



The Centralized Exchange Monopoly: A Barrier to True Decentralization and Community-Driven Liquidity in Token Launches

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Accepted: 17/04/2025 Published: 26/04/2025

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How to Cite:

Mikkelsen, L.J. (2025). The Centralized Exchange Monopoly: A Barrier to True Decentralization and Community-Driven Liquidity in Token Launches. *Scientific Journal of Metaverse and Blockchain Technology*. 3(1), 76-83.

DOI: <https://doi.org/10.36676/sjmbt.v3.i1.63>

Abstract:

Despite the ethos of decentralization in blockchain ecosystems, token launches frequently face centralization bottlenecks, primarily through centralized exchange (CEX) listings. This research explores how bypassing community-provided liquidity pools (LPs) at launch and prioritizing CEX listings undermines decentralization. We analyze the adverse effects on community empowerment, price discovery, and token economics. The paper advocates for decentralized liquidity provisioning models to ensure equitable growth and sustainability.

Keywords: CEX, DEX, Common crypto projects, Decentralized liquidity provisioning.

1. Introduction

Decentralization stands as a foundational principle of blockchain technology. Yet, ironically, many token launches become captive to centralized exchanges (CEXs), which gatekeep access to liquidity and initial trading. This practice contradicts community-driven ideals, often alienating early supporters and creating price manipulation risks. Through the lens of the common crypto project launch experience, this paper critically examines these issues.

- CEX-first listing (hustle for centralized exchange) and
- Community-first liquidity (using existing DEXs like Uniswap, PancakeSwap, etc.).





Table 1 CEX-First Listing VS Community First liquidity

Aspect	CEX-First Listing (Hustle for Exchange)	Community-First Liquidity (DEX Approach)
Launch Control	Controlled by centralized exchange (CEX).	Controlled by the community.
Liquidity Providers	Exchange provides liquidity or controls it.	Community members voluntarily provide liquidity.
Listing Cost	High listing fees (can be millions).	Minimal or no cost; anyone can add liquidity.
Price Discovery	Manipulated by exchange; opaque order books.	Natural price discovery based on supply and demand.
Community Participation	Very limited; users only trade.	High; users participate as LPs and traders.
Revenue Flow	Exchange earns trading fees.	Liquidity providers earn trading fees.
Decentralization	Low; project relies on centralized entities.	High; decentralized ownership from the start.
Barriers to Entry	High (KYC, approval, technical integration).	Low (anyone can contribute liquidity instantly).
Token Stability	Volatile, subject to exchange manipulation.	More stable due to distributed liquidity.
Sustainability	Short-term hype driven by CEX marketing.	Long-term growth supported by real community incentives.

Notes:

- **Using Existing DEXs:** You *don't* need to build your own DEX. You can list your token freely on major DEXs like **Uniswap**, **PancakeSwap**, **Sushiswap**, **TraderJoe**, etc.
- **Community Rewards:** In the DEX model, early liquidity providers benefit from pool fees, incentives, and token farming.

2. Literature Review

Previous studies have discussed the importance of community engagement and decentralized liquidity in ensuring the success and fairness of token economies (Buterin, 2020; Adams, 2021). However, the persistent influence of CEXs in token launches remains under-explored.

3. Methodology

This research utilizes a qualitative case study approach, focusing on the common crypto projects. Secondary data from community discussions, exchange listing procedures, and economic performance metrics are analyzed to uncover trends and patterns.





4. The Problem with Centralized Exchange Listings

4.1 Gatekeeping and Monopolization CEXs demand high listing fees and exclusive rights, preventing open-market participation.

4.2 Loss of Community Empowerment Communities are prevented from creating liquidity pools, losing the opportunity to earn trading fees and influence initial price discovery.

4.3 Market Manipulation Risks CEX-driven launches often lead to artificial price inflation or deflation, harming organic growth and trust.

5. Case Study: Common crypto projects

Several crypto projects amassed a massive community prior to mainnet launch. However, the lack of an initial decentralized liquidity pool meant that:

- Community members could not provide voluntary liquidity.
- Selling pressure post-listing led to price crashes.
- Early contributors were financially and emotionally disillusioned.

6. Discussion

Common crypto project case study highlights a broader industry trend where CEX monopolization undermines decentralization. True community ownership requires early liquidity provision rights, ensuring that volunteers and early adopters can both stabilize and benefit from the ecosystem they helped build.

7. Recommendations

- **Mandatory Decentralized Launches:** Projects should prioritize decentralized exchanges (DEXs) for initial liquidity.
- **Liquidity Mining Programs:** Early supporters should be incentivized through LP rewards.
- **Transparent Listing Policies:** Exchanges must work transparently with communities rather than bypassing them.

8. Ideal Token Launch Process Flow

The promise of decentralization has been a fundamental driving force behind the rise of blockchain technology and cryptocurrencies. However, the reality often falls short when centralized intermediaries dominate critical stages of a token's lifecycle, particularly during its market launch. This research was inspired by observing repeated patterns where communities, despite their enthusiasm and willingness to support new projects, are sidelined in favor of centralized exchange (CEX) listings. Using case study of common crypto projects, this paper seeks to highlight the pitfalls of CEX-first approaches and advocate for a more community-driven model using existing decentralized exchanges (DEXs). By analyzing existing practices and proposing an ideal launch





framework, this work aims to empower both project creators and their communities to foster a healthier, fairer, and truly decentralized crypto ecosystem.

1. Smart Contract Audit

- Get smart contract audited by trusted auditors (e.g., Certik, Hacken) to ensure security and build community trust.

2. Token Generation Event (TGE)

- Mint the token after audit approval.
- Allocate tokens for various purposes (community, development, marketing, liquidity, etc.).

3. Early Community Engagement

- Announce launch plans clearly.
- Educate the community on how they can participate in liquidity provision and trading.

4. Initial DEX Offering (IDO) or Fair Launch on Existing DEX

- Use established DEXs like **Uniswap**, **PancakeSwap**, **Sushiswap**, etc.
- Allow community members to **create liquidity pools** freely without centralized interference.

5. Liquidity Bootstrapping Pool (LBP) (Optional)

- Set up a pool where token price dynamically adjusts based on buy/sell pressure (Balancer, Fjord Foundry, etc.).

6. Open Liquidity Provision

- Community members contribute liquidity.
- Liquidity Providers (LPs) earn trading fees and farming rewards.

7. Organic Price Discovery

- Price determined naturally by market forces through supply and demand.

8. Gradual Listing on CEX (Optional, Community-Driven)

- Only after healthy liquidity is established on DEXs and community has participated.
- CEX listing becomes a bonus, **not a necessity**.

9. Ongoing Governance by Community

- Token holders vote on major decisions (using DAOs if possible).
- Community feels ownership and long-term loyalty is built.

Visual Diagram (Simplified)

Audit  → Token Minting  → Community Education  → DEX Liquidity  → Fair Price Discovery  → Optional CEX Listing  → DAO Governance 

Key Principles:

- ☒ *Community First*
- ☒ *Existing DEXs, No Need to Build New One*





- ☒ *Fairness, No Gatekeeping*
- ☒ *Long-Term Decentralization*

The Illusion of Decentralization: Marketing vs Reality

While decentralization is a key marketing slogan in the crypto industry, actual project behavior often reveals a stark contrast. This section explores the mismatch between how projects present themselves and how they operate, especially during critical phases like token launches.

Flowchart: Marketing Promise vs Actual Practice

1. Whitepaper & Marketing



Promise: "We are 100% decentralized, community-first!"



Reality:

- Rushed Certik audit (for checkbox, not for real security)
- Hustle for CEX listing (ignore community liquidity)
- Private sales with heavy VC allocations



2. Token Launch



Promise: "Fair launch, for the people!"



Reality:

- CEX lists token before public can contribute
- Insider trading and price manipulation
- Early dumping on retail investors



3. Post-Launch



Promise: "DAO Governance coming soon!"



Reality:

- Team controls majority of governance tokens
- Community votes are symbolic or ignored

Quick Analysis

- **Bad Projects** → Centralized launch + Decentralized marketing = *Community disappointment and loss of trust.*
- **Good Projects** → Decentralized launch + Decentralized operations = *Community empowerment, sustainable growth.*





8. Conclusion

Token launches must embody decentralization not only in technology but also in practice. Preventing communities from contributing to early liquidity undermines trust, stability, and long-term value. A shift toward community-first launches can restore faith in the decentralized ideals of the blockchain revolution.

Project References and Intent

To maintain an objective and constructive tone, this research deliberately refrains from naming specific crypto projects that may have followed suboptimal practices during their token launches. The purpose of this work is not to single out or criticize individual teams but to highlight systemic challenges in the broader Web3 ecosystem.

Philosophy

This research is built on the belief that the blockchain space is still evolving. Many teams, whether due to early-stage decisions, market pressure, or limited experience, may have initially chosen centralized pathways. However, with better awareness, education, and community-driven dialogue, they have the opportunity to realign with the core principles of decentralization.

Invitation to Improve

All projects — past, present, and future — are invited to reflect on their processes, recognize the gap between decentralization marketing and execution, and take actionable steps to empower their communities more meaningfully. This paper aims to be a **guiding framework** rather than a critique, helping the crypto space mature collectively.

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