

Crypto in the Global South

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Crypto in the Global South: Stability, Sovereignty, and Speculation

Context:

Gita Gopinath, the First Deputy Managing Director of the **International Monetary Fund (IMF)**, has raised concerns over the **accelerated adoption of cryptocurrencies**—especially stablecoins—in developing countries. Her remarks come amidst growing global political interest in crypto, including initiatives by the **Trump administration**.

What Are Stablecoins?

- **Stablecoins** are a type of cryptocurrency **pegged to stable assets** like fiat currencies (e.g., US Dollar) or commodities (e.g., gold).
 - Their value remains relatively **stable**, unlike highly volatile assets like Bitcoin.
 - Their stability makes them appealing for use in **transactions**, especially in developing economies with unstable currencies.
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Gita Gopinath's Concerns

- **Rapid crypto adoption**, especially of stablecoins, poses **risks to monetary sovereignty** in emerging markets.
- **Key risks include:**
 - **Currency substitution** - replacement of national currencies by stablecoins.
 - **Disintermediation of financial institutions** - bypassing banks and weakening

domestic financial systems.

Surge in Crypto Under Trump's Second Term

- President **Donald Trump**, who previously criticized crypto, has now embraced it as a strategic tool.
 - **Bitcoin** recently crossed **\$110,000**, and as of **June 6**, was trading at **\$104,512.82**, after bipartisan Senate support for the **GENIUS Act Bill**.
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GENIUS Act Bill - A Game-Changer

- Aims to regulate and expand the **stablecoin industry** in the U.S.
 - Key Provisions:
 - Mandatory compliance with **anti-money laundering** and **anti-terrorism** laws.
 - Stablecoins must be **100% backed** by fiat or highly liquid assets.
 - Issuers must maintain **separate reserve accounts**.
 - Industry analysts estimate the Act could grow the **stablecoin market** to **\$2 trillion** if passed.
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Developing Nations and Crypto Adoption

- **Pakistan** has signed a partnership with **World Liberty Financial Inc. (WLFI)**—a Trump-affiliated firm—via the **Pakistan Crypto Council**.
- Objectives include:
 - Promoting **blockchain technology**

- Facilitating **remittances** and **trade**
 - Using crypto for monetizing **national assets** like rare earth minerals
 - Positioning Pakistan as a **regional crypto hub**
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El Salvador's Experiment with Bitcoin

- In **2021**, El Salvador became the first country to adopt **Bitcoin as legal tender**.
 - However, its **real-world usage remains minimal**, showing limited success in driving daily economic transactions.
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Crypto Risks for Emerging Economies

- The IMF and global economists warn that:
 - **Cryptoisation**—a shift from domestic to digital currencies—threatens **financial stability**.
 - It can reduce trust in national currencies, especially in countries with **high inflation** and **weak banking systems**.
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UNCTAD's Findings on Cryptoisation

- A **UNCTAD study** highlights how macroeconomic instability and youth-driven digital adoption are increasing **crypto's role** in GDP.
 - Stablecoins, due to their **foreign asset backing**, may **undermine domestic currency demand**.
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Risk of Bank Run-Like Situations

- If the **asset backing** of a stablecoin is questioned:
 - Investors may rapidly withdraw funds, creating a **bank run-like crisis**.
 - This could result in **systemic shocks** for both crypto markets and national financial systems.
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Conclusion

The accelerated use of **stablecoins and cryptocurrencies in developing countries** has sparked growing international scrutiny. While they offer **innovation and financial inclusion**, the **risks of financial instability, currency substitution, and regulatory gaps** remain significant. Global institutions like the IMF are calling for **cautious and coordinated regulation** to safeguard monetary systems—especially in **vulnerable emerging economies**.



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