ECOSOC

Economic and Social Council

Committee: United Nations Economic and Social Council (ECOSOC)
Topic: The Downfall of the Cryptocurrency Market
Written by: Sieun Kweon

Dear Delegates,

Welcome to SPISMUN del Paseo 2025! Your Committee is the United Nations Economic and Social Council (ECOSOC), one of the main organs of the UN system; your focus will be to provide innovative and sustainable solutions for the assigned topic. I am Sieun Kweon, director of this committee, and my fellow Chairs, Daniela Rosales as your Moderator, and Santiago Monsiváis as your Secretary.

We hope to see you having fun and enjoying our event. Good luck!

If you have any doubts, do not hesitate to contact us.
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Sincerely,
Sieun Kweon

I. Committee Background

The United Nations Economic and Social Council (ECOSOC) was officially created by the UN Charter in 1945 through Article 7 of the charter document. It is made up of 54 Member States elected by the General Assembly for three year terms each. The allocation of seats in the Council is based on distribution; fourteen go to African States eleven to Asian States six to Eastern European States thirteen to Western European States and ten, to Latin American States. The permanent members consist of the United States, the Federation, the United Kingdom, France and China.

The United Nations Economic and Social Council (ECOSOC) oversees the operations of fourteen UN agencies and ten functional commissions along with five regional commissions while also reviewing reports from nine UN funds and programs to provide policy suggestions to both the UN system and Member States. The Economic and Social Council plays a role in the United Nations efforts to promote sustainable development, across economic growth, social well being and environmental protection. It serves as a hub for encouraging discussions and creative ideas to emerge and come together on finding common ground towards shared objectives and organizing actions to reach globally accepted targets. ECOSOC is committed to promoting development by offering general direction and harmonizing activities.

These are the regional economic and social commissions, the functional commissions that facilitate intergovernmental discussions of major global issues, and the specialized agencies, programmes, and funds at work around the world to translate development commitments into real changes in people's lives. ECOSOC is a gateway for UN partnership and participation by the rest of the world. It offers a unique global meeting point for productive dialogues among policymakers, parliamentarians, academics, foundations, and businesses. Under the United Nations Charter, ECOSOC was established as the principal organ to coordinate economic, social, and related work of the fourteen UN specialized agencies, functional commissions, and five regional commissions. The Council also receives reports from eleven UN funds and programs. The Economic and Social Council is the central forum for discussing international economic and social issues and for formulating policy recommendations addressed to Member States and the United Nations system. It is responsible for:

• Promoting higher standards of living, economic and social progress.

• Finding solutions to international economic, social and health problems.

It facilitates international cultural and educational cooperation, encourages universal respect for human rights and fundamental freedoms. The ECOSOC committee has the power to make studies and reports on these issues and assist the organization of major international conferences in the economic and social and related fields and to facilitate a coordinated follow-up to these conferences.

In carrying out its mandate, ECOSOC continuously analyzes data with academics, business sector representatives and more than 3,200 registered non-governmental organizations. The session consists of the High-level Segment, Coordination Segment, Operational Activities Segment, Humanitarian Affairs Segment and the General Segment.

II. History of the Topic

The cryptocurrency market has decreased its value, with the total market capitalization down from $2.51 trillion as of May 2024 to $1.95 trillion as of August 6, 2024. So, by August 7, in the last 24 hours, the market volume is shrinking by 13.13%. Bitcoin, the largest cryptocurrency, currently changes hands at $55,013, 17.37% down over the past seven days and up 8.04% in the last 24 hours. Ethereum is changing hands at $2,447, down 26.53% in the last seven days.

Analyzing data bases, the crypto market crashed and lost close to $367 billion in market capitalization in 24 hours. As investors sold risky assets, the two largest cryptocurrencies-Bitcoin and Ethereum- experienced sharp declines. The crypto market is in a major phase of surrender, with Ethereum and Bitcoin showing sharp declines. Key market factors include political uncertainty, geopolitical tensions, economic data, and ETF performance. CoinSwitch Markets Desk said that after witnessing one of the biggest crashes in crypto of all time—BTC losing more than 250 billion dollars in market cap in a single day—the world's largest crypto found support at just below 50k USD and bounced back more than 14% to trade around the 56k USD mark. It was mainly caused by the escalation of the war between Israel and Iran in the Middle East and the record of the biggest single-day crash ever since 1987 by the Japanese stock market.

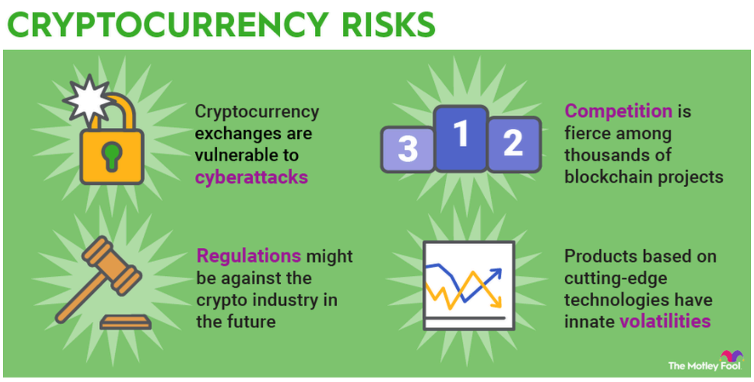
Since this rally can be attributed to the rate hike by the Bank of Japan, it remains to be seen whether this rally will last. According to Mr. Sathvik Vishwanath, Co-Founder & CEO of Unocoin, this is because it represents the steepest fall of the cryptocurrency market since November 2022, when the FTX exchange went down. In fact, it is no different from the decline witnessed across the global market. One key reason for the decline in Bitcoin has been the easing of yen-dollar trades.

Traders borrow in low-interest currencies, such as the yen, and invest in higher-yielding assets. He also added that recent interest rate increases by the Bank of Japan made such trades less profitable, and traders had to close the positions. This triggered heavy selling in both the equity and crypto markets. Over $1 billion of liquidation occurred in the crypto sphere, with the majority coming from long positions, further accelerating the downtrend momentum in the market. Interest rate hikes by the Bank of Japan, the first in 17 years, have strengthened the yen and triggered carry trade unwinding.

The rise in geopolitical tension and increasing fears of a possible recession in the U.S. have been adding to the sell-off in crypto markets. All these factors combined have brought a pretty tough environment for cryptocurrencies, which always remain so sensitive to any change in investor sentiment and macroeconomic conditions. Despite the short-term volatility, the fundamental value proposition of cryptocurrencies remains strong, and when the macroeconomic environment normalizes, a recovery and further sustainable growth in the crypto market is expected.

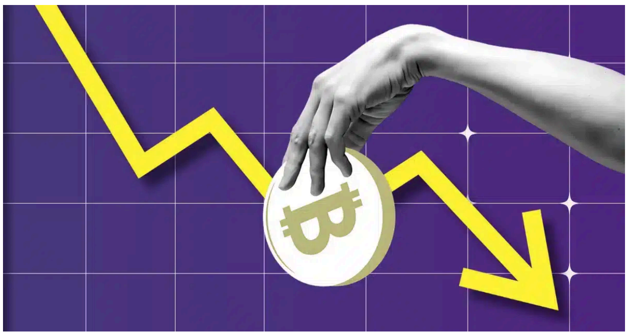
Cryptocurrency Risks and Facts:

The decline in cryptocurrency markets can also be linked to various challenges and weaknesses that have confronted the development of the market since time. Unlike more traditional modes of payment, such as credit or debit cards that offer legal protections, if something goes wrong in a cryptocurrency transaction, there is little to no recourse. Banks or credit card companies, for example, can help to dispute fraudulent charges or claw back money in the event of an error using more traditional methods. Cryptocurrency is designed as a decentralized network, meaning-put in simpler terms-that money paid usually cannot be returned; in case of an error or fraud, it may happen that the only possible recourse is for the seller to cooperate. More so, while cryptocurrencies are thought to be anonymous, due to the blockchain, a public ledger of all transactions are



traceable; wallet addresses and transaction amounts are recorded permanently. This partial anonymity has at times caused problems with regard to privacy, as further personal information, like shipping addresses, might be connected with blockchain records, which could allow for the easier identification of individuals in transactions. The other important factor that has brought down the cryptocurrency market is its volatility.

Unlike traditional currencies, which are government- or central bank-backed and hence relatively stable, cryptocurrencies are not supported by any central authority and derive their value completely from market demand. The result has been a lack of stability, with most of these cryptocurrencies fluctuating in a very short period, sometimes forcing the prices to drop drastically and occasioning huge financial losses to the investors. Further contributing to these risks is the lack of protection for any consumer using cryptocurrency. In contrast, whereas there is governmental institution insurance for bank accounts-an example being the FDIC in the United States-all cryptocurrency wallets carry no kind of insurance protection. This has left investors quite vulnerable to theft, fraud, or even loss in ways that are irretrievable. Most anyone knows one big reason for this: perceived "get-rich-quick" investment in cryptocurrencies has come hand-in-hand with wild speculation. Much like celebrity endorsements or any other viral trend, there just aren't any guarantees to return a profit in such high-flux markets.



In far too many cases, a market crash or dramatic valuation drop leaves investors holding practically worthless assets. All these factors contribute to the continuous fight for survival and instability in the cryptocurrency market: lack of legal protection, wild pricing, privacy concerns, and lack of consumer safeguards.

III. Current Issues

One of the biggest and most influential factors leading to the collapse of the cryptocurrency market in 2024 has been the heightened regulatory crackdown on the industry. It has built up over the last couple of years to the point that government agencies, especially those in the United States, are aggressively pursuing enforcement actions, creating uncertainty and eroding investor confidence.

For example, the SEC in the United States has been more aggressive in pursuit of major cryptocurrency exchanges and companies for violating existing securities laws, as evidenced by its actions against firms such as Binance and Coinbase, plus its case still pending against Ripple Labs. The SEC's position of classifying most digital assets as securities has cast a large pall of uncertainty over the entire market, in that it makes the legal treatment of cryptocurrencies very confusing, which touches on everything from trading to ICOs to how crypto businesses operate.

These enforcement actions not only have a chilling effect on investment but also make it harder for companies to operate in a compliant way. The fear of hefty fines, penalties, and even the shutdown of exchanges or other services has many companies revisiting their presence in the U.S. market by pulling back or halting operations altogether. This has resulted in a reduction in liquidity and fewer avenues for retail investors to buy or sell cryptocurrencies, further damaging market sentiment. Other countries are also upping the ante when it comes to regulation. For instance, the European Union has just introduced its MiCA regulation on Markets in Crypto-Assets, while India and Brazil are on their way to more comprehensive crypto regulation. Because of that, the general regulatory framework on cryptocurrencies becomes even more fragmented and ambiguous.

Regulatory pressure added to fears over over-regulation has triggered a broad-based rout in market performance; investors are now cautious, and the overall pace of broad-based adoption has slowed for cryptocurrency-related technologies. Large institutional investors themselves have been scaling back activities around this space as they consider growing legal risk and regulatory complications. This is generally viewed as one of the major catalysts in the larger market decline of 2024, adding to existing issues like volatility and loss of confidence.

IV. UN Action and Resolutions

The UN has made use of the cryptocurrency and blockchain, UN has supported this type of Economy over the past years. In 2019 UNICEF launched the UNICEF CryptoFound to provide transparency, efficiency and digital tracks to donors. It has been a pilot program.

Later, in 2022 UN is not in favor or against the cryptocurrency, but recommends avoiding this type of investments due to the lack of regulations.

The increased regulatory crackdown on the cryptocurrency industry in 2024 has been the main cause of the collapse in the market. Heavy enforcement from the SEC directed at key exchanges such as Binance and Coinbase, while cases like Ripple Labs have contributed to significant uncertainty concerning the legal status of cryptocurrencies. The general posture by the SEC against many digital assets as a security creates a gray legal area in which it remains hard to sort out just how cryptocurrencies are treated legally.

The fear of penalties, fines, and even the shutdown of exchanges has made many companies reconsider their operations in the U.S. market. The consequences are less liquidity, fewer avenues for retail investors to buy or sell cryptocurrencies, and overall weakened market sentiment. Investors, both retail and institutional, have pulled back due to growing uncertainty over regulatory frameworks.

Other countries also started ramping up regulatory efforts. The European Union's MiCA, combined with similar regulatory changes in India and Brazil, for instance, have shaped the current global, fragmented outlook regarding regulation. Others, such as China, have totally prohibited crypto trading. This only created more confusion and risk across widely varying regulatory regions.

The growing concern, however, is that over-regulation might kill the cryptocurrency industry. As much as regulation is necessary in protecting investors, too-stringent laws might drive out companies from key markets, make innovation unattractive, and weaken the very principles of decentralization that founded cryptocurrencies in the first place. There's a real fear that the whole industry's potential will get drastically cut if the governments go ahead with excessive oversight.

Institutional investors, previously seen as the main impetus behind the growth in the crypto market, have also pulled back. Many big players are reducing exposure to digital assets due to the legal risks and uncertainty in the regulatory environment, or are looking for more stable markets. The pullback has contributed to the lack of confidence in the sector and worsened the overall performance of the market.

Put together, all these factors have created a perfect storm for the cryptocurrency market in 2024. As the regulatory crackdown continues to worsen, investor confidence further deteriorates, liquidity is drained, and the overall pace of adoption slows. A combination of legal uncertainty, fragmented regulations, and institutional pullback has driven the broad-based market decline.

V. Essential Questions

1. What are the main global economic and political factors that have in recent times contributed to the downturn in the cryptocurrency market?
2. How do fluctuations around national monetary policies, such as the change in interest rates, affect the stability and performance of the cryptocurrency market?
3. What place do cryptocurrencies occupy within the international financial system, and how should their volatility be addressed by international economic policy?
4. What is the potential of global regulatory frameworks to reduce the risks involved with the fall of the cryptocurrency market and its impacts on investors and economies?
5. How can international cooperation promote a balancing approach to innovation and regulation in the cryptocurrency sector to prevent any future market crises?
6. Highlighting the economic impact, what countries' financial systems have seen most of the effects in terms of trading and investment aspects?

VI. Conclusion

The United Nations Economic and Social Council is the principal organ responsible for coordinating the work of one body of specialized agencies, functional commissions, and regional commissions within the UN; it gives policy recommendations to the Member States and the UN system. It is the primary forum for deliberating on issues of sustainable economic, social, and environmental development. ECOSOC's mandate also encompasses the facilitation of higher standards of living, economic progress, and international cooperation on issues such as education and human rights.

ECOSOC's activities at present closely engage more than 3,200 NGOs, academics, and business sector representatives. It has a segmented structure, composed of several segments: High-level Segment, Coordination Segment, Humanitarian Affairs Segment; it makes very important recommendations in preparing and following up international conferences on issues relevant to its mandates in the field of economics and social questions.

While cryptocurrencies offer exciting possibilities, they come with many risks for both payments and investments. Unlike traditional methods of payment, cryptocurrency transactions are irreversible and offer no legal protections. They can also be volatile investments with no guarantees of profits. Always do thorough research and be cautious when dealing with cryptocurrencies.

The cryptocurrency market has separately experienced a sharp decline in 2024, caused by geopolitical tensions, crashes in the global stock markets, and changes in economic policy, such as the hike in interest rates by the Bank of Japan. Bitcoin and Ethereum, the two largest cryptocurrencies, have fallen sharply. These fluctuations in the market have been further pushed by geopolitical conflict and the easing of yen-dollar trades, which influence crypto as investors retreat from risky assets. Despite these challenges, a number of experts still think the long-term value of all cryptocurrencies will recover once the macroeconomic environment stabilizes.

VII. Resources

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