Growth of Cryptocurrency market in India with special reference to Bitcoins trading and its impact on Economy

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ABSTRACT: With the advancement of communication technologies and knowledge technologies, many activities are changing in our daily lives. The tremendous growth in the number of internet users has led to a new business plan, a digital code to improve the business concept, of marketing, buying and selling. Cryptocurrency represents important and potentially transformative objects electronically in a wide range of networks and applications such as online social networking sites, social media platforms, global platforms and peer networks. In recent years, the use of digital money in various forms like Bitcoin has become very widespread. This paper studies about the prospect of cryptocurrency. It also investigates the confidence of users in the trading of cryptocurrency specially Bitcoin. Also, the paper examines the regulations related to use of the crypto currency in India. In addition, this paper aims to measure the prevalence of the use of cryptocurrencies to obtain a vibrant picture. This paper analysis how different countries have responded to cryptocurrency rules and laws to have a clear impact of India's regulatory laws.

Key terms—Bitcoin, Cryptocurrency, market capitalization, Trading, Regulations

INTRODUCTION:
Yes, the era of information and communication technology has created many opportunities. Another area of application of this technology is internet integration, finance and business. Many Internet users are making real plans and creating new businesses. Thus, new types of transactions, currencies emerge. One of the most important forms of financing in recent years is cryptocurrency. Cryptocurrency (CC) can be defined as the source of exchange, as well as real money, which can be used in many financial transactions, whether virtual or real. Digital currency is cost-effective and can be used electronically or in a variety of applications.

In an attempt to answer the main question of this study, the article focuses on many aspects of cryptocurrency, such as ‘how cryptography is another financial platform?’ ‘Are there enough virtual currency platforms to use?’

The paper also investigates cryptocurrency platforms and systems to identify current problems, concerns and challenges. It analyzed the relationship between countries’ law and the practice of CC to highlight the resilient influence of cryptocurrency concepts on real-world issues, such as real financial systems, corporate sectors, law enforcement and terror financing. The study focuses on different countries affected by cryptocurrency dealing and participating. These parties are government and traders. The decision prompted regulators and legislators to enact laws to regulate virtual market.

THE CRYPTOCURRENCY MARKET:
According to investopedia, there are more than 6,500 Cryptocurrencies as on September, 2021. Some of them like BTC have maximum share and they enjoy enormous popularity, many have little or no trading. Also, total market capitalization of cryptocurrency till today is $2 trillion according to Coinmarketcap.

GLOBAL CHARTS
TOTAL CRYPTOCURRENCY MARKET CAPITALIZATION
The Global Background: Total market capitalization of cryptocurrency has increased tremendously from $12,234,399,744 USD on Sept 20, 2016 to $2,098,856,722,750 USD on Sept. 20, 2021. Total market capitalization was highest on May 10, 2021 valued as $2,427,358,218,310 USD.
GLOBAL CHARTS

TOTAL MARKET CAPITALIZATION (EXCLUDING BITCOINS)

The Global Background: Total market capitalization of cryptocurrency (excluding BTC) has increased immensely from $2,534,279,936 USD on Sept 20, 2016 to $1,225,689,125,841 USD on Sept. 20, 2021. Total market capitalization was highest on May 13, 2021 valued as $1,376,502,481,471 USD.

MAJOR CRYPTO ASSETS BY PERCENTAGE OF TOTAL MARKET CAPITALIZATION (BITCOIN DOMINANCE CHART)

The table below shows the top 10 cryptocurrency size related to the market capitalization of all assets. Since BTC was the first asset, it is the largest in terms of market capitalization, so market advantage was most of it.
Table 1- Major Crypto Assets By percentage of Total Market Capitalization

<table>
<thead>
<tr>
<th>Crypto assets</th>
<th>% share as on Sept. 20,2016</th>
<th>% share as on Sept. 20,2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bitcoin</td>
<td>78.88%</td>
<td>40.89%</td>
</tr>
<tr>
<td>Ethereum</td>
<td>9.18%</td>
<td>18.87%</td>
</tr>
<tr>
<td>Tether</td>
<td>0.06%</td>
<td>3.22%</td>
</tr>
<tr>
<td>Cardano</td>
<td>0.00%</td>
<td>3.90%</td>
</tr>
<tr>
<td>Binance Coin</td>
<td>0.00%</td>
<td>3.31%</td>
</tr>
<tr>
<td>XRP</td>
<td>2.31%</td>
<td>2.47%</td>
</tr>
<tr>
<td>Solana</td>
<td>0.00%</td>
<td>2.40%</td>
</tr>
<tr>
<td>USD Coin</td>
<td>0.00%</td>
<td>1.38%</td>
</tr>
<tr>
<td>Polkadot</td>
<td>0.00%</td>
<td>1.69%</td>
</tr>
<tr>
<td>Dogecoin</td>
<td>0.20%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Others</td>
<td>9.39%</td>
<td>20.32%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source CoinMarketCap

CRYPTOCURRENCY MARKET IN INDIA:

India has seen economic recovery in recent years. More than 40% of the country's population has access to the Internet. It is a country full of history and traditions, and is also doing well in terms of advanced technology.

Cryptocurrencies have been operating in the country for several years. This paper examines the state of the cryptocurrency market in India. In 2012 the country was already watching a small portion of bitcoin trading. At that time, Bitcoin was in the early days of development. Bitcoin since 2013, began to gain popularity among many countries. In the same year, several companies offered Bitcoin trading like Unocoin, Coin secure and Btcxindia. Over time, WazirX, Coinswitch Kuber, Zebpay, CoinDCX.

With the rise of cryptocurrency exchanges and trading platforms, the crypto market in India has grown from moderate levels in 2013 to date. In addition to these online exchanges, there are many over-the-counter (OTC) cryptocurrencies in the country which add to the several Bitcoin ATMs in major cities of India.

The general price level of CC in India is very high. The market rate is 5%-10% higher than the global average. This means that Indians are only participating marginally as compared to international cryptocurrency exchange platforms.
Lack of mining knowledge and the government's stringent restrictions on international cash flow also makes trading for Indians difficult. The Reserve Bank of India has consistently warned citizens of the risks in dealing in Cryptocurrencies. Although the government did not prohibited cryptocurrency trading yet they did not fully accept them. There is no special exchange for CC trading as Derivatives, Shares, Commodities etc. have.

**Regulations on Cryptocurrency in various countries:**

**India (Unregulated):** CC market in India is neither regulated by the Government nor recognized by the RBI as legal tender. There is no law regarding allowing or prohibition of CC trading. As we deal in commodity like Gold without any governing rules, the CC market is likely to be same. But also there is no such organized market for trading and mitigation of risk of CC as there is for Gold. Can we purchase anything in India from Bitcoin? Yes, a company named Unocoin has accepted Bitcoin payment using Unocoin wallet. But it is on very small scale as BTC is not accepted as legal tender by RBI.

**United States (Friendly):** The U.S. has been welcoming the new innovated and block chain currency to protect its investors from loss and to mitigate the risk. In 2018, the U.S. state Arizona passed a bill that would allow the U.S. citizens to pay income tax with BTC and other state listed CC. Also Internal Revenue Service considers CC as property and levy tax according to that.

**Canada (Friendly):** Cryptocurrencies in Canada are not legalized, but can be used to buy goods online or from reputable stores. Canada has taken a very active stance on digital, virtual currency. It was the first country to support AML-related cryptocurrency service regulations, specifically to protect the public. In 2017, British Columbia Securities Commission recognized the first CC as investment account. The Canada Revenue Agency is taxing cryptocurrencies since 2013. There are also CC exchanges in Canada and are registered with Financial Transactions and Reports Analysis Centre of Canada (FinTRAC).

**China (Prohibited):** China is known as the infamous miner in the world. In 2017, China banned cryptocurrency trading on Chinese exchanges, reduced ICOs financing, resulting in reduced market demand, and eventually fell in cryptocurrency markets.

The Public Bank of China (PBC) is spreading the news that China is now restricting access to both domestic and international crypto exchanges and ICO websites. The People's Republic of China is the strictest cryptocurrency regulator in the great powers in terms of cryptocurrencies. The news from the People’s Bank of China that China could restrict access to any domestic and foreign cryptocurrency exchange. It is ambiguous whether there will be more sanctions on cryptocurrencies in China, but it could have additional negative effects on the market. The People’s Bank of China is the stringent regulator of the cryptocurrencies.

**Japan (Friendly):** Currently, Japan accounts for 36% or more of BTC trading volume, more than any other country. The U.S.A. is in second place, for 31%. BTC trading in Japan is supported by a regulated system that supports the industry in ways to increase consumer confidence and build knowledge about cryptocurrency trading. There are 36 CC exchange in Japan. In January 2018, hackers stole around 58 Billion Yen worth of NEM (New Economy Movement) cryptocurrency from Tokyo-based exchange Coincheck. Then Coincheck was in the process of getting registered with FSA (Japan’s Financial Services Agency). Coincheck announced that it would refund $430 million of loss funds. Japan’s CC exchanges are now mandated to register themselves with FSA before any public dealing.

**Singapore (Friendly):** Singapore is also hospital towards CC like other countries. In 2017, Monetary Authority of Singapore (MAS) published a notice on rules and regulation of cryptocurrency. The notice stated that MAS don’t directly regulate CC but would check on the fraudulent activities like money laundering and financial terrorism. Means it would only be subject to anti-fraud and anti-financial terrorism laws. In November, MAS announced that it would join hands with a block chain technology company named R3 to create a project for linking inter-bank payments with block chain technology.
CHALLENGES AND ISSUES:
Cryptocurrencies are not free from financial problems and encryption problems.
A number of studies on cryptocurrency platforms have also explored a number of cryptocurrency trading forums to explore the problems and challenges related to this technology. The main issue and challenges are as follows:

Security threats: Nasty users and hackers can do anything with digital money if they get into the system and they know how to steal digital money. For example: Many users get BTC by playing games on online websites. To purchase BTC, they registered themselves with their site and link their Bank accounts. It can lead to a simpler way of fraudulent activities.

May lead to inflation: Unlimited supply of BTC and other cryptocurrencies may lead to increase in aggregate supply of money. It is possible for some providers to issue more and more currencies to gain profit and that will not lead to real revenues. It also contributes to the collapse of economic cycle as the value of currencies are not related to real goods or services.

Impact on real monetary systems: Some virtual currencies are connected with real money systems. Higher trading in virtual currency will lead to decrease in demand of real money. If virtual currency is used as exchanged money, it may lead to less trading in real money and that will collapse monetary system.

Gold farming: The term “golden farming” is very popular in China and developing countries. Players who play social games for virtual currency sell for real money. The target customers are players who do not have enough time to play and compete with the owners of the virtual currency. Of course, large flows of money could come from these games and have no control. If real money is exchanged in an unpredictable environment, it will risk fraud and money laundering.

Fluctuation in virtual currency value: Chow and Guo’s research found that as the popularity of the digital currency declines, the value of a currency declines. For example, a consumer with 1,000 digital currencies can buy 100 items. If the provider stock is reduced, consumers can only buy 10 items with 1,000 units, because the amnesty would include fewer products and services, especially in closed communities.

Money laundering: Money Laundering is another risk that can arise from the use of cryptocurrency capital, especially on platforms where clients can exchange digital money for real money. In 2008, police arrested a group of 14 people in a notorious case in Korea that involved embezzling $ 38 million in counterfeit money. The group transferred $ 38 million from Korea to a Chinese paper company from gold mining sites as payment for the sale.

Unknown identity risks: Because many virtual financial platforms, such as social networks, do not have proper account creation, it is not possible to effectively evaluate business transactions. Players and users can create multiple accounts with anonymous identities and use them for illegal transactions. It is not possible to determine the source of creation or redemption of virtual currencies. This leads to the inability to track transactions due to suspicion of money laundering. In addition, anonymity allows criminals to pay for their crimes with virtual money.

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