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# ECONOMIC SECURITY OF RUSSIA IN THE CRYPTOCURRENCY REALITY CONDITIONS: PROBLEMS AND SOLUTIONS

Khadzhiev Marat Ramzanovich (a)\*, Tsakaev Alkhozur Kharonovich (b)

\*Corresponding author

(a) Chechen State University, Sheripova St., 32, Grozny, 364024, Russia, marat99@gmail.com

(b) Chechen State Pedagogical University, Sheripova St., 32, Grozny, 364024, Russia, tsakaev@inbox.ru

### *Abstract*

The article highlights the economic security of the state in the context of the emergence and development of a new different form of money – cryptocurrencies to ensure the stability of the economic system, and manage possible risks, and develop a system that can withstand economic stress. Cryptocurrencies are already considered by many to be not just a means of payment and an object of investment, but also as one of the prerequisites for entering the cryptocurrency economy, and a means of exchange in this new digital economy, which in turn requires a more detailed development of methods and tools of economic security. The blockchain technology that underlies the functioning of cryptocurrencies has full functionality for illegal operations and this is the main negative factor that is not acceptable for society. Bans on the legislative level of cryptocurrency operations have negative consequences for the economic security of the state, as it will stimulate the use of cryptocurrencies in the shadow economy. The following steps are proposed that make it possible to introduce cryptocurrencies into the legal field of the state, in particular: regulating the activities of trading platforms with the introduction of a system for identifying the subjects of relations related to cryptocurrency transactions, creating international interagency interaction groups for the supervision and regulation of transactions related to cryptocurrencies, developing a unified strategy for the development of international cryptocurrency market. The adoption of these measures will eliminate the use of cryptocurrencies in illegal operations.

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**Keywords:** Blockchain, cryptocurrency, cryptoeconomics, shadow economy, economic security.



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## 1. Introduction

The twenty-first century brought the world many new and other innovative technologies, and these technologies not least touched one of the most important economic categories of money and money circulation, as a result of which new innovative or other forms of money arose, which led to the emergence of a new cryptocurrency reality. Cryptocurrencies overturn the usual idea of people about what kind of money is. In the classic view, fiat, federated money is issued by a bank (or banks – as in the USA, Great Britain) and / or another state financial institution (ministry of finance, treasury). Cryptocurrencies overturn this idea of money by its decentralization, not statehood, or rather the ability to exclude any kind of attachment to the institution of the state, and in this case it can be described as a supranational structure not controlled by state administrators, thereby affecting the economic security of the state.

Economic security is characterized as the ability of individuals, households or communities to meet their basic needs in a sustainable and dignified manner. This can be expressed depending on a person's needs for food, shelter, clothing, personal hygiene products, preservation and maintenance of health, and education, which depend on the need to earn the appropriate money to meet the needs.

Economic security is the stability of the economic system, providing the nation, community, region, with a basic standard of living, which involves risk management and developing a system that can withstand economic stress. And here we can see the relationship between the cryptocurrency economy and the economic security of the state, where funds not controlled by state structures can ultimately lead to the following negative consequences, namely (Ward, 1998):

- Reducing budget revenues of the state budget system;
- The possibility of using uncontrolled funds outside the legal economy;
- The increase in inflation;
- The decline in the economic activity of legal investors;
- The growth of corruption;
- Increased opportunities for violation of labor, civil law, environmental, criminal procedure legislation.

## 2. Problem Statement

The digital development of the national economy generates fundamentally new risks and threats to the country's economic security. This is compounded by the fact that in the digital economy there is an intensification of the contradiction between individual and public priorities in economic security due to the preservation of informal institutions, and how much they retain their extractive and inclusiveness is especially significant for modern Russia. The issues of development of digitalization and the digital economy are usually considered in two planes – from the perspective of digitalization and subsequent digitalization of the communication system between economic entities and from the perspective of the digital economy itself. This is due to the fact that the digitalization of classical processes entails the transformation of the transmission and retransmission channels of production, financial and other information rather, and the digital economy represents the economic activity of creating and selling

electronic goods and services within the framework of electronic business and electronic commerce – value-adding activities through the generation of digital economic goods. The most important element of transformation is financial technology-based solutions, which act as both drivers of economic security and sources of new threats and risks.

So, today blockchain technologies are not always used for the benefit of society, and as a result, it has its own “pitfalls” and is used to depersonalize when conducting cryptocurrency transactions, as well as to obtain speculative income (which is not a basic function of a financial instrument) from making cryptocurrency operations – in particular, on the effect of crypto quotes in Bitcoin, Ethereum, Ripple, etc. (Corbet, Lucey, Urquhart, & Yarovaya, 2019; Mohanta, Jena, Panda, & Sobhanayak, 2019).

Therefore, economic security issues are being updated in the conditions of cryptocurrency reality. Thus, the possibility of an uncontrolled cross-border transfer of funds and their subsequent cashing out serves as a prerequisite for a high risk of potential involvement of cryptocurrency in schemes aimed at the legalization (laundering) of incomes from crime and the financing of terrorism.

### **3. Research Questions**

Cryptocurrency today is already considered not just a means of payment and an object of investment, but a prerequisite for entering the cryptocurrency economy, and a means of exchange in this new digital economy. And this requires, on the one hand, a more detailed development of methods and tools of economic security. And on the other hand, a clearer alignment of the prioritization of the goals and values of the economic security of the country, organization and enterprise, as well as an individual. It is the economic security of the state in the conditions of cryptocurrency reality that gains increased importance due to the fact that the movement of real assets is accompanied by cryptocurrency operations, which may be accompanied by the infringement of the economic interests of a particular state. Cryptocurrency reality is a real threat to economic security and a global challenge for any state – large, medium and small. Thus, according to the WEF on global risks, such global threats as cybercrime and data theft are ranked third and fourth in terms of their importance. Thus, the anonymity of cryptocurrency transactions, thanks to blockchain technology, makes them an ideal tool for the sale of drugs and weapons, withdrawal and money laundering, which poses a threat to the country's economic security (Mamaeva, 2016). In addition, speculation with cryptocurrencies carries a risk for the global financial system, since all traded digital currencies are not backed up by anything, and their quotes are much more valued than official currencies. In addition, there are political contradictions due to the fact that, on the one hand, cryptocurrency is a clear form of wealth, and on the other, practically, no state can use (distribute, redistribute, expropriate, etc.) due to cryptography, and as a consequence of this, cannot protect investors in the event of price hikes or fraud on the part of cryptocurrency sellers.

In such a situation, the interaction of government, business and the public (through public organizations) in matters of digital security assumes a key role in strengthening the foundations of their joint activities.

#### **4. Purpose of the Study**

The main goal of the study is to analyze the influence of cryptocurrency on the economic security of the state, as well as to develop and justify theoretical and methodological mechanisms for regulating and controlling the circulation of cryptocurrencies.

#### **5. Research Methods**

The features of the cryptocurrency economy include, firstly, the development of the Internet economy – Facebook, Uber, Airbnb, for example, which, without physical assets, are digital platforms and are not inferior in their capitalization to many industrial giants. Secondly, the presence of "cloud" technologies that transform computing into a service, which allows companies from investments in the purchase of computing power and data storage. Thirdly, the network instead of the hierarchy becomes the main organizational structure of the company – hybrid forms of organization are more adapted to rapid changes in the market, and this affects their effectiveness. Fourth, the Internet is becoming the main tool for finding information. Fifth, the exchange of information is global. Sixth, self-organization is becoming the main management approach. There are new models of economic relations, collectively referred to as the shared economy – Alibaba, eBay, Amazon, etc. (Tsakaev & Khadzhiev, 2019).

#### **6. Findings**

Cryptocurrencies carry certain risks for the economic security of the country, and therefore require legislative regulation. Establishing a legislative ban on cryptocurrency transactions also has negative consequences for the country's economic security, as it will divert the cryptocurrency market to the shadow economy and will encourage the use of cryptocurrencies as a tool for servicing illegal business operations. There is a threat that the entire emerging new digital economy (cryptocurrency economy) will flourish in the country, but outside the zone of influence of the state, that is, completely detached from the official monetary system and government decisions (Mamaeva, Lazareva, Rybakova, & Kiryukhina, 2018).

Indeed, the absence of a controlling center in the cryptocurrency systems implies the impossibility of appealing or canceling an unauthorized transaction, and the fact that cryptocurrencies are outside the legal field does not allow implementing legal mechanisms to ensure the fulfillment of obligations by the parties to the transaction. So, if a payment has been made, but the service or goods have not been received, then there is no guarantee of the return of such a payment, in addition, cryptocurrencies, due to decentralization, do not have an entity ensuring their conditional solvency. In addition, according to experts, cryptocurrency is difficult to recognize as a monetary substitute and the rules on liability for fraud or other form of theft are not applicable here and it is not possible to bring individuals to criminal and administrative responsibility for participating in (organizing) trading in cryptocurrency in Russia (Maksurov, 2018).

The resolution of this situation is especially relevant for the economic security of Russia, and will depend on what approach is taken at the legislative level regarding the regulation of the cryptocurrency

market. The question on the agenda of Russia (and many other countries) is what to choose: to regulate it or to forbid it.

In Russia, in the first case, the threat of criminal sanctions will simply lead Russian investors from the Russian market to the markets of other countries. In the second case, we are talking about the recognition of cryptocurrency as an additional means of payment, and as a result, it will require amendments to the current Russian legislation (repeal of article 27 in the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia)”, change in part 1 of article 140 of the Civil Code of the Russian Federation, part 1 of article 75 of the Constitution of the Russian Federation, etc.).

But the decision to regulate cryptocurrency operations in a single country does not ensure its economic security. Since in the conditions of cryptocurrency reality, the economic security of the state depends on the level of synchronization of the efforts of all countries in regulating the rapidly developing cryptocurrency economy.

## **7. Conclusion**

The possibility of using technologies requires the adoption of adequate measures by state bodies in order to regulate and control the circulation of cryptocurrencies.

In modern conditions, against the background of the presence of legal, organizational and strategic shortcomings in lawmaking and law enforcement, one can state the almost complete absence of regulation of this phenomenon (Batoyev & Semenchuk, 2017).

One of the main problems of economic security of the state in the conditions of cryptocurrency reality remains: the problems of deanonymization of the identity of individuals using cryptocurrencies; decentralized format of functioning of cryptocurrencies; issues of interaction between law enforcement agencies of different countries on the use of cryptocurrencies in criminal activity. Therefore, the main task in leveling these problems is the scientific understanding and deep fundamental research of cryptocurrencies in order to develop adequate regulatory (supervisory) measures by the state.

Due to the inability to stop, partially or completely exclude the issuance of decentralized funds (cryptocurrencies), it is necessary to ensure legislative regulation of the circulation of cryptocurrencies, taking into account the negative and the introduction of positive best practices of other countries. In particular, both the experience of creating state cryptocurrencies and the approach of the intergovernmental body for financial events (FATF), of which Russia is a member, deserve attention. (Public consultation on FATF draft guidance on digital identity, 2019).

Regulation of the use of decentralized funds (cryptocurrencies) is possible in three projections. Firstly, the regulation of the activities of special trading platforms related to cryptocurrency transactions (exchanges, exchangers), aimed at identifying the degree of risk of activities, and based on the results, the proposal to prohibit cryptocurrency transactions, or the use of legal methods to counter the legalization and money laundering, in particular: the introduction of a licensing system for the activities of entities that provide services for converting cryptocurrency into fiat money; delegation of authority to the licensing subject to collect customer information (“KYC” policy – know your client); obligation to store customer information with the licensing subject. The application of client verification measures may

consist in identifying him by confirming identification data, for example, an identity document, TIN, SNILS, the use of an electronic digital signature, determining the IP address.

Secondly, the creation of international interdepartmental working groups for the interaction of state supervisory and regulatory bodies, necessary for the global regulation of the use of cryptocurrencies, in order to consolidate efforts to develop and implement an effective and balanced policy for regulating the activities of cryptocurrency operations, create a common regulatory framework, exchange experience mutual assistance, the establishment of procedures for the identification, seizure and confiscation of income received and used to commit a crime second, to conclude treaties on extradition of persons for crimes committed with the use cryptocurrency, and other economic security of the state in cryptocurrency reality.

Thirdly, within the framework of existing international organizations (UN, IMF, World Bank, Bank for International Settlements, etc.), to develop a unified strategy for the development of the international cryptocurrency market based on: international determination of the legal status of cryptocurrencies; definitions of key elements when checking financial flows; building an international database of information available to special units for checking financial flows.

The adoption of these measures is likely to exclude the use of cryptocurrencies for laundering and legalization of funds obtained by criminal means, and this ultimately will positively affect the economic security of the state.

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