding by any direct means using the USD or AUD as the currency for the fund, would require meeting regulatory obligations by certain financial institutes which would check for money laundering and climate related regulations - when funded via cryptocurrency, such social checks on climate impacts etc., are overlooked and a price put on such violations of the laws, that would risk lives and lead to a gradual social and ecological degradation.

Model 1 : Regulated Financial Funding for Climate related Tasks

Technology Innovations → Assessed against Climate regulations → Approved for Adoption

Model 2 : Crypto Funding for Climate related Tasks

Technology Innovations → Retrieve from Stored Cryptocurrencies → Approved for Adoption

Such adoptions of technology using Model 2, would possibly introduce technologies that are harmful for the environment. A prime example of this would be developing radiological methods that are of such high intensity that it may become fatal for flora and fauna in Australia. Australian flora and fauna are rare and highly sensitive to climate change and any un-reserved technological introductions would cause a fatal risk for such forms of lives. Generally, plants and animals have a higher sensitivity to electronic wave forms, and what maybe in-audible to the human ears may still be heard by certain birds and animals, and increase in such an intensity without climate risk assessment, would certainly leave some species rare in this world.

It is also known that tribal populations, and human inhabitants in less developed landscapes are acquiring of such higher sensitivities of electronic waveforms, and a country like Australia and the United States that has a significant amount of the population who would identify themselves as indigenous and living in an indigenous environment, could be faced with a higher rate of mortality and illnesses, when exposed to unregulated technology introductions using unregulated currencies such as Cryptocurrencies. Indeed, to ensure the health and lives of all citizens, including indigenous populations, certain climate regulations are introduced, and overlooking or bypassing them by legitimising the use of unregulated monies, would certainly be detrimental for the benefit of society as a whole.

V. Characteristics of Cryptocurrency Storage CS1

The difference in above model, shows that there is a certain Storage and Retrieval of Cryptocurrencies, that is in oversight of any regulations. It is unknown how such a Storage is filled and against which regulations such storage is validated, in order to be introduced into the financial market of the civil and regulated society.

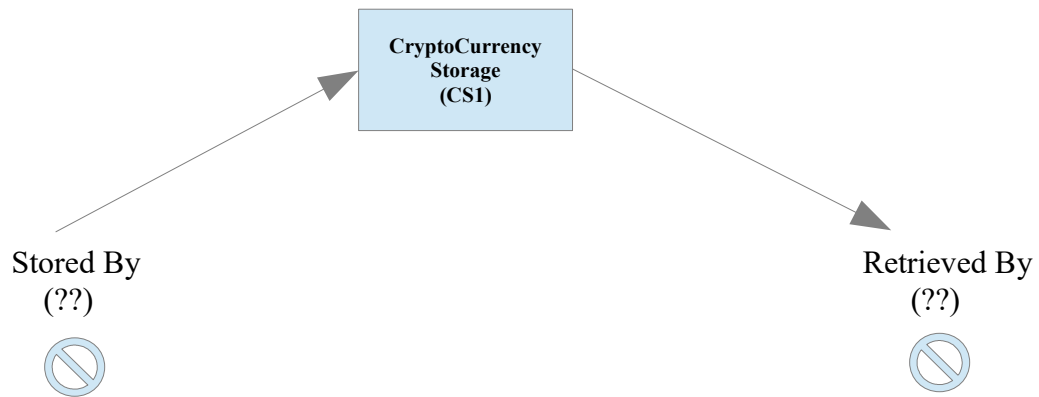


Figure 2 : Schematic Representation of Reserve Bank nature of Pseudo Cryptocurrency Storage CS1

In the world economy, cryptocurrencies have introduced a pseudo Reserve Bank for the currency, that is not under any jurisdiction and beyond any regulations that govern world finance. It is much like the keys to a very sophisticated vehicle that is left to the driver who is unknown and without appropriate license. Indeed, if such driver was authorised to drive such a vehicle, he or she would have clearly identified himself or herself, and the fact that the true ownership of this vehicle is unknown, exemplifies that such ownership would be unlawful and unregulated.

The pseudo cryptocurrency storage CS1 could be characterised by :

1. Ambiguous location and identity of those who produce assets within CS1
2. Undisclosed methods to increase or decrease assets within CS1
3. Undisclosed methods allocate resources from CS1
4. Undisclosed methods to adjust Exchange Rates with Major Currencies with Assets in CS1

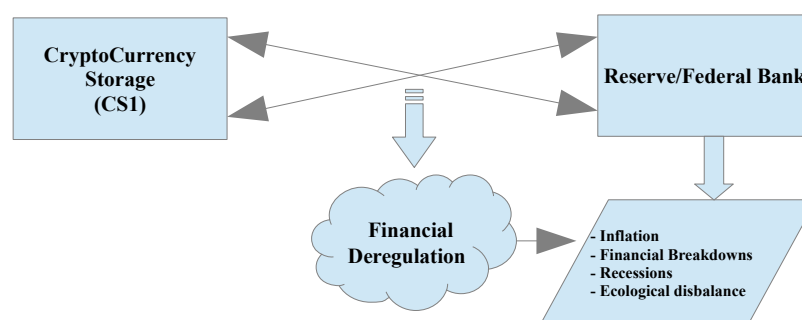


Figure 3 : CS1 impacts on Federal Financial Governance

VI. Steps required against Cryptocurrencies

The world economy should take urgent steps to mitigate the risk posed by Cryptocurrencies including grave economic dangers including irreversible changes to the world climate and ecology.

Specific steps that should be taken are :

a. Delist any Cryptocurrency from being exchanged with Regulated Currencies

Financial institutes worldwide, should stop accepting any cryptocurrency in exchange for real and regulated currencies.

This would be in the interest of Reserve Banks worldwide who are attempting to reduce inflation. Indeed, by reducing inflation caused by influences and instability of cryptocurrencies, Reserve Banks should expect to have a better appreciation on returns of existing assets, who would be freed from such high risk and unknown influencers in the regulated market. In developing countries, an interest rate gain would be advantageous and for developed economies, a reduced market risk would draw better investments.

b. Declare Fraud and Investigate the Origins of Cryptocurrency

As Cryptocurrencies are an unregulated currency, it is a Constitutional violation in many economies worldwide, to transaction with such a currency.

The mechanisms, sources and advocates of cryptocurrencies should be identified and brought to justice in order to restore confidence in the world economy, that has been severely affected by such ghost actors.