

# CHAPTER I

## INTRODUCTION

### 1.1. Background

Throughout history, nations have always sought to trade between each other. predating to the third millennium BC in Egypt in Mesopotamia utilizing precious metals such as gold and silver as coins for a form of currency and a means to exchange value.<sup>1</sup> However, these past forms of transaction were loosely linked in between each other with differing currencies and regional rules. It is not until the 19<sup>th</sup> and 20<sup>th</sup> century where the world is introduced to the “first age of globalism” with international monetary unions Latin Monetary Union and the rise of international organizations and agreements such as the Bretton woods agreement and the World Bank which would bring about an integrated and controlled international monetary system further accelerating the process of trade and the progress of globalization.<sup>2</sup>

The birth of the internet has been the most revolutionizing event in information technology. Invented by Vint Cerf, the internet is a worldwide interconnected information sharing network connecting all individuals around the globe accelerating globalisation by allowing for new forms of interaction and eliminating geographical boundaries.<sup>3</sup> The internet has been an integral part of our current society accelerating the advancement of our global social, political, and economic state with social platforms such as Facebook, Twitter, YouTube, and online shopping and purchasing platforms such as PayPal, Amazon, Venmo, Gopay, and many others. With the advent of these platforms that enables its users

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<sup>1</sup> Joe Cribb, Elizabeth Errington, and Jonathan Williams, *Money: A History* (London: British Museum Press, 1997).

<sup>2</sup> Theodore H. Cohn and Anil Hira, *Global Political Economy Theory and Practice* (New York: Routledge, 2021).

<sup>3</sup> “Who Invented the Internet?,” *Encyclopædia Britannica* (Encyclopædia Britannica, inc., n.d.), accessed February 23, 2022, <https://www.britannica.com/story/who-invented-the-internet>.

to purchase goods and services be it national or internationally at their fingertips, with it comes about the need of a new way of transaction that leads to the creation of new tools such as e-money, and most importantly the virtual currency.

As defined by the United States Department of the Treasury Financial Crimes Enforcement Network virtual Currency can be understood as a digital representation of value that can be used to digitally in order to perform as a medium of exchange, unit of account, or a store of value. Unlike real or “fiat” currency however, virtual currencies does not have a legal tender status in any jurisdiction,<sup>4</sup> not to be confused with E-money which serves as a substitute to digitally represent legal fiat currency. However what makes virtual currency hold its utility value is when said virtual currency is able to be converted into other currencies or also known as Convertible Virtual Currency. These convertible virtual currency comes in many forms from different developers among the most widely used coming in the forms of virtual cryptocurrencies.

Cryptocurrency was first introduced to the world through Bitcoin on a 2009 white paper titled “Bitcoin: A Peer-to-Peer Electronic Cash System” by an anonymous developer under the pseudonym of Satoshi Nakamoto.<sup>5</sup> In said paper Satoshi elaborates on the bottleneck of online transaction that is the need for an established financial institution that acts as trusted third party to mediate transaction between users, which increases costs and requires its users to trust said third party to manage their private transactions and information. In response to this Satoshi proposes a solution to this problem would be the utilisation of cryptographic proof of transaction through a peer-to-peer distributed decentralised server

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<sup>4</sup> “Guidance Fin-2013-G001 Issued: March 18, 2013 Subject: Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies” (Department of Treasury Financial Crimes Enforcement Network), accessed September 13, 2022, <https://www.fincen.gov/sites/default/files/shared/FIN-2013-G001.pdf>.

<sup>5</sup>Satoshi Nakamoto, “A Peer-to-Peer Electronic Cash System,” Bitcoin, accessed June 15, 2023, <https://bitcoin.org/en/bitcoin-paper>.

which eliminates the need for a third financial party creating a trust less based system and securing users privacy of their wallets and transactions.<sup>6</sup> The Bitcoin model has been the pioneer upon which other cryptocurrency developer emerge and use as a basis of concept upon which they build upon other unique characteristics for their own cryptocurrencies.

Cryptocurrency has been a global phenomenon as it serves as an alternative international trust less based medium of exchange exempt ties to any entity, enabling fast, private, and secure international trade. As of 2020 the global trading volume of cryptocurrencies reaches as high as \$21 Trillion, increasing by 52,69% since 2019 gaining more and more traction by the years.<sup>7</sup> International Financial organisations such as the WTO and World Bank recognises the potential implication that said currency could bring to the future and as of the time of this writing maintains an open position currently examining the progress of the technology due to its unpredictability to be utilised in its current state.<sup>8</sup>

Cryptocurrencies has had its surge of users in the Philippines since the 2014 as bitcoin was coming more into relevance and its value was on the rise, the second wave of users came about in 2020 with the sudden emergence of the Covid-19 pandemic which affected the global population with major lay-off, rise in unemployment, and a general economic downturn. The people of Philippines in response to the pandemic relied upon cryptocurrency as an alternative source of income, be it through utilising bitcoin as an investment fund, crypto-mining, or through crypto-based play-to-earn games which during vulnerable times promised its players of a grand source income which rivals conventional

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<sup>6</sup> Houben, Robby, and Alexander Snyers. *Cryptocurrencies and blockchain: Legal context and implications for financial crime, money laundering and tax evasion*. 2018.

<sup>7</sup> “2020 Cryptocurrency Spot Trading Annual Report - Coindesk,” accessed September 24, 2022, <https://downloads.coindesk.com/research/2020-Cryptocurrency-Spot-Trading-Annual-Report.pdf>.

<sup>8</sup> Emannuela Ganne, “Can Blockchain Revolutionize International Trade?” (World Trade Organisation), accessed September 4, 2022, [https://www.wto.org/english/res\\_e/booksp\\_e/blockchainrev18\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/blockchainrev18_e.pdf).

jobs and wages.<sup>9</sup> As of 2021 Philippines has the 3<sup>rd</sup> largest user rate of cryptocurrencies within the world right next to Nigeria, and Vietnam, with domestic transaction value rising five folds valuing at 7,6 Billion Philippines pesos.<sup>10</sup>

Seeing this development this has led to the government of Philippines to have no option but to step down and provide proper regulation due to its widespread use, however unlike other countries Philippines stands as a very unique case as its openness is unrivalled by others as it is widely accepted both by the people and also the government as its usage are legalised and having its exchange regulated by the Central Bank of Philippines since 2017 on their “Guidelines for Virtual Currency Exchanges”, where the government in collaboration provides so much as exchange services and facilities to exchange legal enlisted cryptocurrency into real government issued fiat currency providing clear integration of cryptocurrency into the Philippines economy.<sup>11</sup>

However, despite the wide scale acceptance of the use of cryptocurrency by the Philippines, that is not to say that these cryptocurrencies comes without any sort of backlash. The stability of cryptocurrencies as a currency itself due to the volatility of its value within the market, not to mention the possibility of rampant scams and fraudulent activities by developers due to the low financial literacy rate of the people of Philippines which makes them to become a vulnerable prime target. Aside from viability issues, the decentralised and untraceable nature of cryptocurrencies also brings with it potential illicit activities such as money laundering, trades of illegal goods, funding of criminal groups,

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<sup>9</sup> Richard Mason, “Philippines' Digital Transformation Could Make It a New Crypto Hub,” Cointelegraph (Cointelegraph, July 14, 2022), <https://cointelegraph.com/news/philippines-digital-transformation-could-make-it-a-new-crypto-hub>.

<sup>10</sup> “2020 Cryptocurrency Spot Trading Annual Report - Coindesk,” accessed Septmeber 27, 2022, <https://downloads.coindesk.com/research/2020-Cryptocurrency-Spot-Trading-Annual-Report.pdf>.

<sup>11</sup> “Circular No. 944 Series of 2017 Subject: Guidelines for Virtual Currency (VC) Exchanges” (Bangko Sentral Ng Pilipinas, January 19, 2017), <https://www.bsp.gov.ph/Regulations/Issuances/2017/c944.pdf>.

and others<sup>12</sup>. Therefore further assessment regarding the implications that cryptocurrency could bring needs to be done.

## **1.2. Research Question**

Recognizing the widespread use and unconventional nature that cryptocurrencies have in the digital age, the adoption of cryptocurrency within the Philippine that started since 2014 brings with it new dynamics into the flow of capital and how it affects the nation's economy. Therefore, based on the setting as discussed within the background several research question to further analyze this phenomenon are as follows

1. What are the economic implications of cryptocurrency adoptions to the people of the Philippines
2. How does the government of Philippines respond to the economic implications from the adoption of cryptocurrency within the Philippines

## **1.3. Research Objective**

By examining the phenomenon within question and scope constrained by the propose questions, this research aims to :

1. To explain the economic effects of cryptocurrency towards the economic activities of the people of Philippines
2. To explain the approach that the government of the Philippines has taken in response to the adoption of cryptocurrency within the Philippines

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<sup>12</sup> Frebowitz L. Ryan, *Cryptocurrency and State Sovereignty* (Naval Post Graduate School, 2018), 50-53.

#### **1.4. Research Significance**

This research aims to gain and provide readers further knowledge on cryptocurrencies and the adverse effects it may have for a state's economy and security. Recognizing the scale and significance of the internet's global network and impact its impact in globalisation, further study to understand what new never seen before threats or effects that this new technology has to offer must be properly studied upon, not to mention the unique openness The writer highlights this urgency as of this research as the development of said cryptocurrencies and its widespread use has made it a real definitive aspect of the digital era and such must also be approached with a proper precaution for its misuse and its threat to state and global security.

#### **1.5. Research Structure**

Within this research, the discussion of the issue at hand are divided into several chapters to provide the needed information, and providing a systematic and coherent line of discussion. The division of the chapters are as follows:

Chapter 1, This chapter contains background on the topic, the proposed research question, research objective, research significance, and systematics of writing.

Chapter 2, the theoretical framework. Within this chapter contains literature review focusing upon current debates of cryptocurrency, in addition to that, it also consists of the liberalists perspective and relevant IR concepts of the research.

Chapter 3, Methodology, explains the research approach, method, data collection technique as well as the analysis technique used within this research.

Chapter 4, analysis, where within this chapter it, This chapter explains the analysis on the economic impact of cryptocurrency adoption within the Philippines, from the

perspectives of its usage and potential on a societal basis and the government reactions to it.

And lastly for chapter 5, conclusion, this chapter explains the conclusion of the research and how it has answered the proposed research questions.

