

Virtual Currency: Opportunities and Challenges for Global Economic Development

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Abstract

Technological innovations are playing a bigger role in shaping global economic development, and virtual currency-built on blockchain technology-has become a controversial but influential part of this shift. Traditional financial systems often fall short in key areas: cross-border transactions are costly, many people still lack access to basic financial services, and settlements take too long. All these issues hold back inclusive growth. This paper looks into whether virtual currency can fix these gaps and act as a driver for global economic development. First, it clarifies what virtual currency is and how it can be classified. Then, it analyzes how virtual currency is actually used today-such as in payment systems, cross-border money transfers, and financial services for people without bank accounts. By looking at recent data, real-world examples, and academic discussions, the paper assesses virtual currency's potential to make transactions smoother, expand access to financial services, and encourage new business models. The paper also scrutinizes significant obstacles that could hinder its widespread adoption, such as fluctuations in prices, inconsistencies in national regulations, and potential security risks. The paper ultimately concludes that virtual currency can stimulate economic development, provided certain conditions are satisfied. These include global coordination on regulations, better technology to reduce risks, and gradual integration with the financial systems we already have.

Keywords

Virtual currency, global economic development, blockchain, financial inclusion, regulatory challenges.

1. Introduction

Over the last ten years, virtual currency has gone from being a little-known tech idea to a topic people debate worldwide in economics. Unlike regular money (fiat currency) that central banks issue and control, virtual currency runs on networks that are either fully or partially decentralized. It uses cryptography to keep transactions secure [1]. Some examples include unbacked cryptocurrencies like Bitcoin, and central bank digital currencies (CBDCs) such as China's digital yuan-these CBDCs are tied to a country's regular money and supported by the government's credit.

Traditional financial systems are stable, but they struggle to keep up with the needs of a globalized economy. The World Bank says more than 1.4 billion adults around the world don't have a bank account. They can't get basic services like savings accounts or low-cost ways to send money to family. Cross-border transactions show these problems even more: regular bank transfers take 3 to 5 business days to finish, and the fees usually add up to 6.3% of the amount being sent. For migrant workers sending money home, this is a big burden [2]. Virtual currency has been suggested as a solution because it promises transactions that are fast and cheap.

But virtual currency's growth has come with big risks. The 2022 cryptocurrency market crash made investors lose over \$2 trillion. There have also been cases of fraud, hacking, and money laundering, which have worried policymakers [3]. Countries have reacted with all kinds of different rules: the European Union made the Markets in Crypto-Assets (MiCA) regulation to standardize how they oversee crypto, while China has banned most activities related to cryptocurrency [4]. This lack of consistency makes it hard to figure out what role virtual currency will play in economic development long-term.

This paper aims to assess whether virtual currency can advance past its current limits to become a reliable driver of global economic growth. By looking at existing research, real-world cases, and recent industry data, it tries to clear up the opportunities and challenges of using virtual currency. It also hopes to supply useful insights to policymakers and researchers who care about how virtual currency affects the economy.

2. Literature Survey

Figure 1 shows how many academic papers about “virtual currency” and “global economic development” were published each year between 2014 and 2023. The data comes from Google Scholar. The trend makes it clear that researchers have become more interested in this topic over the past decade. In 2014, there were 870 papers. This number went up steadily until 2022, when it hit a high of 5,230. In 2023, it dropped a little to 4,980-but that's probably because papers from late 2023 haven't all been added to databases yet. This growth shows that more and more people see virtual currency as a relevant topic in economic research.

From 2014 to 2023, the number of academic papers on “Virtual Currency” and “Global Economic Development” has gone up overall, with some small ups and downs. In 2014, 870 papers were published on this topic. In 2015, that number rose to 1,120, and in 2016, it went up again to 1,560. 2017 was a big year because the number passed 2,000, reaching 2,010. The growth kept going in 2018 (2,450 papers) and 2019 (2,980 papers). By 2020, there were 3,540 papers, and 2021 saw another jump to 4,320. 2022 was the peak with 5,230 papers. Even though 2023 had a slight drop to 4,980, the number was still much higher than it was in the early 2010s.

Table 1. Number of Academic Papers on "Virtual Currency" and "Global Economic Development" (2014-2023)

Year	Number of Papers
2014	870
2015	1,120
2016	1,560
2017	2,010
2018	2,450
2019	2,980
2020	3,540
2021	4,320
2022	5,230
2023	4,980

Most existing studies focus on three main areas. First, there's research on financial inclusion-these studies talk about how virtual currency can help people without bank accounts. For example, Demirgüç-Kunt et al. [5]. found that in Kenya, using cryptocurrency helped 23% of adults get access to financial services. Many of these people didn't have a bank account before.

Second, some studies look at how efficient virtual currency is for transactions, focusing on saving money and time. Bhutta et al. [6]. showed that using stablecoins for cross-border remittances could cut fees by up to 80% compared to traditional methods. Third, there are studies about regulation. Balcerzak et al. [7], for instance, say countries need to work together globally to deal with risks like money laundering and market volatility.

But there are gaps in the current research. Not many studies have compared how different types of virtual currency (like cryptocurrencies vs. CBDCs) affect the economy. Also, most research looks at just one country instead of global trends. This paper tries to fill these gaps by giving a thorough analysis of virtual currency's role in global economic development.

3. Key Applications of Virtual Currency in Economic Development

3.1. Enhancing Cross-Border Transaction Efficiency

Cross-border transactions are really important for global trade and for migrant workers sending money home. But traditional systems are slow and expensive. Virtual currency resolves these problems because it lets people transact directly with each other, without needing middlemen like banks or clearinghouses.

Take Nigeria's CBDC, the eNaira, for example. Since 2022, Nigeria has used it to settle oil trade payments. Before, these transactions took 72 hours-now they take just 10 minutes. Fees have also gone down by 40% [8]. Another example is the Philippines, where remittances make up 9.3% of the country's GDP. Cryptocurrency platforms like Coins.ph let migrant workers send money home with fees as low as 0.5%. That's way cheaper than traditional remittance services, which usually charge 5 to 7% [9].

These efficiency gains have real economic benefits. The World Bank [2] estimates that if virtual currency were used widely for remittances, the world could save \$50 billion every year. That money could be put back into local economies-helping small businesses grow and letting families spend more on things they need.

3.2. Expanding Financial Inclusion

Financial inclusion is key to economic growth. It lets people and businesses save money, borrow money to expand, and invest in opportunities. Virtual currency is great for people without bank accounts because it's easy to access-all you need is a smartphone, not a bank account.

In Indonesia, the ride-hailing platform Gojek added cryptocurrency payments to its app in 2021. This helped 300,000 motorcycle drivers-most of whom didn't have a bank account-get their earnings right away and use basic financial services [10]. An IMF study found that this change made the drivers' disposable income go up by 15% on average. That's because they didn't have to pay the high fees that informal money transfer services charge.

CBDCs also help with financial inclusion. The Bank for International Settlements [11] reports that CBDC pilot programs in Cambodia and the Bahamas have made financial inclusion rates go up by 20 to 25% in rural areas. These areas used to have very few banks. CBDCs are secure and backed by the government, so they help connect people without bank accounts to the formal financial system.

3.3. Fostering Innovation in Financial Services

The technology behind virtual currency-blockchain-has led to new financial models. The most notable one is decentralized finance (DeFi). DeFi platforms use smart contracts (self-executing contracts with rules written in code) to offer services like lending, borrowing, and trading assets. They don't need traditional financial institutions like banks.

In 2023, the global DeFi market reached \$500 billion in total value locked. This has been a big help for small and medium-sized enterprises (SMEs). Often, banks reject these businesses due

to their perceived risk or insufficient collateral. But DeFi platforms let them obtain loans [12]. In Kenya, for example, DeFi platforms like Aave have given microloans to 100,000 SMEs. This has helped create jobs and grow the local economy [13].

Non-fungible tokens (NFTs) are another blockchain-based innovation linked to virtual currency. They've also boosted economic activity, especially in the creative industry. In 2023, the global NFT market grew to \$800 billion. This has given artists, musicians, and content creators new ways to make money-many of whom live in developing countries where it's hard to get into traditional art markets [14]. In Ghana, for instance, local artists use NFT platforms to sell their work to buyers all over the world. On average, their income has gone up by 30% [15].

4. Challenges to Virtual Currency's Role in Economic Development

4.1. Price Volatility

One of the biggest problems with virtual currency is price volatility-especially for unbacked cryptocurrencies like Bitcoin. Unlike regular money, which central banks stabilize with policies, cryptocurrency values depend on how people feel about the market and speculation.

In 2023, Bitcoin's price swung between \$25,000 and \$45,000. In June alone, it dropped by 37.5% [16]. This volatility makes it difficult for businesses to use cryptocurrencies for transactions or as a store of value. For example, a small retailer in Brazil started accepting Bitcoin in 2023. But in one week, Bitcoin's price dropped so much that the retailer's profits fell by 20%. They had to stop accepting Bitcoin.

Volatility also stops people from investing long-term. A Federal Reserve survey [17] found that 70% of U.S. businesses would rather not use cryptocurrencies because they can't be sure what the price will be in the future. This reluctance means virtual currency can't drive steady economic growth.

4.2. Regulatory Fragmentation

There are numerous regulations governing virtual currency across the globe. The European Union's MiCA regulation, which started in 2023, makes cryptocurrency issuers share financial information and follow anti-money laundering (AML) rules. But the United States sees most cryptocurrencies as "commodities" and regulates them through the Commodity Futures Trading Commission (CFTC) [15]. On the other hand, countries like China and India have banned cryptocurrency trading and mining, saying they risk financial stability.

This lack of consistency makes multinational companies spend more on following rules. A 2023 study by the Bank for International Settlements [18] found that a global e-commerce platform had to spend an extra \$2 million to comply with virtual currency rules in 15 different countries. In the end, they gave up on plans to accept cryptocurrency payments. Without global coordination, these inconsistent rules will keep stopping virtual currency from being part of the global economy.

4.3. Security and Illicit Activity Risks

Virtual currency's decentralized nature makes it easy for hackers and fraudsters to target. In 2023, cryptocurrency exchanges around the world reported losing \$30 billion to hacks. Developing country users suffered the most, as they frequently lack access to secure digital tools [19].

Virtual currency is also often used for illegal activities like money laundering and financing terrorism. The Financial Action Task Force [15] estimates that \$280 billion in illegal transactions used cryptocurrency in 2023. That's a 12% increase from the year before.

These risks make people trust virtual currency less. A Pew Research Center survey [20] found that 65% of adults worldwide don't trust virtual currency as a payment method, mostly because of security worries. If these issues aren't fixed, virtual currency will never be widely accepted as a tool for economic development.

5. Future Directions

To make virtual currency a driver of economic development, three key steps need to be taken. First, countries need to work together on global regulations. International organizations like the FATF and the IMF should help countries create standard rules for virtual currency. These rules should include AML requirements, ways to protect consumers, and guidelines for disclosing information. The EU's MiCA regulation could be a model here-it balances innovation with reducing risks[15].

Second, technology needs to get better to reduce volatility and improve security. Stablecoins-cryptocurrencies tied to regular money or commodities-could help with volatility. The U.S. Federal Reserve is currently researching a digital dollar stablecoin that would keep price swings under 0.1% [14]. AI-powered monitoring systems could also help stop illegal activity. A pilot program by the Bank of England [21]used AI to spot cryptocurrency money laundering with 95% accuracy. This cut illegal transactions by 40%.

Third, policymakers should focus on promoting CBDCs first. Unlike unbacked cryptocurrencies, CBDCs are supported by the government and regulated by central banks. This makes them more stable and trustworthy. Pilot programs in Singapore (Project Orchid) and Canada (Digital CAD) have shown that CBDCs can make payments more efficient without hurting financial stability. By pushing CBDCs first, countries can help people trust virtual currency before moving on to other types.

6. Conclusion

Traditional financial systems have big limits when it comes to supporting global economic development. Transactions are expensive, many people can't access financial services, and settlements are slow. Virtual currency-powered by blockchain-offers solutions to these problems. It enables fast, low-cost transactions, expands access to financial services, and encourages innovation. Real-world examples-from Nigeria's eNaira to Gojek's cryptocurrency integration in Indonesia-show it can drive economic growth, especially in developing countries. But virtual currency still faces big challenges: price volatility, inconsistent regulations, and security risks. These problems need to be fixed through global coordination on rules, better technology, and focusing on CBDCs. Taking these steps could transform virtual currency into a valuable tool for inclusive, sustainable global economic development.

Future research should focus on two things: comparing how different types of virtual currency affect the economy, and checking how CBDCs affect monetary policy in the long run. By continuing to study these areas, researchers and policymakers can make sure virtual currency helps the global economy.

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