



Testing Crypto in Separatist Regions

OE Watch Commentary: The current Kremlin leadership remains intent on weakening the US dollar. They see a direct nexus between dominant US military power and the status of the dollar as the global reserve currency. According to the Kremlin's logic, unseating the dollar as the reserve currency will force Washington to live within its fiscal limits, which will, in turn, force the US to reduce defense spending. This reduced US global military presence will then allow other regional powers (like Russia) the opportunity to dominate what they maintain is their legitimate sphere of interest. The Kremlin is increasingly looking at cryptocurrencies as one of the tools to unseat the dollar as the global reserve currency.

The brief excerpt from the opposition news site *Meduza* explores attempts by three pro-Russian separatist regions (Abkhazia, Transnistria and the Donetsk Peoples Republic or DNR) to develop cryptocurrencies to both attract foreign investment and to bypass Western economic sanctions. Each of these Kremlin-sponsored regions came into existence with Russian political, economic and military support. Isolated from foreign investment, the economies of these regions remain on Russian life support, and as the Russian economy has weakened, Kremlin aid has proven insufficient. As the article points out, leaders in these regions hope “to use cryptocurrencies to make a great economic leap.”

While these regions have plenty of computer expertise to develop cryptocurrency accounts, the article describes their lack of reliable electricity (to run advanced computers) and the want of support from the local leadership who suspect that this new form of currency might negatively affect their extortion-fueled budgets. Moreover, the article stresses that wealthy entrepreneurs who have expressed an interest in investing in this project, have yet to secure guarantees from local leaders that their investments will not be stolen.

The article briefly describes a recent conference sponsored by the Russian Duma which has become involved in “drafting a bill about cryptocurrencies.” The author points out that “the composition of the conference participants was interesting: Almost one in five of them was either a general or a lieutenant general,” and that during the presentations, one speaker “proposed turning the Donbas into a special territory for experiments with a digital economy.” The article concludes on a positive note, asserting that this new currency “can make it possible to get around the financial blockade on both the DNR and Crimea, and also to attract hundreds of millions, if not billions, bypassing the United States and the EU,” and finally claiming that “the world will switch to cryptocurrency.” The Kremlin leadership may be testing the employment of cryptocurrency in these separatist regions before adopting wider employment. **End OE Watch Commentary (Finch)**

“I am sure the world will switch to cryptocurrency.”

Source: Ilya Zhegulev, “Блокчейн как инструмент развития ДНР (Blockchain as a Tool for Development of DNR),” *Meduza*, 17 October 2017. <https://meduza.io/feature/2017/10/17/blokcheyn-kak-instrument-razvitiya-dnr>

...Unsurprisingly, enthusiasts and even functionaries from Abkhazia, the DNR [Donetsk People's Republic], and Transnistria are beginning to talk about a possible cryptocurrency future for these territories....

...One of the first was a project from Abkhazia...Abkhazia plans in this way to overcome its 25-year oblivion and to attract foreign investment: Unlike ordinary money, so far there is no way of tracking the circulation of cryptocurrencies, and investors will not be affected by the current restrictions regarding the unrecognized republic...

... Abkhazia is not the only unrecognized state neighboring Russia that is dreaming of entering the technological future by means of blockchain. The entrepreneur Igor Chayka, son of the Russian Procurator General, is already declaring that he intends to build mining farms in Transnistria, and ministers from the local government attend conferences about blockchain in the Donetsk People's Republic -- but Abkhazia's plans are the most formalized and grandiose: The intention there is to use cryptocurrencies to make a great economic leap....

... Initially Morgunov's idea was to use blockchain as a simple and reliable means of controlling humanitarian aid coming into the DNR, ruling out the possibility of embezzlement. “There were situations in which money was assigned to provide help for the Donbas, but nothing at all reached the end consumer,” he protests.... He did not get the impression the person he was talking to understood anything, but in February 2016 he was summoned to the state security ministry itself for a chat with the ministry's technology specialist. He understood the situation far better and, according to Morgunov, told him directly: “We won't touch you, but as soon as you sell your first Bitcoin, we'll come to you right away. You can talk as much as you want, but don't do that.”

... in June 2016 salvation came from Moscow. Morgunov was summoned to the State Duma for a conference organized by Andrey Lugovoy -- the LDP deputy whom the British authorities accused of murdering Aleksandr Litvinenko and who was now drafting a bill about cryptocurrencies. “The composition of the conference participants was interesting: Almost one in five of them was either a general or a lieutenant general,” Morgunov recalls. As part of his presentation he proposed turning the Donbas into a special territory for experiments with a digital economy.

... No other major investors in blockchain technology have appeared in the DNR either. The republic government is not prepared to provide them with any guarantees... External investors need guarantees that the equipment will be intact....

...“This issue is not yet being dealt with at [the] state level,” Muratov says. “If they ask for help, I am prepared to provide that help. So far, no one has asked.” Be that as it may, one of the Donetsk Republic's leaders is sure blockchain is a tool that can make it possible to get around the financial blockade on both the DNR and Crimea, and also to attract “hundreds of millions, if not billions, bypassing the United States and the EU.” “This is a more transparent and open system than the one based on the US dollar,” Muratov claims. “I am sure the world will switch to cryptocurrency.”