WHAT DOES THE FUTURE HOLD FOR BITCOIN IN EMERGING MARKETS?
WHAT DOES THE FUTURE HOLD FOR BITCOIN IN EMERGING MARKETS?

News about the evolution of Bitcoin has gone viral around the world. Financial analysts, journalists and experts have covered the news that the USD/Bitcoin exchange rate has hit an all-time high, even exceeding the price of gold on international markets. Given the ongoing craze for Bitcoin, private-sector entrepreneurs have quickly understood that now is the time to capitalise on this rising trend and have started to accept this digital currency in exchange for their goods and services. Even countries like the UAE are acknowledging the promising future of the ‘new digital world’, ensuring that the underlying technology that supports Bitcoin is included in their national strategic plans.

There's plenty of hype about the digital currency’s potential in modern society, but in this article we will try to separate speculation from reality. What does the future hold for digital currency in emerging markets? Can Bitcoin build and facilitate a low-cost remittance system for those seeking to transfer money on a daily basis? Can Bitcoin make banking accessible for people who do not have a bank account by using an online wallet and providing a larger range of financial services?

Policymakers and experts often stress that in order to ensure sustainable and inclusive growth in emerging markets, which are characterised by inefficient institutions, corrupt government and fraudulent financial schemes, the “unbanked” need to be empowered and decentralised institutions need to be built. In any case, could cryptocurrency be a solution to these problems? Bitcoin – the most dominant cryptocurrency – is a decentralised electronic cash system that uses peer-to-peer networking to generate and operate currency, similar to with torrents and cryptographically created digital signatures. The basic idea hidden behind layers of complicated maths and tech is simple: digital currency, created and stored electronically in the Internet using open-source software. Bitcoin is a maths-based currency that means that the rules that govern Bitcoin’s system are controlled by cryptography and not by central banks and financial institutions. However, Bitcoin is not just a currency; it is a re-thinking of international finance, trade, insourcing and outsourcing, cross-border transactions, offshoring, international payments and, most importantly, trust in governing institutions. This currency can flourish without being dependent on authorities, banks and any other intermediaries, and is therefore increasingly interesting for the approximately 4 billion people who are excluded from the traditional banking system.

Up to now, Bitcoin has served as a quick and low-cost solution for trans-border transfers of capital, especially in countries where the government strictly controls outflows of foreign currencies. However, in order to tap its potential, there is still a need for a liquid market and infrastructure in which thousands of transactions take place in the form of real and digital currencies. Emerging markets that are dependent on remittances tend not to have strong market institutions and intermediaries even for their own local currency, never mind an entirely new digital currency. In the past, banks have used mobile services such as m-PESA to arrange transactions, offshoring, international payments and, most importantly, trust in governing institutions. This currency can flourish without being dependent on authorities, banks and any other intermediaries, and is therefore increasingly interesting for the approximately 4 billion people who are excluded from the traditional banking system.

Another very important benefit for emerging countries is derived from one of Bitcoin’s core concepts—Blockchain.
Blockchain is a digital ledger in which any transactions in any cryptocurrency (not just Bitcoin) are chronologically and publicly recorded. Countries with rapidly growing populations and dynamic economic growth are increasingly considering the use of Blockchain – the shared, transparent, tamper-resistant and fast record-keeping technology – to solve the problem of institutional inefficiency. There are endless ways in which Blockchain technology has been implemented: in Haiti, it was used to rebuild a nation where property ownership information was lost after a catastrophic earthquake in 2010; in Georgia, it was used to move land registry records from state institutions to Blockchain ledgers; and in many vulnerable countries it is being used to better track the flow of humanitarian aid and finance. Blockchain technology is a powerful tool that is already shaping the global future, and the largest influential companies and fastest-growing economies have begun to integrate the concept of a distributed ledger into government. For example, Dubai and IBM are introducing a Blockchain platform to enable a paperless digital layer for all city transactions.

So, overall, which emerging markets could benefit the most from tapping into Bitcoin and Blockchains? According to a study by the Cambridge Centre for Alternative Finance, Sub-Saharan Africa, Latin America and the former-Soviet countries are the most likely to seize on the benefits of cryptocurrencies. In 2015, remittances sent to developing countries made up 75% of the $581.6 billion total global remittances, and the average cost of these transactions is 12% in Sub-Saharan Africa, a cost that hits the poor the hardest. Bitcoin may significantly reduce these costs and increase the rate of transactions. However, critics claim that Bitcoin is a disruptive technology that must be carried by the

Although many may not have been aware of the switchover from copper wires to the Internet, we all benefit from this digital revolution. However, the global adoption of Bitcoin and Blockchain technology will require the participation of as many people and institutions as possible in order to make it more efficient and widely accepted. Open-source systems can win out in the long run, and Bitcoin and Blockchain may prove their resilience. Indeed, this new system has been operating under stable conditions for years now, and this reliability is a key factor for developing economies.

For now, all we can say is that Bitcoin's journey looks set to be long and interesting...
CENTIL’S CENTRAL ASIA RESEARCH GROUP (CARG) provides consultancy and analytical support on a broad array of issues, including market and sector-specific analyses, impact assessment and policy design, capacity building, and business consulting for entities operating in or considering entry into the Central Asian region and Iran. Our consultancy and recommendations are grounded not only in international and regional best practices, but also in our expertise in data modeling and analysis.

Our network of consultants includes professionals with rich and diverse backgrounds, from private sector companies, international organisations, government institutions and the academic sphere. Importantly, all members of our team have either lived or currently live in the Central Asian region. They therefore bring unique and relevant perspectives and experiences to analysing and understanding the complex relationships and processes that underpin publicly available data and observations.

AUTHORS

Bekhzod Omanbayev, Central Asia Research Group, Centil Law Firm