

Does the environment is prepared enough to support the investment in Cryptocurrency in Iraq

Ali Thamer Ali Al-Ibadi1

Department of Business
Administration
Private university Education in
Ministry of Higher Education and
Scientific Research / Iraq
a.alithalibadi@gmail.com

**Hayder Yahya Qasim Albo
Drejah2**

Department of Business
Administration
Minister Office in Ministry of
Higher Education and Scientific
Research / Iraq
haydaryahya999@gmail.com

**Hanan Nagem Alden Mahmood
AL-dulaimi3**

Department of Business Administration
Administrative and Financial in Ministry of
Higher Education and Scientific Research /
Iraq
hanannagem2007@gmail.com

Purpose; this paper tries to explain deeply the use of digital currencies & cryptocurrency as a concept and its characteristics, and the threats that limited its working for future as well. It explains its effects on financial, banking stability, and on SWIFT system and economy as well. It explains also the mutual attitudes of certain global financial institutes in general then the Iraqi attitudes toward its usages; meanwhile explains the effect of blockchain and its role in a peer-to-peer- network that influence the companies' knowledge and allow the transparency of data flow, and blockchain could also remove the intermediaries and eliminate such activities like fakes, illegitimate sources but on the other hand, it could threatened such companies like Google especially in it its technological applications.

Findings; the main findings are; there is a gap between handling the traditional currencies and those virtual ones; failure to meet the real objectives of money exchanging standards; the process is still unclear to most of population; and many global threats are restricted the use of those digital currencies and cryptocurrency, and the paper recommends to establish an international council that includes many experts in law, finance, banking systems with high qualified technology to draw certain standards to save the global banking and financing systems.

Research Limitations- Implications; due to the ambiguity of this concept either locally or globally, the situation is rather difficult because globally certain financial institutes concede the use of those cryptocurrencies and started to speared widely in a rapid way in which in such cases the total market shares of the world is around (1trillion and 400 billion US\$) and Bitcoin is the most regular and its market share is around (45%); while locally, the situation is completely different because Central

Bank of Iraq CBI refuse to trade with digital currencies due to great damage to the economy, and banking systems especially in money laundering, terrorism, tax evasion and other shortages; this policy is the same in such countries as well like Egypt, UAE, Jordan; while other countries refuse to trade with Bitcoin in specific like China, Island, Vietnam, Lebanon, KSA, and Morocco; and on the contrary others accept the trade with Bitcoins like in UK, Canada, Switzerland, Sweden and Austria.

Practical Implications; unless this concept is not clear enough to understand and deal with; in addition to the lack of studies of those digital currencies and cryptocurrency, so many questionnaires have to explain in a logical way to understand this concept, and this paper tries to raise certain questionnaires towards having the minimum level of knowledge of those digital currencies and cryptocurrency, for instance;

- What are the main definitions that literature mentioned?
- If these currencies are standardized enough to save the stability of both banking and financial sectors?
- And if so, do these currencies have unacceptable effects on the banking and financing traditional transactions?
- Who manage these digital currencies, and are they traded under the control of financing global limitations?
- What are the qualifications and/ or skills of those who trade with these digital currencies and cryptocurrency?
- What is the future of the currencies especially many countries globally still refused to trade with them?

Social Implications; Iraq is a special case; especially after reviewing many financial, banking studies, because population of Iraq are still afraid to deal with traditional transactions of banking systems, moreover; although many academic departments in many universities every year graduates hundreds of skills to Iraqi

market but the actual scene is completely different, and never the less, the lack of using technologies also has its effects on avoiding these novel currencies.

Originality- value; with the rapid dynamic changes, what the next is really interesting! For many centuries financing and banking systems are dealing with traditional currencies which known as (*tangible and actual*) ones, while lately decades and after (2008) the new (*intangible and virtual*) currencies appeared when a Japanese programmer (Satoshi Nakamoto) called for it; and to understand its secrets, the hidden positive and/ or negative effects are still unclear and could be valuable at the same time to decide the future investment opportunities.

Keywords; digital currency, cryptocurrency, blockchain, financial and banking systems, investment.

Paper type; research paper.

Introduction; according to the global technical revolution, many novel technologies especially those that related to fund internet trading transactions and it leads to the need of having digital currency as a result; but at the same time, these current technologies due to its *nature of haziness* has an obvious role in many aspects of life in general, either these effects are related to economy, society, environment, or even to legislations, political situation and so on.

In this context, digital currencies and cryptocurrency are one of the tools that produced by modern technologies, this currency is (*intangible and virtual*) not like traditional ones like (US \$ or Euro € or any other currencies) around the world, and it used for trading through internet which means there is no (real channel) between seller and buyer (Algül & Sarhil, 2019: 3). Using digital currencies could be as a complicated blockchain that still considered as *an immature technology* and for time being it could create a cloudy future, balancing the technical financial problems with its solutions are not easy and many efforts have to be taken toward gathering these ideas into a series of logical chains (Shata, 2022).

Digital currencies and cryptocurrency related to none- control situation because there is no role for any Central Banks and / or global central authority like Monetary

Fund due to the definition; (*digital currency can be described as the digital form of a country's fiat currency, whereas a cryptocurrency is also a digital currency, which is an alternative form of payment with unique encryption algorithms*) (Central Bank of India, 2022) and this means that those cryptocurrencies are digital assets on decentralized network and individuals or users acceptance depending on a kind of confident only (Abdelmassih, 2021: 3-6), client's behavior & expectations could direct his or her path towards acceptance or not (Babayev, 2020: 3-60).

Back ground; money dates to ancient times, and individuals always try to develop it to follow our needs, and lately with the rapid technological changes and in addition to certain political, pandemic changes around the world, the need becomes more serious to find other channels under the condition of using novel technologies for banking transactions throughout many solutions in modern financing technologies which known as "**Fintech**", and in this sense, a most known application appeared "**Blockchain**" which is known also after the innovation of "**Bitcoin**"; this innovated currency could be considered as a distinctive system due to its way of processing that depending of blockchain system to secure the data flow. Historically, the sounds for having digital currencies are not new, from 1990, there is a company called (DigiCash) tried hardly to adopt digital paying but in vain due to the lack of secure data; then another try was done by (PayPal) company to transfer money through internet (Central Bank of Jordan, 2020).

In this context, Bitcoin considered as the first steps of having cryptocurrency and it was created by Satoshi Nakamoto in 2009 and still there is no clear evidence if he is an actual character or virtual or even, they a group or individual; its concept depending on exchanging currency through (**A peer-to-peer Electronic Cash System P2P**) without intermediates such as banks or other financial institutes, meanwhile "cryptology" system as blockchain is used to rescue the networking data. In 2009 only limited edition was been innovated of this currency (Bitcoin), it was around (1/million psc) only, then in 2010, the transactions started through a council called (**Bitcointalk**) when someone bought a pizza and paid (10000/bitcoin unit)

which means (0,003\$/ 1 unit), then after one year by Jan, 2011 one unit of Bitcoin equal (0.03\$) and the market shares of (1 million US\$). On the same year another cryptocurrency called (**Altcoins**) started and it's a sub edition from Bitcoin, to create a kind of competing among users and its value researched around (30\$) in Bitcoin Stock market then decreased to around (5\$) only as mentioned in (Crypto compare, coin Marketa ap, and ECB calculations). In 2012, Bitcoin had been accepted as a currency through many official trading browsers like (WordPress) then (Microsoft) in which the last considered it as an official currency to trade with, then another new currency started to appear known as (**Ripple**). Another twist was happened in 2013 when first virtual currency offering **ICO** took place in sense of (**Crowd Funding**) but it was attacked by many opinions because there is no channel of control; then the statute is developed and differed than before when (1500 ATM for Bitcoin) were opened by the year 2017 around the world (Brauer & Eriksson, 2020). On the contrary, in 2015 first platform which known as (**Coinbase**) was established in US, and the year 2017 considered as "**a star**" because the value of Bitcoin reached around (20,000 \$) and the total market shares of cryptocurrency reached (100 billion \$) in 2018 but at the end of the same year it lost more than (50%) of its value, which means that still the situation is between tides! Next figure shows the change in Bitcoin prices till Jan,2019.

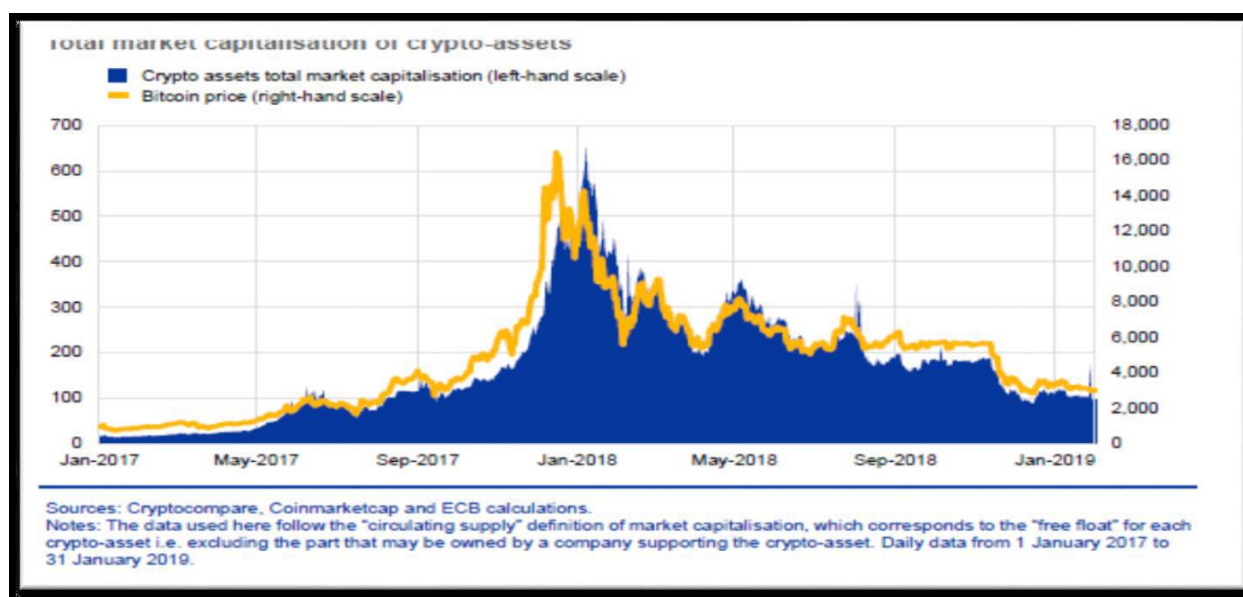


Figure (1) changes in Bitcoin prices & Market Capital for cryptocurrencies.

Many cryptocurrencies are known now a day in which these cryptocurrencies reached around (2000/ currency), but here, the paper will deal only with certain limited currencies that characterized as the most popular ones;

Bitcoin; cryptocurrency characterized as decentralized, not supported by most governments, illegal and cannot be exchanged with gold or any other goods, it depends on (P2P) system, limited edition with only (21 million/ piece) and then users & clients will only exchange them through complicated algorithms (Houben, 2018).

Litecoin; it appeared after Bitcoin directly in 2011, it is characterized as open source as /bitcoin, but it exceeded Bitcoin in its rapid spread due to the time processing because it needs less than one minute to finalize while with Bitcoin, needs around ten minutes to finalize; another difference is related to issuing this cryptocurrency, it will continue till (84 million/ piece) (Houben, 2018).

Ripple; it is a platform (system) used to finalize the payments among banks and financial institutes and it is known as **XRP**, the target of having this cryptocurrency is to as alternative process instead of using SWIFT system (Houben, 2018). This currency is differed than other, because it does not adopt by using Blockchain, it depends on other techniques which leads to unlimited issuing of it for instance, during its first publishing it was (100 billion/ piece) and other (55 billion/ piece) used as savings or (*Smart Contract*) which means that the technology here is rescued and it works as initially installed, it is impenetrable as well (Houben, 2018).

Ethereum; it issued in 2015, decentralized platform, using Blockchain technology to finalize its process, but in fact it is not a cryptocurrency, it is only platform used to turn on the *Smart Contract*; it differed than Bitcoin in its duration to finalize the process, it takes only (14-15 seconds) whereas Bitcoin as mentioned earlier takes (10 minutes); and Bitcoin is decreased across the time while Ether stays as it is (Virtual currencies and central bank's monetary policy, 2018). Figure (2) explains the main traded cryptocurrencies till Jan, 2019.

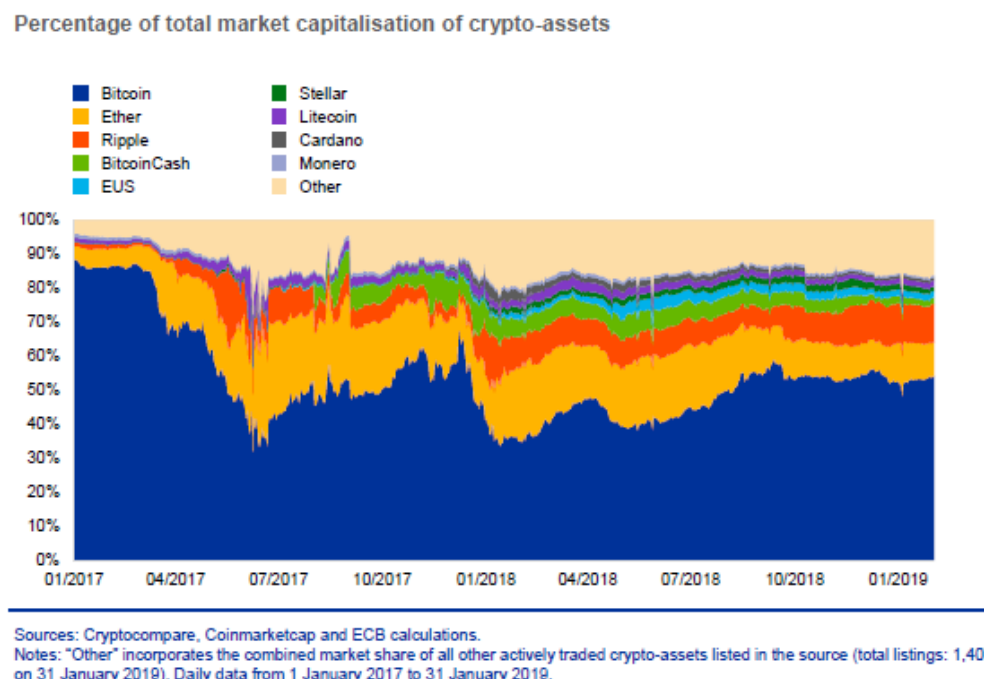


Figure (2) Market shares for most popular cryptocurrencies

Related literature Review; opinions as well studies differed about the adopting the cryptocurrency or not; some studies and official reports of some global financial institutes refer that there is a positivity in adopting these digital currencies especially in economic sector for both individuals and society as well. In this context; studies refer to some of these benefits and classified them into two main minors; for economy, using cryptocurrencies will decrease the cost of transferring money due to it digital process, but it would be changed by time! still nothing is guarantee with the future of those cryptocurrencies; the process of transferring money could be done in a short time, for instance; transferring Bitcoin overseas need around (10-60 minutes) through Blockchain technology and transferring is available any time (24 hours/ 7 days) which means it is easier and faster (Jain et al., 2021: 2-7).

And individually speaking, studies refer that cryptocurrency is rescue for their users and dealers because there is no need to use personal data and the range of data stolen is (*zero effect*), moreover another study goes further, it exams the influence of Blockchain on those big data and their security (Brauer & Eriksson, 2020: 4-63), meanwhile, official governmental institutes have no power on their process and there are no intermediate channels among users, exchanger, platforms, providers, inventors and offerors as well (Central Bank of Jordan, 2020).

On the other hand, there are many risks of adopting cryptocurrencies as studies mentioned, in which they could be threats at the same time, especially if the risks are related to novel technologies and the lack of some users to deal with those cryptocurrencies, and the risks could be doubled due to the dynamic rapid changes of these transactions (supply & demand) because the indicators of those currencies are unknown and cannot be expected as market runs (Jain et al., 2021: 2-5). Another risk is related to the fraud cases because there are no legal platforms of those cryptocurrencies and the worst scenario is happened when the users realize that they do not have a right to complain! (Hromov, 2022: 8).

While financial risks are not out of consideration especially after the development of “*payment systems*” that looks like traditional ones, studies also referred in details, for instance; in such cases there is credit risk due to the lack of withdrawal at once as user expected, or the lack of liquidity during the dealing process, moreover, in such hacking cases, users lost their saving accounts (Abdelmassih, 2021: 2023-2029).

Central Bank of Jordan in 2020 referred that there are many risks related to the nature of these currencies due to lack of legal frameworks to rescue users, dealers, providers, etc., like reputation risks, competition risks, prices balance, financial stability, funding policy, and economic risks, all these risks make the situation seems blurry especially when some of global economies accepted these cryptocurrencies while others are not, and this will lead also to a deep gap between the actual economy and the financial economy that those cryptocurrencies are exchanged through (Kharpal & Arjun, 2017).

Despite these contrasting between those supporters & opponents, but studies referred also that digital marketing volume increased over time to reach (29 trillion \$) in 2019, and the online shoppers now are (1.3 billion) person, which led to increase the cryptocurrencies as well to reach (5017 currency) in 2020 (Bohme et al., 2015; Shata, 2022); in addition to the rapid technological development that effects the economy in general and effects investors as well as consumers especially after many

positive steps that adopted by US and Canada (Aljohani, 2017), but still the future of those cryptocurrencies is dangerous because there is no control, legal framework or even official management are absent, and they are virtual intangible and overseas speared, so most of countries have to straggle the threats of them accordingly Arabian Fund Council in 2019 (Shata, 2022: 7).

The financing and funding policy in Iraq is rather different because it is controlled by the policies of Central Bank of Iraq CBI which in fact it affects Iraqi market and economy as well; CBI has another opinion towards adopting cryptocurrencies and issued a law numbered (39) for the year 2015 to avoid the use and exchange with these currencies, moreover, who uses it, money laundering violation applies to him and/ or her, but in fact this law some of economists opposed it as Ivan Shaker, who considered as an economic researcher in Iraqi economy especially in cryptocurrencies and its effect on Iraqi economy, he has another opinion and disagree with the procedures of CBI because the last did not submit another alternatives and added through many T.V. programs that millions of Iraqi are investing and exchanging with cryptocurrencies and their market shares are very high and meanwhile inviting CBI to issue Iraqi currency *not* cryptocurrency called (**digital dinar**) in order to get rid of bureaucracy and currency counterfeiting rather than certain punishment laws ; while others like Al Shakhly supported CBI procedures under the pretext of combating money laundering, moreover, these type of currencies need high developed technologies that completely depending on high level of rescue, and for time being still Iraqi financing system is not ready to adopt it and to ensure the success, those cryptocurrencies have to be joined with such finance assets like **Gold, Petrol or other strategic items** (aljazeera.net).

After many years, in 2022, CBI again announced its rejection towards digital financial transaction and exchanging cryptocurrencies, and the consultants of CBI treat this matter with high sensitivity and consider it as a (**pyramid digital companies**) and seems to be a *crime* and risky. On the other hand, another economist notified that these cryptocurrencies are exchanged in most of developed countries

such as United States, China through cryptocurrency projects depending on restricted developed system in addition to high technique infrastructure and high cyber security to forbid the hacking and stolen data while in Iraq the situation is completely different, additionally, another opinion referred that the cryptocurrency is considered as a (*monetary fed*) due to its nature that depends only on exchanging without any kind of transparency or authority of central banks, then it will be very difficult accordingly on economy and society as well (independentarabia.com).

Research methods; although talking about cryptocurrencies started from many years; but still, the scene is ambiguous due to the limited studies and researches, moreover, cryptocurrency concept as a knowledge considered as immature for most of Iraqi as represented here, descriptive inductive method is conducted here to explain the concept as a knowledge and its usages, benefits, advantages and disadvantages and the its impact on economy and society as well in Iraq. A comparative method is also adopted here to compare other global experiences and get the moral lessons from. Reviewing the supporters' and opponents' points of view of using these cryptocurrencies and their explaining towards the required infrastructure to invest in those currencies, and if such kind of investment could be a further step to support and develop the financial and banking economic situation.

Results & discussion; adopting cryptocurrency globally faced many structural threats due to the nature of these currencies, they characterized as *intangible, and virtual*, and the its user's identity is not known as well, which leads to create a fertile basement to support the trading of illegal goods, terrorism transactions, tax evasion, and other global legal limitations (Khalifi, 2021). In the same context, hacking transactions happened widely such as the encryption of users' data, and the most popular hacking transaction is what happened in Brazil with GBS company which considered as the largest one over the world of meat packing, it paid around (11 million \$) as ransom due to Bitcoin hacking transaction (Alarabiya.net).

Despite, many countries accept the trading with cryptocurrency but still accepting these transactions and currencies have to be supported with a legal and structural

environment and in such countries like Iraq, still financial institutes do not accept it and further CBI criminalize its users (Zaheen & Mohamed, 2020: 140-142). in addition to, the high level of expenses that costs especially for having certain high qualified computers to solve the complicated mathematical encryption transactions and the high costs of mining for those cryptocurrencies (Zahri & Al Said, 2021: 513-514). Meanwhile, trading with cryptocurrencies lead to the “*efflux*” of private capitals, and most of investors transfer their capitals out of their countries which caused the lack of liquidity for banks and other financial institutes (Suilahi, 2018; Shata, 2022: 50-55).

As mentioned earlier, cryptocurrencies like Bitcoin and others are suffered from the lack of liquidity due to the limited mining edition which caused the continued quick change of prices, then as a result the digital trading would be affected as well; in fact, this situation does not happen with traditional banking transactions even overseas due to the legal control of currency liquidity (Berg & Pietersma, 2015: 126-128).

As reviewed, the researcher concludes that there are many unlimited threats that still require many global efforts in legislation to provide a safety environment to issue and trade widely with cryptocurrencies, and despite technology is changed in a rapid way but still efforts related to technological process have to be done because what is available in developed countries is completely different to those developing ones! Moreover, the concept of cryptocurrency is not clear enough to most of population due to the “*intangible and virtual*” features that lead population to doubt those currencies and its transactions.

Conclusions, limitations & further research; to join the ideas of what is mentioned earlier as a practical questionnaire, the researcher concludes that trading with cryptocurrencies affect the global traditional financial transactions especially which is known as (SWIFT) and then other global financial communicated net such as PayPal, Alibaba and Amazon; and despite the last exceeded SWIFT in its quick transferring, security, transparency and not costly; but the new version of

cryptocurrency goes further, and global banks have to follow novel technologies parrel to “**Blockchain**” to regain it role in financial transaction.

Another factor, is that since the financial & political situations of any economy are stable and far from the changes of market; then the is no fears from capital efflux, or any changes in mining the traditional currencies; or even fraud because even the digital marketing could be easily finalized by transparent steps through legal financial digital transactions.

In brief, deciding either trading with cryptocurrency is absolute for future or not is still far, and still the current studies, researches, and even universal claims are not supported yet. Globally talking, the current environment is not enough well-structured to adopt; although, technologies and novel inventories capable of turning the environment around supporting such investment either for those current cryptocurrencies or other unknown ones, but which is rather safety and transparency as the researcher believes; is to call for having “**SMART CURRENCY**” that featured as a legal, controlled digital currency.

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