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Emergence and Future of Bitcoin in Indian Economy

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ABSTRACT

In recent years, India has seen a meteoric rise in the field of digital payment. With the advent of technology, e-commerce behemoths are emerging, suggesting a huge increase in the adoption of digital currencies in the form of bitcoins. Bitcoin may be a game changer.

The digital code is hidden in "data blocks," which can be mined by solving those data blocks. It enables transactions to be carried out in the non-centralized banking field. It was Satoshi Nakomoto who formed the company in 2009. This has resulted in a large amount of science being lost. But that is just a drop in the ocean; there is still a lot to discover. The current literature necessitates additional research in this field.

During this method, the researcher reviews the available literature and establishes a structure for future study. Researcher's effort is of summarizing the complexities of using bitcoins as well as its prospects.

Keywords: *Crypto Currency, Bitcoin, Virtual Currency*

I. INTRODUCTION

In Bitcoins[2] may be a digital currency created in 2009 by Satoshi Nakomoto[3] (A pseudonym whose identity remains unknown). Since then, it is emerged as a replacement of paper money in various domains, some thinkers believe it to be a viable solution as a medium of exchange. the first use case for bitcoin is Satoshi Nakamoto's white book in 2009 on the proposed "Peer to Peer" cash system during which transactions are often avoided an intermediary unlike the currency notes which are controlled by central authorities. For an easy user, it is often considered as cash on internet or an e-wallet. it is also referred to as crypto currency since it reckons with cryptography for generating electronic

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[2]Crypto Currency: digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority. (by oxford)

[3] Inventor of Bitcoin : **Satoshi Nakamoto** is the name used by the presumed pseudonymous person or persons who developed bitcoin, authored the bitcoin white paper, and created and deployed bitcoin's original reference implementation. As part of the implementation, Nakamoto also devised the first blockchain database. In the process, Nakamoto was the first to solve the double-spending problem for digital currency using a peer-to-peer network. Nakamoto was active in the development of bitcoin up until December 2010. Many people have claimed, or have been claimed, to be Nakamoto.

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currency and validating online transactions. However, it does not completely satisfy the "double coincidence of wants" (the situation where the supplier of excellent A wants good B and therefore the supplier of excellent B wants good A). As most are not well versed with technology even in today's era an individual cannot exchange bitcoins with a farmer to get goods, but bitcoins gained huge popularity in e-commerce industry because of its versatility and ease of exchange, and no one wonder if in future it completely replaces the present money exchange system.

II. WORKING PROCESS

There are two methods for receiving Bitcoin.

Mining-Bitcoins are hidden in different data blocks that can be mined using several complex algorithms referred to as mining. To mine bitcoins, a variety of software is available on the market. If those secret blocks are found, incentives are given; one block is worth 25BTC, and a device can hold up to 21 million.

Exchange - If a person is unfamiliar with bitcoin mining, he can directly exchange bitcoins with someone who already has them. Now, you can either give them money or offer them a service in return.

III. ADVANTAGES OVER FIAT MONEY[4]:

• **No Regulatory Authority**- The first and most important benefit of bitcoin over the money exchange system is that there is no regulating authority to control the transaction because it operates on a peer-to-peer basis and does not require any centralised banks because it is not distributed by any bank.

• **Durability:** It is more durable than paper money since it is processed electronically and cannot be lost.

• **Fungibility[5]:** Fungibility is the easy exchange of one good for another. Before the advent of cash, people 57 wanted to exchange goods with one another (barter System)[6], but those goods could not be separated into smaller units. There may also be a situation where a seller does not need a good that a buyer has or it is greater in quantity, for example: a person needs a smartphone in exchange for a pair of shoes. Money as a medium of exchange has helped to solve this problem to some degree, but it does not function when smaller units are needed, such as

[4]Fiat money: Fiat money is government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it. The value of fiat money is derived from the relationship between supply and demand and the stability of the issuing government, rather than the worth of a commodity backing it as is the case for commodity money.

[5] Fungibility: Fungibility implies that two things are identical in specification, where individual units can be mutually substituted. For example, specific grades of commodities, such as No. 2 yellow corn, are fungible because it does not matter where the corn was grown; all corn designated as No. 2 yellow corn is worth the same amount. Commodities, common shares, options, and dollar bills are all examples of fungible goods.

[6] Barter System: A barter system is an old method of exchange. Th is system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return. Today, bartering has made a comeback using techniques that are more sophisticated to aid in trading, for instance, the Internet. In ancient times, this system involved people in the same area, however today bartering is global. The value of bartering items can be negotiated with the other party. Bartering does not involve money which is one of the advantages. You can buy items by exchanging an item you have but no longer want or need. Generally, trading in this manner is done through Online auctions and swap markets.

paisas, since their circulation has been halted. As compared to currency, bitcoins are fungible since they are often divided into smaller units such as micro bitcoin (μBTC) or milli bitcoin (mBTC), making exchange simpler.

• **Difficult to counterfeit:** Unlike money, bitcoins are difficult to counterfeit since they are held in a password-protected chain of crypto currency mathematical algorithms that cannot be accessed easily unless and until there is no hacking.

IV. CONSTRAINTS

• **Low adoption rate:** In developing countries such as India, only 18 people out of 100 have access to the internet. The rate of BTC acceptance lags that of money. A customer who wants to sell bitcoins to a nearby store would be turned down. An IT specialist, on the other hand, can accept bitcoins.

• **National Security Issue:** Terrorists, drug lords, and tax evaders may use it because of its anonymity and lack of transaction control. However, through examining the transaction history and origin of bitcoins, various software can verify whether they are "good" (earned through legal activities) or "evil" (earned through illegal activities). However, once anyone starts validating it, BTCs will lose their fungibility because most users will refuse to use BTC that was acquired illegally. Consequently, those coins will lose their value.

• **No Enforcement Authority if Stolen:** If a consumer has a bank account and his money is stolen, the bank will take care of it, but no one will refund the value of his stolen bitcoins because of anonymity.

• **Selfish Mining:** Selfish mining is a well-known assault in which a selfish miner may obtain a disproportionate share of the reward by deviating from the honest conduct under some conditions.[7]

V. JUDICIAL PROCEEDINGS

***Reserve Bank of India* v. *Internet and Mobile Association of India*[8]** - The Supreme Court of India, in a landmark judgement dated March 4, 2020, overturned a Reserve Bank of India (RBI) Circular that effectively prohibited virtual currency (VC) trading in India. The Court's decision was based on the fact that the limitations imposed by the Circular were disproportionate to the RBI's concerns and therefore unsustainable.

The Case's History-

Virtual currencies (VCs), also known as crypto currencies and crypto assets, raise questions about consumer security, market integrity, and money laundering, according to a press release issued by the RBI on April 5, 2018. Banks were asked not to work with crypto-related businesses due to the risks involved. “Such services include

[7]According to Cornell University USA professor Ittay Eyal, selfish mining is described as follows: “You know that blocks are created one after the other. When a miner produces a block, it is presumed that it will be published to the network, and then everyone will work to create a block that will match this initial block. Selfish mining is when an intruder holds a block to themselves and mines on top of it without exposing it to the rest of the network. [The greedy miner] just shows this hidden chain — the local secret chain — when he wants to increase his profits. It seems that by doing so, a miner will potentially increase its income and gain a reasonable share of the mining power, and this is often the essence of the attack.”

[8] 2020 SCC Online 275

maintaining accounts, registering, exchanging, settling, clearing, lending against virtual tokens, accepting them as collateral, opening accounts of exchanges dealing with them, and transferring / receiving money in accounts relating to the purchase/ selling of VCs," according to the notice. The RBI had previously warned consumers, holders, and traders of virtual currencies, including Bitcoins, about the possible financial, legal, and security risks associated with them in December 2013. The matter was challenged in the Supreme Court by the Internet and Mobile Association of India and a few other stakeholders, and the appeal was granted on the grounds of proportionality.

Characteristics-

• The petitioner claimed that the Reserve Bank of India lacked authority to prohibit cryptocurrency transactions, and that the blanket ban[9] was based on the mistaken presumption that cryptocurrencies could not be controlled.

• It was also claimed that cryptocurrencies were not simply speaking "money," but rather a means of trade or a store of value.

• The RBI, represented by a Senior Advocate[10], disagreed, arguing that it was a form of digital payment that the RBI might regulate.

• Cryptocurrencies are a form of stateless digital currency that trades using encryption techniques. These currencies function independently of a central bank, such as the Reserve Bank of India (RBI), making them resistant to manipulation

VI. INTERFERENCE BY THE GOVERNMENT

Decision-making-

While striking down the RBI's notice, the Supreme Court bench noted that:

• The RBI[11] has comprehensive powers, not only under the legislative scheme, but also because of the RBI's unique position and place in the country's economy, and these powers can be used for both preventive and curative purposes.

• The RBI's ability to take pre-emptive action must be proportional, which means RBI must display at least some semblance[12] of any harm incurred by its controlled agencies, which it does not.

• The RBI's primary concern is, and should be, the companies it oversees. Until now, the RBI has not reported that any of the entities it regulates, such as nationalised banks, scheduled commercial banks, cooperative banks, and NBFCs, have suffered any loss or adverse effect as a result of the VC exchanges' interface with any of them.

• In the case of State of Maharashtra v. Indian Hotel and Restaurants Association, the Supreme Court previously held that there must have been

[9] Blanket Ban A ban that applies to or affects all or the majority of a given class of people or things.

[10] Adv.Sham Divan was the senior counsel for RBI.

[11] RBI :The **Reserve Bank of India** (**RBI**) is India's central bank and regulatory body under the jurisdiction of Ministry of Finance , Government of India. It is responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development. Its top official is designated as **Governor** who is a civil servant of the IAS or IES cadre.

[12] A situation or condition that is similar to what is wanted or expected but is not exactly as hoped for.

at least some empirical evidence about the level of harm experienced by controlled entities (after establishing that they were harmed). The fact that some of the RBI's controlled entities have suffered as a result of the provision of banking services to online platforms operating VC exchanges is not proper under the law.

• We cannot hold that the impugned measure is proportionate when the RBI has repeatedly indicated that VCs are not banned and the Government of India has been unable to decide despite multiple committees submitting proposals, including two draught bills advocating exact opposite positions.

Virtual Currencies' Legal Consequences- Virtual Currencies have several legal implications, which are mentioned here:

• **Decentralized existence**- Unlike government-issued currencies (banknotes, coins, etc.) that are strictly under the control of the issuing authority and derive their value from the issuing authority's pledge and stored gold, cryptocurrencies are decentralised in nature, rendering government regulation difficult.

• **Lack of a well-defined legal framework-** Most countries lack a well-defined legal framework to control the value and movement of virtual currencies both inside and outside the country, contributing to the challenge of regulating a decentralised currency.

• **Virtual Currency Volatility-** As demonstrated by recent shifts in the value of the most well-known cryptocurrency bitcoin, which started with a base value of $0.30 in 2010 and has since risen to nearly $4000, virtual currencies follow a volatile track of ups and downs that contribute to financial and economic uncertainty.

• **Independent Wallets[13]-** Due to the lack of any binding foreign legislation, private companies create and maintain wallets that carry cryptocurrencies and participate in transactions. These companies have little influence over any entity. As a result, they are not responsible for the customer's loss or any sort of financial crime committed by or through the use of these wallets.

• **Taxation-** One of the big cryptocurrencies problems is taxation. Because of their pseudo-anonymity, they can easily be used to conceal property for tax evasion purposes if used properly. In the United States, for example, cryptocurrency is often listed as a taxable asset. Bringing large quantities of foreign currency into a country can destabilise the economy and trigger tax issues, but it also causes stock market volatility. The ability to take and store cryptocurrencies online makes it easier to get them through border checkpoints and cash them out once inside the country, effectively avoiding border taxes. An individual may use cryptocurrencies features such as anonymity and lack of or obsolete or poorly implemented cryptocurrencies systems due to loopholes in some countries' legal and tax schemes.

[13] Independent Wallets :A cryptocurrency wallet is an app that allows cryptocurrency users to store and retrieve their digital assets. As with conventional currency, you do not need a wallet to spend your cash, but it certainly helps to keep it all in one place. When a user acquires cryptocurrency, such as bitcoins, she/he can store it in a cryptocurrency wallet and from there use it to make transactions.

• **Money Laundering**[14]**-** When considering Bitcoin, money laundering is normally considered when creating a country's legal structure. However, many countries have struggled with money laundering concerns as a result of cryptocurrencies since their inception. Money laundering is a major legal complication with such currencies due to their ease of travel between countries with little or no supervision. Although organisations can track virtual currency purchased via banks, it is more difficult to do so when buying or selling coins with cash or other difficult-to-trace methods. Other protections given in connection with cryptocurrency trading include:

• **Payment Details Spoofing and Phishing**[15]**-** Phishing attacks affect cryptocurrency users in the same way they affect normal e-money users because they can be redirected to a bogus website that allows them to enter their crypto-wallet user IDs and passwords. Although transaction spoofing happens when a user tries to copy the wallet address for a transaction, the address is replaced by malware and the user is unaware of the changes because not everybody is diligent in double-checking a long address copied by them.

• **User Address Mistake-** When the recipient's address is entered wrongly, there is a chance of cash loss. In the case of Ethereum, for example, if any of the receiver address's last digits are entered wrongly, the money will either vanish or be moved to the exact address, but the expected value multiplied by 256 will be transacted.

• **Loss of a Wallet File**- One of the most important problems with cryptocurrencies is the loss or theft of local wallet documents as a consequence of hard disc crashes or other interruptions. To store local passwords, a paper wallet or a hardware wallet backup is typically recommended.

• **Risky ICOs-** Investing in cryptocurrencies can be accomplished through an Initial Coin Offering (ICO) utilising virtual currencies. In most cases, an ICO is given to increase a lump sum of money by buying and selling cryptocurrency that requires an Internet connection. Another stumbling block to handling virtual currencies is the absence of a risk-free access mechanism to monitor the cryptocurrency market and track down and de-anonymize a payee.

Regulatory Authorities and Government Agencies' Precautionary Steps and Programs-

The legal status of virtual currencies varies greatly from country to country, and many of them are either undefined or undergoing changes. Although the usage of cryptocurrencies is not illegal in several countries, their status as money (or a commodity) varies, resulting in various legislative consequences. While some countries

[14]Money Laundering : Article 1 of EC Directive on Prevention of the use of the Financial System for the Purpose of Money Laundering, 1991 defines the term 'money laundering' as "the conversion of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime".

[15] Spoofing and Phishing: The phishing fraud essentially is a cybercrime, and it attracts many penal provisions of the Information Technology Act, 2000 as amended in 2008 adding some new provisions to deal with the phishing activity.

have specifically allowed their use and trade, others have restricted or outright forbidden it. Similarly, various government agencies, departments, and courts have different viewpoints on cryptocurrencies. For example, cryptocurrencies are unregulated in India, the United Kingdom, Brazil, and other countries because no legal structure has yet been developed, or because their usage has been deregulated and is free to use with no or slight legal restrictions. Although usage is legal in countries like France, Finland, and Germany, it is restricted for tax and other reasons, and is often classified as cash. In certain countries, the use of cryptocurrency is restricted but legal under some circumstances, such as in China, where individuals may be able to transact but companies and banks are not. It is illegal to buy or sell bitcoins in Iceland, but they can be mined. Bitcoin has been outright banned in countries such as Russia, Bangladesh, and Ecuador. CME Group Inc. in the United States recently launched a bitcoin futures exchange, and SEBI in India has formed a Financial and Regulatory Technology (CFRT) Committee to research, deliberate, and advise on cryptocurrency issues. Customers who trade bitcoin were also alerted by the Reserve Bank of India about the volatile value of cryptocurrencies. The following are some recommendations and cautions for cryptocurrency owners and investors.

• Always double-check a Web wallet's address and avoid pursuing questionable links to a Web bank or Web wallet.

• Before making a transaction, double-check the recipient's address, the amount entered, and the transaction fees and other costs.

• Recover expired account passwords and other personal information and keep them safe and protected.

• Investing in cryptography is risky. Investing in unforeseen conditions such as diverse investment, provider reliability, and a powerful attitude requires standard protocols to be followed.

• Using cryptocurrency wallets and paper wallets is suggested. Using good antivirus software to secure computers and smartphones that are used to access crypto-wallets and other cryptocurrency transactions.

VII. GOLD VS. BITCOINS:

Gold has dominated the safe-haven asset[16] market for hundreds of years, while bitcoin was introduced just over a decade ago and has only recently gained mainstream acceptance. We will compare these two-investment options side by side in the table below:

1. Legality, protection, and accountability-

The developed gold trading, weighing, and tracking system is flawless. It is incredibly difficult to steal it, pass it off as fake money, or otherwise taint it. Bitcoin is also difficult to tamper with, thanks to its secure, decentralised framework and complex algorithms, but the infrastructure required to ensure its protection

[16] Safe-haven assets: A safe-haven asset is a financial instrument that is expected to retain, or even gain value during periods of economic downturn. These assets are uncorrelated or negatively correlated with the economy, which means that they could appreciate in the event of a market crash.

has yet to be developed. The Mt. Gox fiasco is an outstanding illustration of why bitcoin traders should be careful. A famous exchange went offline as a result of this disruptive incident, and around $460 million worth of user bitcoins went missing. The legal ramifications of the Mt. Gox case are still being sorted out several years later. Since bitcoin is still difficult to monitor with any degree of efficiency, there are few legal repercussions for such conduct.

2. Unusualness-

Gold and bitcoin are both scarce commodities. The halving of Bitcoin's[17] mining reward means that by the year 2140, all 21 million Bitcoin will be in circulation. Although we know there are just 21 million bitcoins in existence, no one knows when all the world's gold will be mined. There is also hope that gold can be extracted from asteroids, and some companies are considering doing so in the future.

3. Initial Value-

Gold has long been used in a range of uses, ranging from high-end jewelry to advanced applications in dentistry, electronics, and other fields. Bitcoin, in addition to ushering in a fresh emphasis on blockchain technology, has enormous intrinsic value. Throughout the planet, billions of people lack access to banking infrastructure and conventional financial instruments such as credit. These people can transfer money around the world for almost no cost using bitcoin. Bitcoin's true potential as a form of banking for people who do not have access to conventional banks has yet to be realised.

4. Liquidity is a word that is used to describe how liquid anything is-

Gold and bitcoin both have very liquid markets where fiat money can be traded.

5. Chaos-

The volatility of bitcoin is a major concern for investors searching for a safe haven asset. For evidence, one just needs to look at bitcoin's price history over the last two years. About the beginning of 2018, bitcoin hit its all-time peak, with a price of about $20,000 per coin. A year later, the price of a bitcoin was floating around $4,000 per unit. It has since recouped some of those losses, but it is still nowhere near its all-time peak. Aside from overall uncertainty, bitcoin has shown itself to be vulnerable to market whims and news in the past. News from the cryptocurrency sphere could cause investors to make fast decisions, sending the price of bitcoin upward or downward quickly, particularly after the cryptocurrency boom swept many digital currencies into record-high prices at the end of 2017. For the reasons mentioned above, gold does not have this uncertainty, making it a potentially safer commodity.

Several alternative cryptocurrencies have arisen in recent years with the aim of offering greater stability than bitcoin. One of these so-called "stablecoins,"[18] for example, is Tether. Tether is

[17] Bitcoin halving: It is an event where the reward for mining new blocks is halved, meaning miners receive 50% fewer bitcoins for verifying transactions. Bitcoin halvings are scheduled to occur once every 210,000 blocks – roughly every four years – until the maximum supply of 21 million bitcoins has been generated by the network.

[18] Stablecoin: A stablecoin is a new class of

related to the US dollar in the same way that gold was linked to the US dollar prior to the 1970s. Investors finding a less volatile alternative to bitcoin should look for safe havens elsewhere in the digital currency room.

VIII. BITCOIN'S FUTURE IN INDIA

With the widespread adoption of internet technology, a virtual currency known as cryptocurrency was developed. Bitcoin is a well-known cryptocurrency. People began investing and trading in bitcoins all over the world as cryptocurrencies became more common, despite the fact that the market was unregulated. Money laundering, bribery, and even terrorist financing can all occur in an unregulated market. This popularly rising new sector often necessitates tax changes to account for the consumer's earnings. However, there was no protection in place in India, neither for customers nor for business owners. From India's viewpoint, the implementation of the Digital Rupee as a legal tender may be a point of contention, as the government may have a monopoly in this industry by banning other virtual currencies and introducing the Digital Rupee. While addressing this issue, the Supreme Court of India noted this aspect but avoided further discussion by stating that such a condition has not yet arisen because the enactment is still in the form of a bill.

Many other nations, including Japan, have allowed cryptocurrency in their respective jurisdictions. For example, although Canada does not accept virtual currency as legal tender, it does allow for exchange of these currencies within the country by amending the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. This not only allows virtual currency, but it also protects against money laundering by registering as a money service company. Many countries, on the other hand, are accepting and legalising this practise, and are successfully taxing traders under various laws[19]. For example, Israel taxes it as an asset, while the United Kingdom taxes it in several forms, including Corporation pay or Corporate Tax, and individuals pay capital gain tax.

This raises the question of why India cannot control these currencies in the same way as other countries do by amending taxation laws, such as the Foreign Exchange Management Act (FEMA), 2016, and appointing an authority to oversee the business, such as the Reserve Bank of India (RBI) or the Securities and Exchange Board of India (SEBI), as simply implementing a digital rupee does not guarantee that there would be no frauds. The future of cryptocurrencies is largely in the hands of politicians, who will determine whether to ban it. Apart from that, we must choose between the implementation of a digital rupee and the regularisation of the industry. This is important for investors and customers to see it as a viable alternative.

IX. CONCLUSION

As previously mentioned, virtual or digital curr-

cryptocurrencies that attempts to offer price stability and are backed by a reserve asset. Stablecoins have gained traction as they attempt to offer the best of both worlds—the instant processing and security or privacy of payments of cryptocurrencies, and the volatility-free stable valuations of fiat currencies.

[19]Regulation of cryptocurrency in Canada, library of congress

ency, such as Bitcoin, has both advantages and disadvantages. Despite being in its early stages of growth, it has laid the groundwork for seeking a substitute for the current currency on the internet. With the e-commerce industry booming and technological innovations revolutionising every sector, most people would welcome a shift in the way we handle money. When completely introduced, virtual currency would transfer currency control away from central banking institutions and toward the people. Despite having one of the world's largest economies, the Indian Rupee is still struggling to retain its value, which may lead to investments in digital currencies such as Bitcoin. The presence of the world's second most populous country would lead to further research in this field, enabling it to become a dominant force in the global economy.

The bulk of virtual currency[20] use in the world is currently unregulated and unregulated. Some countries have introduced it into their financial structures, although others have completely forbidden it. If the popularity of virtual currencies increases even further, it could be governed by an increasing number of countries, though few countries are considering outright bans. With the rising number of clients and the recent rise in the value of Bitcoin, one of the most common virtual currencies, there are more challenges to address, such as the need for a legal structure and regulatory authority, knowledge of wallet use, transaction processing, and the risks associated with virtual currency transactions. As a result, cryptocurrencies have a great deal of potential to become a global currency. Even in countries where the courts have banned its use, it is still a question of fully limiting its use without internet censorship. As a result, it is clear that integrating Virtual Currencies into legal systems and the existing financial system has tremendous growth potential and benefits. Indian banking and finance are ready to use blockchain technology and distributed ledgers to speed up transaction processing. In the coming years, there will almost certainly be further debate about the legitimacy and acceptance of cryptocurrencies. The main legal issues concerning cryptocurrencies were addressed in this article, and these are the most critical considerations that countries can make when enacting legislation on virtual currencies.

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[20]Virtual Currency: Virtual currency is a type of unregulated digital currency that is only available in electronic form. It is stored and transacted only through designated software, mobile or computer applications, or through dedicated digital wallets, and the transactions occur over the internet through secure, dedicated networks. Virtual currency is a subset of the digital currency group, which also includes cryptocurrencies, which exist within the blockchain network.