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Impact of Crypto Currency in South Korea

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ABSTRACT

Over the past four decades, South Korea has demonstrated vast economic growth and worldwide integration to become a high-tech industrialized economy. Seoul's reputation as the "leading digital city" and also the "tech capital of the world" contributes to the fact that South Korea is the most advanced in terms of technological reach. Such magnitude of technology oriented people has led to the high acceptance of the crypto currency trend. Cryptocurrencies allow fund transfers via public and private keys for security purposes. The trend is a major break-through in technology as it simplifies the payment processes by lowering the transaction costs. South Korea houses the world's largest cryptocurrency exchanges. The need of using such trading platforms comes from the South Korean's natural tendency of making 'easy money' and getting out of the conventional workspace. But this need is being highly opposed by the government that wants to control speculation and the highly volatile market. The ban on crypto currency is also furthered by the fact that this currency is highly prone to speculation and may lead to money laundering. The final decision about the 'crypto trend' thus rests on the pros to the national traders and cons for the government.

Keywords: Cryptocurrency, Bitcoin, South Korea.

1. INTRODUCTION

South Korea has been a hub for innovation and technology over the last forty years. With industries that they indulge in, including ship building, petrochemicals, and the electronics market, there's no doubt that Korea has made a name for its brands and products. With a population of around 52 million and most of them being aged, it is difficult to cope up with an economically active workforce. Korea might even face ignorance when it comes to investing in the country. But the rapid growth of urbanisation has nullified this problem to some extent. The country's GDP rate is at an annual rate of 2.8 % as of 2016. An expansive number of formerly expatriate South Koreans have come back essentially due to the nation's tremendously enhanced financial conditions and the troubles they encountered in adjusting to living abroad. As the current financial condition of Korea is looking at bolstering more businesses, the urge to invest in crypto currency markets is becoming a high sense of fashion for citizens and residents.

2. SOUTH KOREA'S ECONOMIC DEVELOPMENT

In the world of financial and global markets, South Korea started to emerge in the late 80's, when everything started taking shape in the markets. Korea was a poor country in the 1960's and it was never a favourite to survive and eventually was assumed to be taken over by North Korea. Within a time-frame of 50 years, they've rapidly grown from the agricultural driven economy to a global mega-force, which specializes in many industries like the electronics, steel industry, automobiles, and petrochemicals. Korea has been one among few Asian countries to be politically democratic to its citizens and residents and also expand the Korean Wave all over the world.

Scholars claim that the growth Korea now enjoys is miraculous, as countries and counterparts having similar factor conditions haven't grown economically. Western economies have argued that it is all about having the innovation and raw intelligence to make a firm huge. This has been shunned by the ABCD model that Korea has used. In fact, this can be used to analyse various countries' firms. The ABCD factors described are agility, benchmarking, convergence, and dedication – the main pillars that created Korea's competitive spirit.

Exports went from close to zero to more than 50 percent of GDP today, with China supplanting the United States as Korea's greatest market. Imports additionally developed about as quickly. The tax and regulatory system extraordinarily supported organizations that sent out and grew substantial businesses, for example, shipbuilding and car manufacturing. A considerable lot of these subsidies and duties have now been decreased, giving the nation a more adjusted and globally agreeable framework.

While monetary development every year found the mid value of more than 9 percent from 1963 to 1990, it has now backed off slightly. A year ago, it was just 2.8 percent (still over the United States and most other developed nations), yet by the sharp drop from prior decades. There is excessively unwanted and counterproductive control, including the absence of ease of creating new businesses, barriers to imports and inward foreign investment.

3. SPENDING IN SOUTH KOREA

Spending in South Korea can be looked at from the point of view of the Consumer and the Government. An average consumer in South Korea in the present time spends on luxury goods as the country has come to follow the developed economies consumption patterns. The brand name, health value (in case of nutritional complements) and the after sales services are of prime importance to all the customers. As per the government spending, South Korea plans to raise the annual spending to 429 trillion won (\$383.05) for the year 2018 to fuel economic growth in terms of the welfare budget, employment, and domestic consumption.

South Koreans are therefore quick to accept the virtual currency given their tech savvy nature and the need to break out of a conventional workspace. The nation is recorded to be one of the least cash dependent countries in the world. Only 20% of all payments in Korea constitute paper cash.

The cryptocurrency in the South Korean market is being accepted as a better way of life. About 15 per cent of the global bitcoin trading comes from South Korea. The Government, which is trying to control the large-scale gambling, does not share the same idea. In the current scenario, the government believes that it would encourage illicit behaviour in the volatile market.

4. SOUTH KOREA'S TAKE ON CRYPTO CURRENCY

With the ban on all crypto currency and ICO trading in China, many wondered how the South Asian market for crypto currency transactions would penetrate this bubble. With these restrictions, South Korea emerged as a saviour to announce itself as one of the sector's most influential market.

Due to the fast-paced life and tech savvy generation of Korea, the nation is noted for its population density. With the launch of many platforms to trade with crypto currency, it has increased the trader's volume by a significant amount of the population in the South East. It is also known as the home for some of the most advanced bits of technology. At this rate, the South Korean Won is the third most-traded currency for Bitcoin (BTC) and Ethereum (ETH) transactions, just behind the Dollar and the Yen. It records almost close to 100,000 trades every 24 hours. But the fun fact is that Korean crypto traders are natural gamblers; they're not interested in holding their coins but only speculate it to an extent to which they gain the maximum out of it. Hence the market has a set of impulsive traders who act upon short and quick returns. As the market produces new coins and many more alternatives, the quick growth of these coins is a sight of attraction for Korean crypto traders as they are highly reactive traders watching out for new news and rumours.

Korbit being acquired by gaming giant Nexon was the biggest and a first of its kind transaction, as it was the country's first Bitcoin exchange. This took place even with Korea's lives on three major exchanges that are Coinone, Bithumb and Korbit, which are collectively known as the "the Korean Pump". Coins like IOTA, Litecoin and Bitcoin Cash have grown in value over days and weeks of speculation, which led to increased trading volumes. Litecoin's valuation has increased four-fold with the help of Korean traders. As Korea continues to influence the crypto currency prices in the market, the West needs to focus on what the Korean traders are fond of so as to benefit alongside with them.

5. GOVERNMENT'S RESPONSE

On January 11, 2018, South Korean Justice Minister Park Sang - Ki declared that the government was indeed preparing a bill to ban trading via cryptocurrency exchanges. This had a direct effect on Coinone and Bithumb, the largest crypto currency exchanges in the country. The exchanges were raided by the tax agencies to check for alleged tax evasion. The Finance Ministry is still identifying ways to tax this market heavily, a market which has expanded to carry the daily trading volume as much as the nation's Kosdaq exchange. Bitcoin sank after the prices were removed from the South Korean exchanges by website CoinMarketCap. At this point, the virtual coins were being traded at 30 per cent premium. Both the exchanges were asked to reveal paperwork to settle concerns over the use of such assets leading to crime.

The country wishes to hold back speculative cryptocurrency trading as the recent trend is making the market explode. A special emphasis is being put on Initial Coin Offerings (ICO) – a highly contentious crowdfunding practice wherein money is raised for start-ups by trading newer virtual cryptocurrencies in return for Bitcoin and Ethereum, better established currencies.

South Korea has had a history of trying to protect its market. During the mid-2000s, A U.S private equity fund called Lone Star had to face serious legal problems followed with office raids by the South Korean government. This was because the company managed to make millions of dollars by controlling major stake in a South Korean bank.

The action being taken is to curb speculative investments in the country. It also reflects on the government's fear of South Korean money being drained onto foreign entities giving rise to fresh markets abroad. Also, the ban is the government's way to back out of being held accountable for being unable to control the highly inflated crypto market. The ban regulation may be inspired by the declaration of potential cryptocurrency ban in China where the government was getting sceptical over crypto crimes from Initial Coin Offerings. After this, the government plans to stop all kinds of activity that would lead to market price manipulation, money laundering, and tax evasion.

The regulation was further fuelled by the recent news of the Financial Supervisory Service director Choi Heung-sik finding out that one of his employees, a part of the pan-government crypto regulation task force was gaining profit by using internal information. The employee gained almost 50% in profit by selling off the virtual currency before the government's proposition of banning minors and non-resident foreigners from trading was announced.

The South Korean big banks which earned about 2.2 billion won (\$2 million) in cryptocurrency trade may resist government's plan of action. The major banks included Industrial Bank of Korea, Nonghyup Bank, and even the state-owned Korea Development Bank. The government ordered to investigate the insider controls to prevent money laundering and identity theft in these banks. The citizens are openly opposing the ban on cryptocurrency. They have signed a petition demanding the Presidential Blue House for a clarification on their stance and a timeline of how the procedure will be carried out. The petition has about 210,000 signees over a span of one week. The panicked response over the ban comes from the fact that the traders will experience a huge outflow of assets as the coins will have to be moved to accounts overseas.

6. NEW REGULATION

The crypto currency trading was allowed with anonymity previously but as per the new regulation in South Korea, everyone trading with Bitcoin will have to identify themselves. This regulation endangers the central idea that cryptocurrency was initially based on.

The concept gained popularity largely because it allowed fully anonymous transactions, it could even be used to trade in drugs or computer viruses online without the fear of being traced. This regulation is a major one in South Korea because its popularity led people to pay an extra mark-up to acquire crypto currency since the interest earned was so high. The local banks will now be required to launch a real – name system for crypto currency. This system will make all the anonymous transactions till date traceable. The system was established to trace the possibility of speculative trading and crimes. Once the system is in place, existing accounts used for trading up till now will be rendered useless. The new regulation will ensure that the investor's money that comes from a bank account matches the individual's identity. This might slow down the trading volume from Korean traders.

7. CONCLUSION

As the move to curb anonymous crypto traders in South Korea was imitated, it was rumoured that the Korean effect is the key to the dropping markets of crypto currency. What the public does not comprehend is the fact that they account for only 0.67% of the total population of 7.5 billion and their crypto market is much smaller than that, according to CIA World Fact book. Two reasons why the markets won't crash due to amendments made by the Korean government are:

1. Young investors and short term traders pull off their assets on these markets so that they don't lose out on a loss on higher prices.
2. Long term and professional investors are making their way out by making a profit through the chaos made and are waiting for the prices to surge up patiently.

South Korea alone can't prevent cryptocurrencies from proceeding to change the world. Decentralization is an important component that is appealing to numerous speculators, and one of the essential reasons why cryptocurrencies can't be totally ceased. The news from South Korea significantly affected the officially unstable costs of cryptocurrencies but is not a variable to consider the drop in rates. As the market continues to grow day by day, only time will be considered to reveal if the market will take a rebound or not.

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