



## Cryptocurrency and India

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This article is based upon **“Catching the New Tech Wave”** which was published in the Indian Express on 31/05/2021. It talks about the increasing significance of Cryptocurrencies across the world and why India needs to accept it in order to go hand in hand with the world in the upcoming phase of digital revolution.

With the creation of **Bitcoin** in 2008 till present date, cryptocurrencies have gained much significance all around the world. The gains made by this sector since the onset of **Covid-19 pandemic** in January 2020 are astounding; the “cryptomarket” grew by over 500%.

However, in the 2018-19 **budget** speech, the Finance Minister announced that the government does not consider cryptocurrencies as legal tender.

Considering the fact India was a late adopter in all the previous phases of the digital revolution – when semiconductors, the internet and smartphones made their mark, there is a need for a change in the thoughts and acceptance for these virtual currencies as they mark India’s first step towards entering the new phase of digital revolution.

### Cryptocurrencies

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- **Rise of Cryptocurrencies:** The pioneer cryptocurrency, Bitcoin, was traded at just \$0.0008 in 2010 and commanded a market price of about \$65,000 in April 2021. Many newer coins have also been introduced since Bitcoin’s launch and their cumulative market value touched \$2.5 trillion by May 2021.

- **Significance of Cryptocurrencies:**

- **Corruption Check:** As blocks run on a peer-to-peer network, it helps keep corruption in check by tracking the flow of funds and transactions.
- **Time Effective:** Cryptocurrencies can help save money and substantial time for the remitter and the receiver, as it is conducted entirely on the Internet, runs on a mechanism that involves very less transaction fees and is almost instantaneous.
- **Cost Effective:** Intermediaries such as banks, credit card and payment gateways draw almost 3% from the total global economic output of over \$100 trillion, as fees for their services.

Integrating blockchain into these sectors could result in hundreds of billions of dollars in savings.

- **Cryptocurrencies in India:** In 2018, The RBI issued a circular preventing all banks from dealing in cryptocurrencies. This circular was declared unconstitutional by the Supreme Court in May 2020.

- Recently, the government has announced to introduce a bill; **Cryptocurrency and Regulation of Official Digital Currency Bill, 2021**, to create a sovereign digital currency and simultaneously ban all private cryptocurrencies.
- In India, the funds that have gone into the Indian blockchain start-ups account for less than 0.2% of the amount raised by the sector globally.

The current approach towards cryptocurrencies makes it near-impossible for blockchain entrepreneurs and investors to acquire much economic benefit.

## Issues Associated with Banning Decentralised Cryptocurrencies

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- **Blanket Ban:** The intended ban is the essence of the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021. It seeks to prohibit all private cryptocurrencies in India.
  - However, categorising the cryptocurrencies as public (government-backed) or private (owned by an individual) is inaccurate as the cryptocurrencies are **decentralised but not private**.
  - Decentralised cryptocurrencies such as bitcoin aren't or rather, can't be controlled by any entity, private or public.
- **Brain-Drain:** Ban of cryptocurrencies is most likely to **result in an exodus of both talent and business from India**, similar to what happened after the RBI's 2018 ban.
  - Back then, blockchain experts moved to countries where crypto was regulated, such as Switzerland, Singapore, Estonia and the US.
  - With a blanket ban, blockchain innovation, which has uses in governance, data economy and energy, will come to a halt in India.
- **Deprivation of Transformative Technology:** A ban will deprive India, its entrepreneurs and citizens of a transformative technology that is being rapidly adopted across the world, including by some of the largest enterprises such as Tesla and MasterCard.

- **An Unproductive Effort:** Banning as opposed to regulating will only create a parallel economy, encouraging illegitimate use, defeating the very purpose of the ban.  
A ban is infeasible as any person can purchase cryptocurrency over the internet.
- **Contradictory Policies:** Banning cryptocurrency is inconsistent with the Draft National Strategy on Blockchain, 2021 of the Ministry of Electronics and IT (MeitY), which hailed blockchain technology as transparent, secure and efficient technology that puts a layer of trust over the internet.

## Way Forward

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- **Regulation is the Solution:** Regulation is needed to prevent serious problems, to ensure that cryptocurrencies are not misused, and to protect unsuspecting investors from excessive market volatility and possible scams.  
The regulation needs to be clear, transparent, coherent and animated by a vision of what it seeks to achieve.
- **Clarity on Crypto-currency definition:** A legal and regulatory framework must first define crypto-currencies as securities or other financial instruments under the relevant national laws and identify the regulatory authority in charge.
- **Strong KYC Norms:** Instead of a complete prohibition on cryptocurrencies, the government shall rather regulate the trading of cryptocurrencies by including stringent KYC norms, reporting and taxability.
- **Ensuring Transparency:** Record keeping, inspections, independent audits, investor grievance redressal and dispute resolution may also be considered to address concerns around transparency, information availability and consumer protection.
- **Igniting the Entrepreneurial Wave:** Cryptocurrencies and Blockchain technology can reignite the entrepreneurial wave in India's startup ecosystem and create job opportunities across different levels, from blockchain developers to designers, project managers, business analysts, promoters and marketers.

## Conclusion

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- India is currently on the cusp of the next phase of digital revolution and has the potential to channel its human capital, expertise and resources into this revolution, and emerge as one of the winners of this wave.  
All that is needed to do is to get the policymaking right.
- Blockchain and crypto assets will be an integral part of the Fourth Industrial Revolution, Indians shouldn't be made to simply bypass it.

### ***Drishiti Mains Question***

“It is time for India to shift from the mainstream payment systems and become one of the most active participants of the upcoming digital revolution. Cryptocurrencies play a significant role in fulfilling this notion”. Discuss the positive and negative aspects associated with the same.

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