



# The Geoeconomics Analysis of the Digital Currency Law in El Salvador

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**Abstract:** The exclusive reliance of El Salvador is on the utilization of US Dollars for its day-to-day financial transactions. The review conducted in this research adopts geoeconomics of analysis to delve into the policy implications of integrating digital currency in El Salvador. This nation being the pioneer in embracing digital-based currency as an official medium of exchange, operates as local currency at present. The methodology employed in this research involves a qualitative-descriptive approach coupled with the collection of secondary data. The findings of this study indicate that the utilization of digital currency presents a dual nature due to its volatile characteristics, encompassing numerous advantages as well as disadvantages. Owing to the resolute implementation right from the beginning, the initiative undertaken by El Salvador poses both advantages and risks with regard to the legalization policy concerning digital currency.

**Keywords:** Analysis; Digital currency; El Salvador; Geoeconomic; Legal Currency

## 1. Introduction

Technological advancements have led to an increase in the array of options available to individuals when engaging in purchase and sales activities. The practicality of traditional forms of currency, such as coins and paper money, must evolve to facilitate the emergence of digital currency. Digital currency serves as an alternative medium for both physical and electronic financial transactions (Jati & Zulfikar, 2021). The emergence of the digital currency subsequently led to the creation of a novel form of currency known as digital currency (Sihabudin et al., 2022). The initial digital currency, known as Bitcoin, was introduced in the beginning of 2009 by an individual named Satoshi Nakamoto (Sihombing et al., 2021). Bitcoin was originally designed with the objective of minimizing third-party charges associated with purchasing and selling transactions in order to lower prices (Makarov & Schoar, 2021). There exist numerous renowned and extensively digital currency, such as Bitcoin, Monero, Litecoin, Ripple, and Ethereum Ripple (Ramadhani, 2020).

The advent of Bitcoin has instilled optimism and various advantages for both society and enterprises. In its capacity as a decentralized digital currency, it facilitates financial inclusivity, enabling individuals without access to traditional banking services to partake in financial transactions. Moreover, it fosters swift and cost-effective cross-border transactions, thereby bolstering international trade. The technology of blockchain, which underpins Bitcoin, brings about transformative changes in supply chains by ensuring transparency and trackability. Furthermore, Bitcoin functions as a means of preserving value, serving as a safeguard against inflation and attracting investment from various quarters. It not only spurs innovation in financial technology but also encourages a transition towards a more decentralized and effective financial

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framework. The ascension of Bitcoin has the potential to reform the financial sector and empower both individuals and businesses (Lisovsky et al., 2023).

Furthermore, El Salvador suddenly allowed Bitcoin as a legal currency the entire community uses. El Salvador passed regulations allowing Bitcoin for money transfers (Kompas, 2021). A digital currency trading company, Athena Bitcoin, has gracefully embraced El Salvador's choice to adopt Bitcoin as a method of payment. With a noble intention, Athena intends to allocate a substantial amount exceeding USD 1 Million towards the deployment of approximately 1,500 digital currency ATMs across El Salvador. The strategic focus of Athena is directed towards areas that house communities frequently receiving significant remittance inflows from overseas. Furthermore, Athena Bitcoin graciously offers ATM services to serve as a convenient tool for purchasing Bitcoin, as well as facilitating the sale of Bitcoin for cash transactions.

This study aimed to elucidate the adoption policy of Bitcoin as a currency in El Salvador and its various influences and impacts. The diverse aspects are encapsulated within both the international and domestic spheres, mutually affecting each other. It is worth noting that the utilization of Bitcoin yields not only profits but also poses numerous rejections and risks. The elucidation provided by this research endeavors to present a comprehensive view of El Salvador's Bitcoin adoption policy as a multifaceted process. It is anticipated that fellow authors may explore different facets in future studies.

## 2. Materials and Methods

A qualitative research methodology was implemented in this study to present a comprehensive and descriptive account of the issue at hand. The inclusion of case studies is a common practice to enhance comprehension of the problem. The adoption of qualitative techniques facilitated the gathering of data and information from various individuals, groups, and institutions. The type of research outlined here is essential for gaining insight into the current case. The study generated an impartial, elaborate, and comprehensive report through the utilization of literature review and analysis (Krisyantono, 2014). Qualitative research allows for the implementation of systematic methods to attain accurate data and draw appropriate conclusions. Conducting in-depth interviews, collecting data, reviewing literature, analyzing descriptive data, and preparing structured reports are all integral components of the research process (Creswell, 2012).

This research employs two methods for data collection: conducting a systematic review of literature to identify secondary data sources through examination of published academic papers and articles, as well as analyzing reports obtained from authoritative institutions. It engages in empirical data investigation through the application of two-level games subsequent to conducting research triangulation analysis. The study illustrates the correlation between theoretical framework and various factual components derived from case studies. Its aim is to address research inquiries rooted in the aforementioned approaches. Ultimately, this research endeavor will yield dependable and coherent conclusions.

## 3. Results and Discussion

### 3.1 History and development of digital currencies

Digital currency, also known as Crypto, represents a form of digital currency devoid of a tangible physical manifestation akin to traditional currency. It is solely accessible through computer networks or smartphones and can serve as a method of transaction

similar to conventional currency. With a stringent security protocol and intricate password requirements, Digital currency boasts a formidable defense against hacking attempts, thereby safeguarding the integrity of its users (P et al., 2023). Operating in a decentralized manner, Digital currency eliminates the involvement of third-party entities or intermediaries in user transactions. Transactions within this system occur in a peer-to-peer fashion, directly from the sender to the recipient. While the concept of Digital currency was initially conceived in 1990, it only garnered significant attention and global interest a decade ago (Reiff, 2022). Digital currencies like Bitcoin, Ripple, Ethereum, Monero, and Litecoin are frequently utilized on a global scale. At present, Bitcoin stands out as the prevailing and extensively embraced digital currency for various transactions (Ramadhani, 2020).

Bitcoin is a form of digital currency that operates within a network structure. Inception of Bitcoin occurred in the beginning of 2009, originating from an unidentified developer recognized as Satoshi (Sihombing et al., 2021). Meanwhile, blockchain is a system for storing digital data that links records through cryptographic techniques. The primary interpretation of blockchain is commonly defined as a worldwide ledger or financial statement. This ledger is designed to document every series of transactions conducted with Bitcoin from the initial mining phase until all transactions are officially documented, thereby ensuring the authenticity of Bitcoin. Bitcoin chips can be acquired through the process of mining. Nonetheless, the mining of Bitcoins is not open to just anyone, as it necessitates a diverse range of software and advanced computers, often referred to as Application Specific Integrated Circuits (ASIC), to solve intricate algorithms during the mining process of Bitcoin. Should a user opt out of mining due to its complexity and time-consuming nature, they have the option to convert their currency into Bitcoin digital currency. Despite the absence of intermediaries in Bitcoin transactions, all mining outcomes and transactions are meticulously documented in a ledger or block known as Blockchain (Makarov & Schoar, 2021).

Digital currency present digital payment solutions that surpass the convenience of traditional banking methods by eliminating the need for intermediaries to convert money into digital assets. Bitcoin's hallmark attributes include rapid and effortless transactions, rendering it ideal for international payments. Transactions can be swiftly conducted, transcending national borders, with seamless and expeditious processing requiring a mere 90 seconds to complete. Notably, there are no transaction fees or minimum transfer limits, enabling users to engage in cross-border transactions of any scale. Bitcoin's operational efficiency is further underscored by its exemption from PCI compliance obligations, thereby streamlining transaction processes for users without necessitating time-consuming verification procedures. Embracing Bitcoin as a payment medium enhances business visibility, tapping into a burgeoning market of prospective clients seeking to familiarize themselves with Bitcoin. This adoption facilitates enhanced payment management, piquing the interest of entrepreneurs in integrating Bitcoin into their business operations.

Bitcoin additionally possesses multi-signature characteristics allowing users to establish signature configurations in order to prevent unforeseen expenditures. Primarily, this feature is employed by individuals within sizable organizations in cases where a participant engages in fraudulent activities. The extent of Bitcoin's attributes does not conclude here. Furthermore, Bitcoin operates on a transparent framework, facilitating straightforward visibility into all transactions conducted utilizing Bitcoin, including the monitoring of both incoming and outgoing balances (Bitcoin, 2009). Bitcoin is highly suitable for long-term investment due to its history of substantial price increases since its inception. The digital currency has witnessed remarkable growth, with its value multiplying many times over. Investors who acquired bitcoin back in 2011 at approximately USD1 and sold it in 2021 when its value reached USD 60,000 would have reaped significant profits. As the transaction volume rises and more industries adopt Bitcoin, numerous nations are embracing this digital currency. While concerns exist about Bitcoin's potential impact on traditional banking systems and national security, effective government

oversight can pave the way for broader global trade opportunities. Countries that initially resisted Bitcoin are now recognizing its benefits by legalizing and leveraging the advantages of this virtual currency.

Satoshi, the creator of Bitcoin, developed around 31,000 programming codes to enable Bitcoin's accessibility on the internet, facilitating its use as a medium of exchange across various nations. Consequently, on October 5, 2009, the aforementioned digital currency was introduced. The advancement of a country's economy is likely to instigate notable transformations, particularly in the realm of financial instruments. Initially valued at USD 0 due to lack of demand, Bitcoin garnered little interest for transactions. Subsequently, in 2010, a surge in investor enthusiasm for Bitcoin trading emerged. During this period, Bitcoin's value only peaked at one cent, but with time, its valuation underwent rapid escalation. By April 2011, Bitcoin's value soared to USD 1, followed by a spike to USD 32 in June of the same year. Nonetheless, this surge proved to be transient as the value plummeted in November, settling at USD 2. The year 2012 witnessed another upsurge in Bitcoin's value, culminating in a price of USD 13.20.

From the conclusion of 2020 to the onset of 2021, the value surged to USD 60,000, and this upward trajectory persisted. It emerged that the value of Bitcoin experienced further escalation, making a historic breakthrough by attaining its peak price (All-Time High) in April 2021, reaching a pinnacle of USD 64,804 (Bambrough, 2021). Furthermore, during August of 2021, the value was recorded at USD 46,000. Subsequently, by November 2021, the value of Bitcoin surged once more, peaking at USD 68,000, before undergoing a downturn in May 2022, dropping to USD 30,000 and steadily decreasing until, in November 2022, Bitcoin's value reached USD 16,564 (ZIPMEX, 2022). The volatility of Bitcoins fluctuates in response to heightened demand. Bitcoin payment tools employ file-sharing services or peer-to-peer network systems to disseminate Bitcoin files among users through network media on computers. The primary concept underlying the digital currency of Bitcoin is to minimize expenses linked to intermediary fees or third-party facilitators involved in transactions, thereby reducing prices due to the absence of supplementary charges from external entities.

**Table 1.** Bitcoin Price Movement 2009 to 2024

Bitcoin Price	Month	Year
USD 0	October	2009-2010
USD 1	April	2011
USD 32	June	2011
USD 30	November	2011
USD 13,20	-	2012
USD 220	April	2013
USD 1.156	December	2013
USD 760	-	2013-2014
USD 315	-	2015-2016
USD 20,089	-	2017-2019
USD 60,000	-	2020
USD 68,000	November	2021
USD 16,564	November	2022
USD 42,265	December	2023
USD 63,839	April	2024
USD 71,443	May	2024

The valuation of Bitcoin represents the monetary value assigned to a single unit of Bitcoin. Bitcoin is commonly traded in various currencies such as Euros, Yuan, and predominantly in US Dollars. Commencing the year 2021, the valuation surged to a staggering USD 60,000, marking just the inception of its upward trajectory. Subsequently, Bitcoin's value continued its ascent, etching a significant milestone by reaching its all-time high in May 2024 at USD 71,443 or approximately Rp 1,150,518,072. This surge in demand has propelled Bitcoin's prominence on a global scale, captivating numerous equity investors who are enticed by the prospects of capitalizing on its volatile price

movements. By closely monitoring the fluctuations in Bitcoin's valuation, investors can strategically position themselves to maximize their returns (Bambrough, 2021). Bitcoin incorporates components such as blocks, peer-to-peer networks, miners, and blockchains. Users have the ability to utilize the peer-to-peer network in Bitcoin for conducting transactions or transferring various values of Bitcoin between accounts; these transactions are promptly recorded in files known as blocks. These blocks are subsequently linked together to create a chain, referred to as a blockchain, and are then subjected to processing by a computer system to facilitate Bitcoin mining, known as the manner in which it operates.

In order to engage in Bitcoin transactions, individuals must first undertake the task of downloading a wallet or virtual wallet application. Comprising three distinct varieties, the virtual wallet encompasses a software wallet as its initial form. Within this particular type of wallet, Bitcoin is securely stored on the hard drive of a computer, which serves as the designated storage location for the digital currency. Users of Bitcoin are strongly encouraged to exercise increased caution when utilizing this virtual wallet, given that any damage incurred by the computer housing the Bitcoin will result in the irreversible loss of the digital currency. Additionally, there exists a mobile wallet, which closely resembles the software wallet in functionality; the sole disparity lies in the utilization of a mobile phone as the storage medium within this mobile wallet device. Furthermore, a web wallet, or web access, offers the capability to engage with Bitcoin from any location. Analogous to the concept of internet banking, this web wallet enables users to monitor their Bitcoin holdings at any given moment, thereby ensuring accessibility and transparency. The wallet serves as both a repository and a gateway, facilitating the utilization of Bitcoin while safeguarding it from potential cyber threats (Makarov & Schoar, 2021).

### 3.2 Recognition of Digital currency as the Legal Currency in El Salvador

El Salvador is the nation which has formally acknowledged and adopted Bitcoin as a legitimate mode of transaction. The interest of the nation of El Salvador in Bitcoin seems to be driven by the rate of inflation and the nation's endeavors to break free from reliance on the United States dollar. The El Salvador government's fascination with Bitcoin enables the nation to lead the way in digital currency technology entrepreneurship. At September 7, 2021, Bitcoin was put into effect, and El Salvador's President Nayib Bukele officially sanctioned the currency as a lawful form of payment.

"The use of Bitcoin will be optional; no one will receive Bitcoin if they do not want it. If someone receives payment in Bitcoin, they can choose to receive it automatically in US dollars," Bukele, President of El Salvador. The Bitcoin Recognition Act (referred to as the "lej bit'kojn") was endorsed by the Legislative Assembly of El Salvador on the 8th of July, 2021, and subsequently ratified by President Nayib Bukele in person.



Figure 1. El Salvador President's Post on Twitter about Bitcoin Law

Source: Twitter @nayibbukele.

There exist eight crucial elements within the Bitcoin regulations in El Salvador (Adewumi, 2022): *First*, this legislation aims to regulate Bitcoin as a fully accepted legal tender without any restrictions on its use in transactions, empowering individuals and legal entities to exercise their rights freely. *Secondly*, moving forward, the market will determine the exchange rate between Bitcoin and the US dollar. *Thirdly*, Bitcoin can be utilized for transactions involving pricing and taxation. *Fourthly*, Bitcoin transactions, akin to other regulations, will not be subject to capital gains tax. *Fifthly*, all economic entities are expected to accept Bitcoin as a form of payment from individuals purchasing goods or services. *Sixthly*, while ensuring no interference with private sector operations, the government will introduce an option enabling consumers to engage in Bitcoin transactions and automatically convert them to USD. *Seventhly*, individuals without access to the necessary technology for Bitcoin transactions will not be held accountable. The government will facilitate training and provide tools to enable residents to utilize Bitcoin effectively. *Lastly*, the law was officially passed on June 8, 2021, at the Blue Hall of the Legislative Palace in San Salvador. Its implementation will commence solely in El Salvador on September 7, 2021.

El Salvador has chosen to adopt Bitcoin as its official currency for several reasons: Firstly, the nation does not have its own currency and relies on the use of US Dollars for daily transactions. In an effort to decrease El Salvador's reliance on the US Dollar, the government is taking steps towards this transition. Additionally, a significant portion of El Salvador's population, approximately 70%, remains unbanked and participates in the informal economy. To address this issue, the government is introducing the Chivo wallet as an alternative to traditional bank accounts. Moreover, El Salvador's economy heavily relies on remittances from migrant workers abroad, particularly in the United States. A large percentage of Salvadorans reside in the Americas, and last year alone, they sent a total of USD 6 billion in remittances. The high costs associated with sending remittances through banks pose a considerable burden on El Salvador's national economy (Savira, 2022).

President Nayib Bukele of El Salvador expressed that the digital currency could serve as a highly efficient and rapid method for international money transfers, particularly for remittance, a common practice among the Salvadoran population. Moreover, Bitcoin has emerged as a profitable transaction instrument for individuals employed in the informal sector, lacking access to traditional banking services. Embracing Bitcoin may present a viable approach to fostering a more comprehensive financial framework. The seventh provision of the recently enacted Bitcoin legislation mandates all enterprises and other economic entities operating in El Salvador to acknowledge Bitcoin as a valid form of payment for their products and services. Nevertheless, individuals not yet acquainted with this technology are granted exceptions. Furthermore, in a bid to attract foreign investors, transactions conducted through Bitcoin will be relieved from capital income tax obligations (Arbar, 2022). Finally, it should be noted that Bitcoin serves not only as a method of payment, but also that El Salvador, along with the nation, has expressed its intention to establish the world's inaugural "Bitcoin City." The development of this city, set to be located in the eastern vicinity of La Union, is planned to be fueled by the presence of a nearby volcano.

The Government of El Salvador has underscored that the utilization of Bitcoin as a legal tender within its borders is a voluntary option and does not involve any form of coercion on its citizens. It is important to note that policies related to the payment of salaries and pension funds will continue to be conducted in US dollars. It is worth mentioning that the use of Bitcoin is not obligatory for transactions. In the context of economic operations in El Salvador, the prevalent currency remains the US Dollar. The introduction of the Bitcoin law in El Salvador was also driven by the objective of facilitating remittances. Moreover, the adoption of digital currency eliminates additional expenses, often referred to as administrative fees, typically incurred during money transfers (CNN, 2021).



Figure 2. The Response and Impact of Bitcoin in El Salvador

After the official legalization of Bitcoin in El Salvador on September 7, 2021, it was noted that the price of the digital currency rose to approximately USD46,000. Preceding the enactment of the Bitcoin law in El Salvador, the country made two separate orders for 200 Bitcoins each, totaling 400 coins. As of September 2021, El Salvador's Bitcoin holdings amount to 700 coins. Nevertheless, there exist reservations among various stakeholders regarding the country's policy decision. There are individuals who express opposition to the measures implemented, citing concerns that the adoption of Bitcoin may lead to inflationary pressures and disrupt the nation's economic equilibrium (Daniyanto, 2021). The manifestation of disapproval among the populace of El Salvador is evident through their participation in protests against the implementation of Bitcoin. Demonstrators in El Salvador took to the streets brandishing banners bearing the message "Oppose Bukele's Governance" in objection to the regime led by Bukele. Numerous publications also convey the sentiment of "Rejecting Bitcoin." The orchestrators of the protest in El Salvador were identified as the Bloque de Restiscencia Y Rebeldia, commonly referred to as the "Anti-Government" faction. Bitcoin's introduction occurred devoid of prior consultation with the community or other political entities (Furqon, 2020).

The general consensus among the public is that Bitcoin is unlikely to generate employment opportunities or contribute positively to the nation's economic growth. The community extended an invitation to businessmen in El Salvador to consider participating in the rejection of this policy. The El Salvador chamber of industry and commerce voiced their opposition to Bitcoin citing concerns that many consumers and entrepreneurs may be hesitant to utilize Bitcoin. The survey findings from the institution in El Salvador indicated that a majority, specifically 93.2% of the population, expressed their disagreement with the idea of using Bitcoin for salary payments. However, a notable 82.5% showed interest in the concept of accepting Bitcoin (Bloomberg, 2021). Data indicates that a majority of 51.6% of individuals opt to promptly convert the Bitcoin acquired from their wages into US dollars for the purpose of shopping and purchasing everyday essentials. In terms of its potential for investment, a mere 10.9% of business owners express confidence in Bitcoin's ability to enhance investment opportunities in El Salvador. Furthermore, a substantial 47.8% hold the belief that the introduction of Bitcoin will not have a significant impact on investments.

The domestic disapproval led to a sense of astonishment within the global community, given the prior indications of widespread support for the adoption of Bitcoin. Furthermore, the International Monetary Fund (IMF) cautioned that El Salvador would cease its utilization of Bitcoin as an officially recognized medium of exchange. The IMF highlighted that significant risks to consumer safeguarding, financial soundness, and financial stability could give rise to fiscal contingent obligations (Estrada, 2021). Furthermore, in the event of a decrease in the value of Bitcoin, there is a potential impact on the economy of El Salvador. This concern arises from the perspective that Bitcoin may not

function as efficiently as a currency within a nation, compounded by the challenge of stabilizing the notably fluctuating Bitcoin exchange rate.

Digital currency is presently undergoing a downturn in the financial markets, commonly referred to as the Bear Market. The decrease in its values is impacting El Salvador, which stands as the sole nation recognizing digital currency as a legitimate form of transaction within its borders. The drop in Bitcoin prices has led to significant financial losses for El Salvador, estimated to be in the billions of US dollars. Specifically, on November 23, 2022, the value stood at USD 16,567, equivalent to Rp 258,943 million for each Bitcoin. The nation of El Salvador is projected to face losses of up to 70% as a result of the declining digital currency prices. This negative trend has had a detrimental effect on the economy of the government of El Salvador, as the country utilized public funds to purchase Bitcoin, resulting in mounting debts to offset these financial setbacks. The debt-to-Gross Domestic Product (GDP) ratio of El Salvador has now climbed to 87%, with the total debt surpassing 1 billion US dollars for the current year.

Even though the debt is set to mature by the end of 2025, it has raised several concerns regarding El Salvador's capacity to meet its financial obligations. The country has allocated a significant amount of funds towards the acquisition of Bitcoin, resulting in losses as the digital currency, purchased at high values, depreciated in worth. El Salvador has presented a number of fresh loan proposals to address its national debt; however, the International Monetary Fund remains skeptical of the viability of these submissions, agreeing to only offer a fraction, ranging between 20% to 25%, of the total amount requested (Lisovskyi et al., 2023). El Salvador is expected to face a challenging situation with regards to its financial obligations, which may lead to a default and potentially impact the stability of the Salvadoran government.

**Table 2.** El Salvador Government Bitcoin Holdings List

No.	Month	Bitcoin Price per coin	Number of Purchase
1.	September 2021	USD 46,000	700 coins
2.	October 2021	USD 44,695	420 coins
3.	November 2021	USD 54,815	100 coins
4.	December 2021	USD 49,290	171 coins
5.	Januari 2022	USD 36,500	410 coins
6.	May 2022	USD 30,744	500 coins
7.	June 2022	USD 19,000	80 coins
8.	June 2022-May 2024	USD 34,405	3,464 coins
<b>Total</b>			<b>5,748 coins (USD 360 million)</b>

Source: Author's processing results

In 2022, Bitcoin experienced a decline to a value of USD 16,567 from its peak of USD 60,000 in November 2021. This particular nation engages in the acquisition of Bitcoin at a rate of USD 44,000, procuring a total of 1,651 Bitcoin units or an equivalent of USD 72,644 Million (Rp 1.3 Trillion). Furthermore, despite the decrease in Bitcoin's value, rather than halting their purchases, El Salvador opted to escalate their procurement of Bitcoin using funds from the state treasury. Subsequently, the price of Bitcoin fell below USD 30,000 in May 2022. Nevertheless, up until February 2024, El Salvador's possession of bitcoins has shown significant appreciation, surpassing USD 360 million and yielding a profit of more than 40% (USD 57 million).

### 3.3 Geoeconomics Concept Explains Bitcoin Phenomenon in El Salvador

As we know globalization is demonstrated to be continuously expanding. The rise of ideas swiftly transcending state sovereignty boundaries facilitated this progression. The emergence of Bitcoin worldwide is intricately linked to historical events, characterized by a technological revolution leading up to the introduction of payment mechanisms in 2009, coinciding with the inception of Bitcoin. Satoshi, the creator of Bitcoin, meticulously crafted around 31,000 lines of code to enable global access to Bitcoin via the internet, thereby establishing it as a versatile transactional instrument across various nations. In ancient civilizations, prior to the existence of currency, individuals engaged in trade



through barter systems, subsequently transitioning to the use of gold and conventional money. The evolution of technology has heralded a more sophisticated societal structure.

The term *geo-economics* was originally introduced by US strategist Edward Luttwak in the year 1990 (Golley et al., 2016). Luttwak (1990) utilizes the term *geo-economics* to refer to the primary arena of competition among nations that emphasizes economic significance over military aspects. The concept of *geo-economics* is perceived as a blend of economic and geographical elements associated with international trade. According to Blackwill and Harris (2016), *geo-economics* is defined as the utilization of economic tools to advance and safeguard national interests, as well as to generate favorable geopolitical results; and the influence of economic actions taken by other countries on a nation's geopolitical objectives. The economic policies implemented by governments can be assessed within a *geo-economic* framework, particularly to fulfill the goals of the (non-economic) strategy, or when they impact the *geo-economics* interests of other nations.

The implementation of bitcoin as an official currency by the Government of El Salvador may be elucidated as a component of policy. It is evident that governmental decisions have repercussions not only domestically but also internationally. El Salvador, as a nation influenced by global circumstances and holding foreign debts with various countries and international entities, exemplifies this phenomenon. To elucidate this phenomenon, concept of *geo-economics* is employed by the author. By considering both international and domestic factors, one can gain a comprehensive understanding that the decision represents a risky yet advantageous move for El Salvador in the long terms.

El Salvador's decision to implement the Bitcoin policy highlights the intricate connection between the global economy and internal political dynamics. Specifically, the interplay of local politics molds various groups and individuals towards policy results that have the potential to impact the global economic landscape. This trajectory suggests that over the next few decades, El Salvador could transition from being one of the poorest nations to becoming one of the wealthiest and most pioneering countries globally through the utilization of Bitcoin. A discernible trend is emerging where there is a gradual decline in the usage of physical currency in favor of digital assets like Bitcoin. Also, the adoption of Bitcoin in El Salvador can be viewed as a *geo-economic* maneuver resembling dollarization. It is important to note the reduction in El Salvador's interest rates, aiming to foster closer integration with the international trade framework. An intriguing aspect is the comparison of inflation levels with a local currency deemed fragile and untrustworthy, serving as a rationale for Ecuador's adoption of the US dollar. This shift was prompted by inflation spiraling to approximately 25-30%, prompting proactive measures not as a response to crisis but rather as a stimulus for the domestic economy.

Several countries that have also begun legalizing digital money include the United States, Canada, and Australia. However, not only legalizing Bitcoin, but El Salvador is also the first country and the only country to make digital money a legal means of payment. The United States does not use the digital currency as a legal means of payment in its country; the US only legalizes it for buying and selling transactions. Moreover, even though the US legalized the use of digital currency money, the US government remains consistent in keeping strict supervision over digital currency trading transactions so that it does not harm the economy because of the many frauds that occur due to digital currency money (Emmert, 2022). The Canadian government is open-minded regarding digital currencies and their potential implications for the economy. Canadians can buy, sell, and trade Bitcoin, Ethereum, Dogecoin, Shiba Inu, and other decentralized digital assets for greater or lesser value. Additionally, Canada launched North America's first Bitcoin ETF, Purpose, in February 2021, which was a huge success. Furthermore, it has accumulated over USD 812 million in assets under management (AUM). However, just because digital currency is legal does not make it tender (Baek, 2021). Bitcoin and other digital currency were declared legal in Australia in 2017 by Australia's central bank, the Reserve Bank of Australia. Australia has declared Bitcoin legal, like the US and Canada. However, buyers are required to comply with the Anti-Money Laundering and Coun-

ter-Terrorism Funding Act. Bitcoin exchanges are well-regulated in Australia to protect consumers, and no illegal activity is with bitcoins or other digital currency (Mckenzie, 2022).

President Nayib Bukele's directive regarding the adoption of Bitcoin as a form of digital currency is underpinned by several key considerations: *Primarily*, the Republic of El Salvador, lacking a distinctive currency of its own since 2001, has predominantly relied on the US dollar for conducting daily financial transactions. Consequently, the implementation of this policy is poised to diminish El Salvador's reliance on the US dollar, a dependency that has persisted for over two decades. *Secondly*, a significant portion, namely seventy percent, of the Salvadoran populace is devoid of access to traditional banking services. In light of this, the government endeavors to explore the potential of Bitcoin digital currency, renowned for its secure and user-friendly attributes. This initiative aims to facilitate the populace in establishing Bitcoin accounts, commonly referred to as 'Wallets' in the digital realm. *Thirdly*, the economic landscape of El Salvador is markedly influenced by the substantial inflow of remittances from migrant laborers stationed abroad, predominantly in the United States. Notably, a quarter of Salvadoran residents are domiciled in America, channeling remittances amounting to a staggering sum of US USD 6 billion (Rp 85.5 trillion) annually. Embracing Bitcoin as a legal tender holds the promise of expediting cross-border financial transactions, thereby streamlining the process of sending and receiving funds between nations. *Lastly*, El Salvador aspires to forge new pathways by conceptualizing the world's premier Bitcoin city, envisioned to materialize at the base of the Conchagua volcano within El Salvador. The successful realization of this ambitious project is poised to capture the attention of the global community, potentially luring a multitude of investors who may seek to contribute towards bolstering El Salvador's economic trajectory and overall development.

In domestic, the discussion is centered on various factors and potential hazards. It is common knowledge that this nation officially embraced Bitcoin as its official currency in 2021. This particular directive positions El Salvador as the pioneering nation to integrate Bitcoin for conducting financial transactions within its borders. The announcement regarding the establishment of Bitcoin as the official digital currency of El Salvador was made by the President of the country, Nayib Bukele. The legislative framework known as the Bitcoin Law Regulations was ratified by El Salvador on June 8, 2021, to oversee the lawful utilization of Bitcoin within the nation. The Bitcoin Legal Regulations encompass a total of 16 clauses, an increase from the previous 12 regulations, and these clauses delve into Bitcoin's status as an unrestricted legal tender that bestows boundless authority in any transactional context and for any entitlements to be exercised by individuals or entities, whether public or private. The exchange rate between Bitcoin and the US dollar, denoted as USD, will be determined through market forces, thereby indicating that the value of Bitcoin will be subject to fluctuations as dictated by market dynamics. Furthermore, it is permissible to settle tax obligations using Bitcoin; transactions conducted in Bitcoin will not incur capital gains tax. President Nayib Bukele, the inaugural leader serving from 1992 to the present, stands as a prominent figure in the realm of governance. A millennial individual, President Nayib Bukele exhibits a notable affinity for engaging with the public through the platform of Twitter, a social media outlet of considerable influence. This inclination is evident in the consistent dissemination of information pertaining to various policies via tweets, notably those concerning the utilization of digital currency digital currency.

Bitcoin has the immediate capacity to enhance the value of remittances in El Salvador. A significant portion of the nation's GDP, amounting to 24%, is derived from remittances, and the removal of transaction fees could yield instantaneous advantages. In conventional remittance networks, nominal transfers may incur fees that are nearly 50% of the total amount sent. For example, if a relative in the United States sends USD 50 weekly to El Salvador, half of that sum could be allocated to fees. The integration of Bitcoin could promptly resolve this predicament, potentially facilitating the arrival of billions of additional dollars to the country within the initial years. A notable prospect

within the realm of the Bitcoin sector is the practice of mining. Recent events, particularly those concerning China, highlight the palpable regulatory risks associated with such operations. By embracing Bitcoin as a legitimate form of tender, El Salvador substantially mitigates this risk factor. Furthermore, the nation possesses substantial untapped domestic energy resources that are not utilized for external purposes, thereby actively seeking investments to enhance its energy production capacity. The activity of Bitcoin mining effectively converges these elements in a manner that is highly market-oriented and advantageous, benefiting both El Salvador and the Bitcoin network. While Bitcoin stands to gain increased hash rate and reinforce its reputation for utilizing clean energy sources, El Salvador stands to profit from heightened economic engagement, the emergence of an entirely new sector within its borders, and the utilization of its surplus of clean energy resources.

After the implementation of the Bitcoin adoption policy in El Salvador, it has elicited both positive and negative feedback from the general public and entrepreneurs. According to the findings of this investigation, it is indicated that a total of 2.1 million individuals in El Salvador have embraced and are actively utilizing Bitcoin, while employers within the industry have expressed varying opinions regarding the integration of Bitcoin, with some even opting to remunerate their employees using this digital currency. Nonetheless, a significant 93.2 percent of the populace expressed dissent towards the idea of receiving their salaries in Bitcoin. Furthermore, Bitcoin has yielded numerous advantages for the nation and its citizens, such as a notable 30 percent increase in the tourism sector, financial assistance of USD 30 being distributed to 2.1 million citizens by the government, and the establishment of an animal hospital by governmental authorities. Additionally, plans are underway for the construction of 20 schools funded by profits generated from Bitcoin (NY Times, 2021).

Nevertheless, the policy adopted by El Salvador in relation to the utilization of the digital currency is perceived as precipitous due to the absence of prior notification concerning the development of said policy. Abruptly, El Salvador introduced a policy mandating all citizens, ranging from common individuals to business entities, to receive payments in Bitcoin. This directive is widely regarded by the public as impulsive and necessitates a thorough examination of the numerous risks associated with the adoption of Digital currency. The populace believes that the digital currency Bitcoin is highly volatile and poses risks in its usage. El Salvador has acquired 1,651 Bitcoin coins to date. The implementation of the policy for integrating the use of the digital currency in El Salvador encountered occasional challenges, despite its main objective being the revitalization of the country's economy. However, the digital currency market is presently undergoing a Bear Market phase. Consequently, there was a significant drop in the value of Bitcoin, plummeting from a previous high of USD 60,000 to USD 16,569 per unit. This downturn resulted in El Salvador experiencing losses amounting to USD 45 million.

Even though the country of El Salvador has provided several policy regulations regarding the use of Bitcoin, which aim to make it easier for the public to use Bitcoin, there are several shortcomings in this policy. El Salvador's decision to legalize Bitcoin Digital currency is felt to be very hasty, which can be seen in the discussion of the previous chapter, which explains the rise and fall in the price of Bitcoin, which is not yet stable enough to be used as a currency. Many people also feel that they have suffered losses because of this policy because the day after the enactment of the Bitcoin Law, the price of Bitcoin decreased from the initial price of USD 46.00 per coin down to USD 44.69 and continued to decline until now the price has touched USD 16.49 per coin. The public believes that in the future, there will be excessive damage to the monetary system and detrimental to the lower middle class due to this policy. Moreover, the Government of El Salvador encourages people to exchange money for Bitcoin. This condition is dangerous because after many people make purchases, the price of Bitcoin drops drastically, so people lose their money. Also, the public is worried about the increase in illegal transactions due to the adoption of Bitcoin (El Pais, 2023). El Salvador's government bonds also plunged from 75 cents to 36 cents, and Fitch lowered El Salvador's credit rating, which

resulted in no one wanting to lend money to the country in the future. The IMF recommends narrowing the scope of Bitcoin laws that make it an official currency and urges strengthening regulation and oversight of the new payment ecosystem. Even so, the Government of El Salvador did not comment on the fall in Bitcoin and decided to continue this policy (Bestari, 2022).

#### 4. Conclusions

The decision taken by the Government of El Salvador to embrace bitcoin as digital and an official currency, in accordance with geoeconomics concept, was subjected to comprehensive scrutiny. An assessment was conducted, revealing that despite its risks, this choice has the potential to yield long-term benefits for El Salvador. At the global level, the utilization of the Digital currency Bitcoin is directly proportional to the volume of transactions and the number of industries permitting the use of digital currency. The acceptance of digital currency is not confined to El Salvador alone, but has a global reach, particularly with the increasing number of nations legalizing Bitcoin, such as the United States, Canada, and Australia. Despite the profitability associated with Bitcoin, these countries do not view it as a foreign currency, but rather as a form of digital currency. On a national scale, El Salvador has introduced a policy endorsing the use of Digital currency Bitcoin as a legal form of payment within its borders. This decision stems from the absence of a domestic currency in El Salvador and aims to lessen reliance on the US dollar. Furthermore, by successfully implementing Bitcoin, the country anticipates attracting foreign investments, thereby enhancing its economic prospects. Despite facing considerable debate, President Nayib Bukele steadfastly supports this policy, convinced of its future benefits for the nation.

This study holds implications for enhancing geoeconomic analysis concerning digital currencies in El Salvador. By employing the geoeconomic framework, it becomes apparent that El Salvador's policy holds strategic significance as it exerts influence not only within its borders but also on a global scale. Theoretically, the selection of these cases enriches the geoeconomic perspective, which is often confined to regional contexts. While the impact of this case extends widely across the international arena, including international organizations. From a practical standpoint, this El Salvador's policy represents a geoeconomic manifestation that underscores the competitive dynamics among nations in the economic sphere. Moreover, considering the geographical factors of El Salvador, particularly its emphasis on renewable energy, is closely linked to the presence of the bitcoin digital currency. This research contributes that the introduction of digital currencies in El Salvador showcases a geoeconomic phenomenon through local political dynamics influencing various entities and individuals towards policy outcomes that could impact the global economic environment. Moreover, apart from serving as a dollarization initiative, it also enhances financial inclusivity for the people of El Salvador, thereby contributing to the fortification of the nation's economy. This policy adopted by El Salvador could serve as a model for governments in numerous nations considering the legal incorporation of digital currencies. Nevertheless, it remains imperative to carefully assess the specific circumstances, risks, and capacities of each country to avert potential significant setbacks.

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