

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Cryptocurrencies are juvenile players in the world economy. They work like currencies similar to foreign exchanges but they do not have a physical configuration. Cryptocurrencies trades are 100% online and therefore has become a pioneer in future goods trade. However, most people still do not know what cryptocurrencies are, let alone trying to invest in one. Therefore, it is crucial for us to know the importance of investing for the future in cryptocurrencies.

Exchanging cryptocurrencies are executed online. Because of its recent fame to the public, many people do not know about it. That is why cryptocurrencies players are usually permanent players who have invested in it for a long time. Big game players, for example, would buy millions USD worth of cryptocurrencies and therefore increase the demand in the market. When the demand has reached its highest point, they will sell the cryptocurrencies making the supply flourish and the price goes down like a slope. The prices could rise extremely high in minutes and drop extremely low in seconds. These fluctuated charts diminish people's interest in investing in cryptocurrencies.

The news about cryptocurrencies is very scant. Rarely enough, they are very outdated. Furthermore, the increasing rate of cryptocurrencies traders do not match the media's interest towards the matter. Media do not cover cryptocurrencies related news too rarely due to these two things. The first reason is that they do not gain a lot of revenue by covering cryptocurrencies. The second reason is that since cryptocurrencies are still a new player in the world economy and many people still do not know about it, covering it a lot will not make their ratings skyrocketed and will make precious minutes to cover more hot news wasted.

Governments around the world would also not take into account cryptocurrencies as they do not gain benefits from the exchanges. Taxes are one of the government's biggest incomes. In 2019, the US government income from tax is 16.3% of its GDP. None of it comes from cryptocurrencies. Cryptocurrencies are types of exchanges and therefore could not be taxed by the government.<sup>1</sup> In UU PPN, it is said that money

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<sup>1</sup> Ageng Prabandaru. Klikpajak. 2018. <https://klikpajak.id/blog/berita-pajak/jenis-jenis-barang-kena-pajak/> (accessed August 24, 2021).

cannot be taxed by the government.<sup>2</sup> That is why the government would not cryptocurrencies exchanges seriously. They put attention to it similarly to their attention towards foreign exchanges in which they do not play a huge role in the process.

International financial companies like the World Trade Organization and World Bank have taken cryptocurrencies more seriously as they are the biggest world financial actors. The World Trade Organization is considering whether they will be making cryptocurrencies a permanent exchange in the market. Cryptocurrencies states are too unpredictable now by the market and therefore must be standardized in order to make them a sufficient trading matter.

Powerful players in the economy play a big part in the matter. Three of the richest men in the world, Warren Buffett, Bill Gates and Elon Musk have different views towards cryptocurrencies. Warren Buffett and Bill Gates have similar views towards cryptocurrencies, with Warren considering cryptocurrencies as a configuration of “bet” because of the high risk, high gain nature of the currency.<sup>3</sup> Elon Musk on the other hand has invested billions of USD in cryptocurrencies, mostly on BTC and Doge as he thinks that they are the ones who have the biggest potential in the international market.<sup>4</sup>

Cryptocurrencies use blockchain as a vessel to execute trade. In order to know about cryptocurrencies, one must understand how they work in a blockchain. Blockchain is considered a Distributed Ledger Technology or in short DLT. DLT is a location in which multiple trades can occur and reconfiguration by multiple actors can be done in various locations at once.<sup>5</sup> DLTs have different “specialty” traits. Some of them have more anonymity from the others, some have better security than the others, and even some

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<sup>2</sup> Virginia Cram-Martos. wto. 2019.

[https://www.wto.org/english/res\\_e/reser\\_e/01\\_a\\_virginia\\_cram-martos\\_final\\_wto\\_2019-1202.pdf](https://www.wto.org/english/res_e/reser_e/01_a_virginia_cram-martos_final_wto_2019-1202.pdf) (accessed August 30, 2021).

<sup>3</sup> Barratut Taqiyyah Rafie. International Kontan.co.id. 09 February 2021.

<https://internasional.kontan.co.id/news/warren-buffett-sebut-BTC-sebagai-alat-judi> (accessed August 30, 2021).

<sup>4</sup> Aisyah Kamaliah. Detiknet. 21 February 2021. <https://inet.detik.com/cyberlife/d-5396440/elon-musk-dan-dogecoin-yang-tak-terpisahkan> (accessed August 30, 2021).

<sup>5</sup> Virginia Cram-Martos. wto. 2019.

[https://www.wto.org/english/res\\_e/reser\\_e/01\\_a\\_virginia\\_cram-martos\\_final\\_wto\\_2019-1202.pdf](https://www.wto.org/english/res_e/reser_e/01_a_virginia_cram-martos_final_wto_2019-1202.pdf) (accessed August 30, 2021).

are bigger than others, providing a bigger volume for more actors to act in that DLT.

DLT has driven the online trade payment method to another level because of its benefits. The first benefit is that it diminishes the use of paper due to the vessel of the trade being online.<sup>6</sup> The second benefit is that the trade can be done faster because of the no-contact method. There is no need for meeting and giving physical objects in order to do a trade. The third benefit is that they reduce foul play as their identities could be confirmed by the structure. This is why blockchain trade will forever shape the international market. Blockchain trade provides anonymous trading, yet secure in a way that the vessel is secured from the structure. This will lead to a faster and more reliable trading area. What the world wants from trade is basically transparent trading in which reliability plays a key part in the process and blockchain will be one of the best vessels to practice that method.

The most famous cryptocurrencies that people would know are the BTC or in short BTC. As of the day of this writing, BTC value is about USD 44.230 per coin. That is as much as IDR 652.716.000 in Indonesian currency, therefore making it one of the most expensive cryptocurrencies to exist in the market.<sup>7</sup> BTC's all-time high is valued just below the USD 60.000 at USD 59.432 or around IDR 850 million. That is a big sum of money, but all of that money was a single coin, a BTC. The value of the coin changed drastically as after it hit its peak, it dropped down to the USD 45.000 per coin mark. That is why if you buy it at its peak, you will lose 25% of your money. This is the sole reason why people hesitate when trying to buy cryptocurrencies as you can lose money in a snap of a finger.

BTC was originally made by a user named Satoshi Nakamoto in the year of 2008. It was very cheap back then where 10.000 BTC will get you two pizzas from Papa John's Pizza. In today's value, with 10.000 BTC you will have IDR 6.243.308.848.828,29. With that kind of money, you can buy the biggest commercial airplane in the world, the Airbus A380 valued at IDR 4 trillion.<sup>8</sup> That is how beneficial it is to invest in BTC from the early stages.

As cryptocurrencies do not have any kind of physical configuration, investors can buy cryptocurrencies not as a real number value meaning that they can buy cryptocurrencies in decimals below the number one. It means that you can buy IDR 100.000 of BTC which in return will give you around 0,00016 BTC. Having that amount of BTC is also beneficial as if BTC prices rise by 20%, your IDR 100.000 will become IDR 120.000 due to the percentage gain. It does not matter how many BTCs you have, what actually

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<sup>6</sup> ibid

<sup>7</sup> See chart at URL: <https://www.coinbase.com/id/price/BTC> (accessed August 30, 2021).

<sup>8</sup> See price at URL: <https://www.airbus.com/content/dam/corporate/topics/publications/backgrounders/Airbus-Commercial-Aircraft-list-prices-2018.pdf> (accessed September 2, 2021).

matters is that how many percent it rises, your money will rise according to that percent and when the percent goes down, you will lose money according to that percent as well.

Cryptocurrency trading is as gray as it gets. Nobody can predict the price 100% correctly all the time. But everything happens for a reason. Factors that are so simple can affect the value because no such things can grow without factors.

It is also true that cryptocurrencies have been a “dark” currency as they are hard to be tracked when you do not belong to that blockchain. Dark organizations and criminals have considered it a common way to transact due to its anonymity.

Cryptocurrency has also been a way people gain money. The number of people investing in cryptocurrency has grown rapidly, with Dogecoin making the user rate skyrocketed as it is led by Elon Musk.

Governments would also become interested eventually as something that can be profited can be used to gain power, whether it is economic power or political power. That is why cryptocurrency could play a bigger role in deciding which nation has the biggest power.

Ideas about having digitized economies have already been suggested over the years. People started doing the barter system long ago, then it changed to a paper and coin currency. Now, it has already grown to a card system which is functioned by a system. Maybe it could be more advanced in the later years with the introduction of encrypted transactions on the internet using cryptocurrencies. It would change the conventional market and would encourage a more encrypted and digitized market.

## **1.2 Research Question**

Based on the background and problem identification raised, then research questions can be made as follows:

1. What factors cause the cryptocurrencies value to be that unpredictable?
2. Would cryptocurrencies have possibilities to replace conventional markets?
3. Will cryptocurrencies be regarded as a state’s financial power?

## **1.3 Research Objective**

In accordance with the research questions, the research objectives can be determined as follows:

1. To know the key factors that cause the cryptocurrencies value to be that unpredictable on the market.

2. To know whether cryptocurrencies have possibilities to replace conventional markets?
3. To know whether cryptocurrencies can become a state financial power.

## 1.4 Research Significance

### 1.4.1 Theoretical Significance

- a. To give a more in-depth inconfigurationation about cryptocurrencies and how they work.
- b. To be a reference on how you want to invest money in.
- c. To give a quick glimpse about the effect in the international market.

### 1.4.2 Research Significance

- a. For anyone who does not know about cryptocurrencies  
To give a general overview towards their point of view towards cryptocurrencies and encouraging them to learn more about cryptocurrencies.
- b. For anyone who is interested in buying cryptocurrencies but have not buy any  
To give a more in-depth inconfigurationation in order to make them decide whether to buy or not.
- c. For anyone who already have cryptocurrencies  
To give them a point of view in which they can take as a reference on what they are investing in.

## 1.5 Structure of Thesis

The first chapter of the thesis would be the background of the thesis containing the origin of cryptocurrency and the research question of the thesis, research objective and the research significance. This structure of the thesis part also included in the first chapter.

The second chapter of the thesis would talk about the theory that supports the thesis, including game theory, which would then explained by the two companies advertising dilemma, then constructivism and the level of analysis of the thesis consist of two parts which includes state and non-state actors and international system and international organization.

The third chapter of the thesis would talk about the methodology used in the thesis those of which would be explained in the research approach, research method, and the data collection technique, consisting of two technique, documentation and survey, also with the inclusion of data analysis technique.

The fourth chapter of the thesis would be the main part of this thesis showing how the United States and Chinese government reacts towards the growing rate of cryptocurrency. This chapter would also explained the result of the survey on the 25 respondents and also the reaction of Multinational Corporations.

The fifth chapter of the thesis would contain the conclusion of the thesis showing why cryptocurrency could become the future of world economy and also the suggestion for those who needed this thesis for research or investment purposes.

