

Demystifying China's Complex Relationship with Bitcoin: Past, Present, and Future

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“For those new to Bitcoin, it is customary for the People’s Bank of China to ban Bitcoin at least once in a bull cycle.” - Hong Kong Bitcoin Association¹

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Executive Summary

In the past several years, Bitcoin has been subjected to ever-stricter restrictions by Chinese authorities, with the most recent crackdown occurring in May of this year. Our research serves to sketch a precise timeline of China’s actions against Bitcoin, determine the incentives of the Chinese government in taking such a hard line against Bitcoin, but not going as far as outright banning its citizens from holding the coin, and suggest what the future may hold for Bitcoin in the People’s Republic. We find that the current measures taken against Bitcoin mining and trading in China are part of a top-down process that can be traced back as far as 2013, and that China has three major incentives in taking a hawkish stance against Bitcoin: preserving stability in its financial system and combating rampant financial crime, deepening China’s grip on data as part of its ambitions to create a surveillance state, and curbing rampant electricity use in order to meet its green goals to combat climate change. At the moment, the odds seem to be entirely stacked against Bitcoin in China, and the future of the virtual currency looks rather bleak. In the absence of major changes to the incentives of the Chinese government, we can expect to see further punitive measures taken against Bitcoin in the country on a path to an eventual categorical ban when circumstances are determined opportune.

¹ 香港比特幣協會 Bitcoin Association. (2021, May 18). *For those new to #Bitcoin, it is customary for the People's Bank of China to ban Bitcoin at least once in a bull cycle.* Twitter.
<https://twitter.com/bitcoinorghk/status/1394665921885609984?lang=en>.

Introduction

While the anonymous nature of Bitcoin makes it difficult to obtain precise figures on Bitcoin ownership, the cryptocurrency has made a tremendous splash in China in recent years. The Hong Kong Bitcoin association's abovementioned tweet was a response to China's recent crackdown on Bitcoin in May of this year - a factor that is widely believed to have contributed to the sharp decline in value of the virtual coin that month. In early April 2021, the price of Bitcoin climbed to an all-time high of \$63,729.² By mid-May, this had plummeted to nearly \$30,000.³ Shortly after the coin recovered to \$41,700, China's most senior financial regulatory body, The Financial Stability and Development Committee (FSDC) in the State Council, announced a major crackdown on Bitcoin trading and mining. The official statement summarizing the meeting of the State Council committee hosted by Vice Premier Liu He explained that the country must "prevent and control financial risks." The FSDC said it would

² Browne, R. (2021, April 13). *Bitcoin hits new all-time high above \$63,000 ahead of Coinbase debut*. CNBC. <https://www.cnbc.com/2021/04/13/bitcoin-hits-new-all-time-high-above-62000-ahead-of-coinbase-debut.html>.

³ Kharpal, A., & Browne, R. (2021, May 19). *Bitcoin plunges 30% to \$30,000 at one point in wild session, recovers somewhat to \$38,000*. CNBC. <https://www.cnbc.com/2021/05/19/bitcoin-btc-price-plunges-but-bottom-could-be-near.html>.

"crack down on Bitcoin mining and trading behavior, and resolutely prevent the transmission of individual risks to the social field."⁴

The announcement came three days after Chinese industry associations — the National Internet Finance Association of China, the China Banking Association, and the Payment and Clearing Association of China — issued a joint statement targeting financial transactions related to cryptocurrency trading and controlling growing financial risk from these activities. According to the statement, "cryptocurrency prices have skyrocketed and plummeted, and speculative trading of cryptocurrency has rebounded, seriously infringing on the safety of people's property and disrupting the normal economic and financial order."⁵ As news of the crackdown began to circulate, Bitcoin's price tumbled again by more than 8.5%, erasing a sizable chunk of the corrective bounce a few days earlier.⁶ As the crackdown intensified

⁴ Cox, J. (2021, May 22). *Bitcoin price falls after China calls for crackdown on bitcoin mining and trading behavior*. CNBC. <https://www.cnbc.com/2021/05/21/bitcoin-falls-after-china-calls-for-crackdo-wn-on-bitcoin-mining-and-trading-behavior.html>.

⁵ Shen, S., & Liu, T. (2021, May 18). *China bans financial, payment institutions from cryptocurrency business*. Reuters. <https://www.reuters.com/technology/chinese-financial-payment-bodies-barred-cryptocurrency-business-2021-05-18/>

⁶ The ripples saw other cryptocurrencies suffer huge losses as well, with Ethereum and Dogecoin concurrently dropping more than 11% that same period.

throughout June, Bitcoin dropped to as low as \$28,600,⁷ erasing almost all 2021 gains.

These developments have caused pundits to speculate on a host of questions. Why does the Chinese Communist Party (CCP) keep launching campaigns against cryptocurrencies? How are these developments affecting Bitcoin operations in China? Are any elements in the CCP still sympathetic towards Bitcoin? And finally, what does the future of Bitcoin in China look like? Bitcoin is a big business, and such information is critical for both institutions and individual traders alike in assessing any opportunities or risks the future may hold. Here's our take on demystifying these developments and illuminating what's going on in the minds of decision-makers in Beijing.

Crypto's Rocky History in China

Cryptocurrencies have been fighting an uphill battle against governments since their inception, and perhaps nowhere more powerfully than in China. Despite the Chinese government's grave concerns regarding cryptocurrencies, it has not been oblivious to the potential benefits it could reap from this disruptive technology. In recent years, China has pushed for a complete digitization of its currency which would see it become a cashless society using blockchain

⁷ Wilson, T., et al. (2021, June 22). *Bitcoin rallies after dropping below \$30,000 on China crackdown*. Reuters. <https://www.reuters.com/business/bitcoin-recoups-some-losses-asia-after-plunging-chinese-crackdown-2021-06-22/>.

technology, albeit not the same decentralized technology used by cryptocurrencies. Indeed, President Xi's speech in October 2019 demanding that China "seize the opportunities" blockchain technology presents made waves worldwide, but China has pursued a very different path from Western countries when it comes to blockchain technology, one that does not involve cryptocurrencies or focus on privacy.⁸

Cryptocurrencies have long been the target of decisive government action in China. In 2013, the People's Bank of China (PBOC) barred financial institutions from processing Bitcoin transactions in a move to regulate the virtual currency. At the time, the currency had just experienced an 89-fold increase in value, sparking a surge of investor interest across the mainland that resulted in China emerging for the first time as the world's biggest trader of Bitcoin.⁹ The PBOC declared that Bitcoin isn't a currency with "real meaning," is not entitled to the same legal status as fiats, and cannot be used

⁸ Kharpal, A. (2019, December 16). *With Xi's backing, China looks to become a world leader in blockchain as US policy is absent*. CNBC. <https://www.cnbc.com/2019/12/16/china-looks-to-become-blockchain-world-leader-with-xi-jinping-backing.html>.

⁹ Bloomberg News. (2013, December 5). *China Bans Financial Companies From Bitcoin Transactions*. Bloomberg.com. <https://www.bloomberg.com/news/articles/2013-12-05/china-s-pboc-bans-financial-companies-from-bitcoin-transactions>.

as legal tender.¹⁰ Chinese financial institutions and regulators had come to view these digital coins as a threat to capital controls and financial stability. As Hong Hao, head of China research at Bocom International Holdings Co. in Hong Kong, told Bloomberg at the time, “the concern is that it interferes with normal monetary policy operation.” He went on to explain that Bitcoin “represents an unofficial leakage to the current monetary system and trades globally. It is difficult to regulate and could be used for money laundering. I think the central bank is right to make this move.”¹¹

However, the measures implemented in 2013 seemed to have little effect on the crypto frenzy which took hold of the Chinese economy. By November 2015, an estimated 92% of global Bitcoin trading was done using Chinese yuan.¹² However, it was only a matter of time before the cryptocurrency once again found itself in the firing line of Chinese regulation. In 2017, Chinese financial authorities turned their attention to crypto exchanges and made it illegal to engage in the cryptocurrency-based fundraising process, known as initial coin offerings (ICO). The new regulation also

prohibited cryptocurrency exchange platforms from converting fiat currency into crypto and vice versa. By September of that year, exchanges like Shanghai-based BTCC were forced to close their trading operations.¹³ The move was complete within two months, and by November 2017, the yuan accounted for a mere 0.07% of the total Bitcoin market.¹⁴

The 2017 regulations somewhat slowed down and shrank the market for Bitcoin in China. However, in the face of Beijing’s tightening crypto regulation, Chinese traders and exchanges simply moved their operations to foreign servers, creating a sort of gray market. Ultimately, Chinese Bitcoin enthusiasts were able to maintain their status as a significant force in the trade.¹⁵ Using offshore exchange markets and peer-to-peer payment services to delink their payments, these investors employed creative measures to escape government scrutiny of their crypto dealings.¹⁶ The inherently anonymous nature of cryptocurrencies also makes it difficult for Chinese regulators to curb crypto trading in the country, despite aggressive measures attempting to do so. In early 2018, China

¹⁰ Hern, A. (2013, December 5). *Bitcoin price tumbles after warning from Chinese central bank*. The Guardian. <https://www.theguardian.com/technology/2013/dec/05/bitcoin-price-tumbles-chinese-central-bank-warning>.

¹¹ Bloomberg News, 2013.

¹² Kharpal, A. (2021, May 26). *Chinese bitcoin traders still wield 'enormous influence' despite Beijing's 4-year crypto crackdown*. CNBC. <https://www.cnbc.com/2021/05/26/chinese-bitcoin-traders-wield-enormous-influence-despite-crackdown.html>.

¹³ Seth, S. (2020, September 12). *Is Bitcoin Banned in China?* Investopedia. <https://www.investopedia.com/news/bitcoin-banned-china/>.

¹⁴ Kharpal, May 2021.

¹⁵ Rapoza, K. (2017, November 2). *Cryptocurrency Exchanges Officially Dead In China*. Forbes. <https://www.forbes.com/sites/kenrapoza/2017/11/02/cryptocurrency-exchanges-officially-dead-in-china/?sh=5805fb1a2a83>.

¹⁶ Bloomberg News. (2021, May 31). *Despite crypto crackdown in China, traders still betting*. Al Jazeera. <https://www.aljazeera.com/economy/2021/5/31/despite-crypto-crackdown-in-china-traders-continue-bets>.

implemented a ban on over-the-counter sales, peer-to-peer trading, and foreign listings in an attempt to eliminate these loopholes, but the effect of these measures appears to have been largely symbolic.¹⁷

Notably, the 2017 directives did not make mining, owning, buying, or selling cryptocurrencies illegal. “Chinese law specifically protects virtual private property, and this includes virtual money,” notes Chinese journalist Frida Qi in *SupChina*. “As far back as 2003, Chinese courts have accepted and protected virtual items [...] as property of their owners.”¹⁸ In 2019, China’s central bank (PBOC) announced it would “block access to all domestic and foreign cryptocurrency exchanges and ICO websites.”¹⁹ The move triggered a shift of Chinese investors to offshore exchanges in Japan and Hong Kong using VPNs, despite authorities announcing they would move to ban access to these as well.²⁰ This move clearly benefited Korean, Japanese, and Hong Kong exchange service providers, as well as Western

exchanges in Canada, the US, and Switzerland, and seems to not have made a significant dent in the scope of Chinese trading.²¹

That same year, the National Development and Reform Commission proposed taking official action against Bitcoin mining. This would entail designating it an industry to be phased out from the country in China’s Catalog for Guiding Industry Restructuring, a document outlining official governmental industrial policy published periodically since 2005. However, the NDRC rescinded their directive just two months before the catalog took effect in Jan 2020, and Bitcoin lived to see another day in China.²²

The 2021 Crackdown: ‘Judgment Day’ for Bitcoin in China?

The most recent crackdown has been framed by many media outlets as a reiteration of the previous bans in 2013 and 2017.²³ However, the new measures implemented by Chinese institutions are designed to make it significantly more difficult for Chinese actors to trade cryptocurrencies than before. According to the

¹⁷ Duque, J. J. (2020). State involvement in cryptocurrencies. A potential world money? *The Japanese Political Economy*, 46(1), 65–82. <https://doi.org/10.1080/2329194x.2020.1763185>

¹⁸ Qi, F. (2021, May 11). *Bitcoin mining is still huge in China despite new ban in Inner Mongolia*. *SupChina*.

<https://supchina.com/2021/03/09/bitcoin-mining-is-still-huge-in-china-despite-new-ban-in-inner-mongolia>.

¹⁹ Seth, 2020.

²⁰ Sharma, R. (2020, September 12). *China To Crack Down On International Cryptocurrency Trading By Its Citizens*. Investopedia. <https://www.investopedia.com/news/china-plans-crack-down-international-cryptocurrency-trading-its-citizens/>.

²¹ Sharma, R. (2020, September 12). *Which Countries Benefit From China's Crackdown On Bitcoin Mining?* Investopedia.

<https://www.investopedia.com/news/which-countries-benefit-chinas-crackdown-bitcoin-mining/>.

²² Khatri, Y. (2019, November 6). *China decides to not eliminate crypto mining industry in a new final plan*. The Block. <https://www.theblockcrypto.com/linked/46041/china-decides-to-not-eliminate-crypto-mining-industry-in-a-new-final-plan>.

²³ Shen, M. (2021 May 18). *China Reiterates Crypto Bans From 2013 and 2017*. Coindesk. <https://www.coindesk.com/china-reiterates-crypto-bans-from-2013-and-2017>

May 18 announcement by Chinese industrial associations of internet finance, banking, and payment and clearing, financial institution members, payment institutions, and other agencies are forbidden from using cryptocurrency to price products or services. Moreover, internet platform enterprises shall not provide services for virtual currency-related business activities. The announcement also stipulated that it is forbidden to underwrite insurance policies related to cryptocurrency or bring digital currencies into insurance liability coverage.²⁴ The ban has inspired provincial authorities throughout the country to step up efforts to censor online crypto exchanges and curb Bitcoin mining.

In Yunnan, an investigation was launched into “misappropriation and unauthorized use of electricity by Bitcoin miners”, Inner Mongolia announced new energy-saving measures targeting mining operations, and authorities in Qinghai and Xinjiang banned new mining projects and ordered existing ones to shut

down.^{25,26,27} Hong Kong also announced that it would require all cryptocurrency exchanges to be licensed by a financial regulator and provide services solely to “professional investors” with portfolios exceeding 8 million HKD (~\$1 million), essentially barring individual investors from the market.²⁸

Initially, many local miners were planning to relocate their operation to Sichuan and Yunnan, known hotbeds for “extracting” bitcoin and home to abundant hydroelectric energy sources.²⁹ These miners were hoping regulators in those regions would adopt a softer approach due to the surplus of hydro-powered resources. Such speculation failed to account for authorities' determination to hinder mining efforts in the country. As CEO of Shenzhen-based blockchain company BankLedger Shentu Qingchun told the *Global*

²⁵ Shen, S., & Chow, E. (2021, June 12). *China's cryptocurrency-mining crackdown spreads to Yunnan in southwest*. Reuters. <https://www.reuters.com/technology/chinas-cryptocurrency-mining-crackdown-spreads-yunnan-southwest-media-2021-06-12/>.

²⁶ Reuters. (2021, May 25). *China's Inner Mongolia escalates crackdown on cryptomining*. Reuters. <https://www.reuters.com/technology/chinas-inner-mongolia-escalates-crackdown-cryptomining-2021-05-25/>.

²⁷ Shen, S., & John, A. (2021, June 11). *More Chinese provinces issue bans on cryptomining*. Reuters. <https://www.reuters.com/business/more-chinese-provinces-issue-bans-cryptomining-2021-06-11/>.

²⁸ John, A. (2021, May 21). *Hong Kong to restrict crypto exchanges to professional investors*. Reuters. <https://www.reuters.com/technology/hong-kong-restrict-crypto-exchanges-professional-investors-2021-05-21/>.

²⁹ Wong, S. (2021, April 8). *China: installed hydropower capacity by region, 2018*. Statista. <https://www.statista.com/statistics/302327/china-installed-hydropower-capacity-by-region/>.

²⁴ Xinhuanet. (2021, May 21). *Chinese associations flag virtual currency risks*. Xinhua News. http://www.xinhuanet.com/english/2021-05/19/c_139954372.htm

Times, "We had hoped that Sichuan would be an exception during the clampdown as there is an electricity glut there in the rainy season. But Chinese regulators are now taking a uniform approach, which would overhaul and rein in the booming Bitcoin mining industry in China."³⁰ Mr. Shentu went on to explain that "more than 90 percent of Bitcoin mining capacity, or one-third of the global crypto network's processing power, will be suspended in the short term."

While China reportedly accounts for over three quarters of global Bitcoin mining operations, recent government crackdowns have led several major companies like HashCow to stop selling mining "rigs" to clients in China.^{31,32} Facing rising uncertainty about the future prospects of their business, many Chinese miners have begun to consider other alternatives, selling their equipment at what some media outlets dubbed a "fire sale" to foreign miners or relocating their operations to countries such as Kazakhstan,

Iceland, Canada, or the United States.³³ Chinese BIT Mining has already sent 320 machines to Kazakhstan following the suspension of its operations in Sichuan. The Publicly listed company (NYSE: BTCM) plans to deliver another 2600 machines to the central Asian country by the start of July. BIT Mining has also invested \$ 25 million to establish a new mining operation in Texas.³⁴

Shortly after mining operations countrywide began shutting down, Chinese Bitcoin-related social media accounts with hundreds of thousands of followers were blocked on platforms like Sina Weibo. Many of these accounts belonged to some of the most influential online celebs in the cryptocurrency industry, including Trader Xiaoxia, Fat Nerds Bitcoin, Super Bitcoin, and Blockchain William. Meanwhile, the Baidu search engine blocked cryptocurrency-related keywords. According to Wang Peng, an assistant professor at the Gaoling School of Artificial Intelligence at the Renmin University of China, this represents "another strike against the industry chain after the recent crackdown on Bitcoin mining. It specifically targets upstream sectors such as marketing for

³⁰ Global Times. (2021, June 20). *China to shut down over 90% of its Bitcoin mining capacity after local bans*. Global Times. <https://www.globaltimes.cn/page/202106/1226598.shtml>.

³¹ Jiang, S. et al. (2021). Policy assessments for the carbon emission flows and sustainability of Bitcoin blockchain operation in China. *Nature Communications*, 12(1). <https://doi.org/10.1038/s41467-021-22256-3>

³² He, L. (2021, May 24). *China mines more bitcoin than anywhere else. The government wants that to stop*. CNN. <https://edition.cnn.com/2021/05/24/investing/bitcoin-mining-china-crackdown-intl-hnk/index.html>.

³³ Volpicelli, G. M. (2021, June 4). *China has triggered a bitcoin mining exodus*. WIRED UK. <https://www.wired.co.uk/article/china-bitcoin-mining-ban-kazakhstan>.

³⁴ Crawly, J. (2021, June 22). *Chinese Bitcoin Mining Company Delivers First Machines to Kazakhstan*. Coindesk. <https://www.coindesk.com/chinese-bitcoin-mining-company-delivers-first-machines-to-kazakhstan>

initial coin offerings (ICO), as well as sales and investor acquisition.”³⁵

On June 21st, the PBOC summoned Ant Group’s Alipay, the Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, and Postal Savings Bank of China to attend a meeting where they were instructed to step up their clampdown on cryptocurrencies. The PBOC urged the financial institutions to block payment services for all accounts thought to be involved in cryptocurrency transactions and to cease offering services like account opening, registration, and trading for any cryptocurrency-related activities. According to a statement released by the central bank, “Cryptocurrency transactions and speculative activities have disrupted the normal economic and financial order. They increase the risks of crimes such as illegal cross-border transfers of assets and money laundering, which severely infringe upon the property safety of the general public.” Shortly after, Alipay announced that it would establish a monitoring system to identify cryptocurrency-related transactions, and any traders who engage in such activities will be banned from the platform. The four state owned banks released statements voicing similar actions.

³⁵ Global Times. (2021, June 6). *Chinese crypto-related social media accounts blocked amid tightened scrutiny*. Global Times. <https://www.globaltimes.cn/page/202106/1225509.shtml>.

Meanwhile, Chinese state-run media outlets have been assisting Beijing in its efforts to quash Bitcoin across the mainland by publishing a series of reports encouraging the public to be wary of trading on cryptocurrency markets. Much of the discourse emanating from Xinhua and China Central Television (CCTV) has focused on what the outlets have dubbed “rampant” crypto market manipulation.³⁶ CCTV has also broadcast news clips designed to educate the public on the simplicity of creating blockchain tokens “out of thin air” and pointing to numerous scams that utilize such methods to defraud unwitting retail investors. The publishing houses repeatedly emphasized that Bitcoin is a lightly-regulated asset that is frequently wielded by those on the black market to engage in money laundering, arms smuggling, gambling, and drug dealing. According to a notice seen by Bloomberg, police have been assisting with this dissemination campaign by distributing warnings about the risks associated with cryptocurrencies. Virtual currencies are among popular means for latest scams, and anyone “in a panic, having a hard time distinguishing or not sure what to do” should call the local law enforcement departments, read the documents.³⁷

³⁶ Zhao, W. (2021, June 3). *Xinhua says people have the freedom to trade bitcoin – at their own risk*. The Block. <https://www.theblockcrypto.com/post/107064/china-xinhua-bitcoin-freedom-risk>.

³⁷ Bloomberg News. (2021, May 31). *Crypto traders defy China’s crackdown with secretive bets*. <https://www.bloomberg.com/news/articles/2021-05-30/crypto-traders-defy-china-s-crackdown-with-secretive-bets>

Why China wants the Bitcoin Gone

On March 13, 2021, China's National People's Congress (NPC) approved the outline of the country's 14th Five-Year Plan. The document serves as the blueprint for China's development for the 2021-2025 period. A close reading of the document is helpful in illuminating the motivations behind the Bitcoin ban of 2021. The plan emphasized the need for China's financial sector to serve the real economy rather than engaging in purely speculative activities that provide limited real economic and social benefits. The blueprint envisions a Chinese economy that is increasingly focused on high-quality growth, innovation, digital, domestic consumption, improved living standards and the environment.³⁸ Moreover, The 14th Five-Year Plan designated data as one of the national resources that form the backbone of the country's economy and highlighted that China will promote the research and development of its own digital currency. Notably, both blockchain and fintech were mentioned in the document for the first time in its 14 iterations.³⁹ China's financial institutions, markets, regulators and policies are expected to support each of these themes. Within this

³⁸ Wang, S. et al. (2021, March 22). *China's 14th Five-Year Plan - Key takeaways for financial services*. Lexology. <https://www.lexology.com/library/detail.aspx?g=8db7895f-c374-4f71-a477-c318c6ab192b>.

³⁹ Yin, D. (2021, June 17). *China's plan to nationalize private companies' data*. Protocol. <https://www.protocol.com/china/china-national-security-data-exchange>.

context, China appears to have three major interests in curbing cryptocurrency activity both within its borders and internationally: **preserving stability in the financial system, deepening the surveillance state, and ensuring its green transition.**

Stability in the Financial System

The Chinese government is supremely concerned with preserving stability and “social order”. As an authoritarian regime in the digital age, maintaining control over a massive and highly diverse population is the Communist Party's fundamental concern at all times. A main source of legitimacy for the CCP in the past several decades has been the extraordinary economic growth that China has experienced.⁴⁰ From 1990-2019, Chinese GDP per capita grew by an astonishing average of 9.4% a year, meaning that the average Chinese citizen doubled their wealth every eight years.⁴¹ The Party understands that its power is contingent upon ensuring the ‘better life’ of the people. This logic is deeply rooted in a Chinese concept that dates back to the 13th century BCE, known as the Mandate of Heaven. The mandate is bestowed upon the leader and his family on condition that he possesses the moral quality of

⁴⁰ Kwok, C. (2020, July 10). *(Un)realistic utopia: Rethinking political legitimacy, democracy, and resistance in China*. Contemporary Political Theory. <https://link.springer.com/article/10.1057/s41296-020-00423-3>.

⁴¹ World Bank. (2020). *GDP per capita, PPP (current international \$) - China*. Data. <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?end=2019&locations=CN&start=1961&view=chart>.

virtue. As Yuan-li Wu explains, “virtue guaranteed ethically correct actions by the ruler and supplied the basis for the acknowledgment of the ruler’s supreme authority by the people. The people’s happiness, on the other hand, was to be his chief concern.”⁴² If the mandate was ever lost, then the emperor and his dynasty could be overthrown. This makes financial stability a paramount interest of the CCP to preserve its leadership position.

Cryptocurrencies are anything but stable. Concerned about the risks of the massive price gains that cryptocurrencies have experienced over the past several years, financial institutions such as the ECB have warned about a “surge in Bitcoin prices [that] has eclipsed previous financial bubbles like the “tulip mania” and the South Sea Bubble in the 1600s and 1700s,” posing huge risks to investors.⁴³ A recent study by Baur and Dimpfl found that in a typical month, Bitcoin experiences price swings 5-7 times higher than those observed in the stock market.⁴⁴ In a single day in mid-May, Bitcoin lost 30% of its value, wiping out hundreds of billions of dollars of value before rebounding back up 20% several days later, in one of eight

⁴² Wu, Y.-L. (2019). *Human rights in the People's Republic of China*. Routledge.

⁴³ European Central Bank. (2021, May 19). *Financial Stability Review, May 2021*. <https://www.ecb.europa.eu/pub/financial-stability/fsr/html/ecb.fsr202105~757f727fe4.en.html>. Section 2.2.

⁴⁴ Baur, D. G., & Dimpfl, T. (2021, January 5). *The volatility of Bitcoin and its role as a medium of exchange and a store of value*. *Empirical Economics*. <https://link.springer.com/article/10.1007/s00181-020-01990-5>.

separate incidents in which the cryptocurrency lost over a quarter of its value in a single day in the past few years.⁴⁵ This year alone, several events sent the price of Bitcoin soaring or crashing in a way fiat currencies never do. These include the aforementioned Chinese restrictions on crypto mining, Elon Musk’s announcement (and subsequent retraction and reaffirmation⁴⁶) that Tesla would buy Bitcoin and accept it as payment, and US Treasury Secretary Janet Yellen calling Bitcoin “highly speculative” and “extremely inefficient”.^{47,48}

For a government so concerned with the preservation of financial security, China is understandably prepared to take aggressive action against a development it views as a threat to the stability of its regime. These concerns are nothing new, and the Chinese crackdowns on Bitcoin have been inextricably linked to other developments concerning the stability of the financial sector. Ever since the 2008 global

⁴⁵ Li, Y. (2021, May 25). *Bitcoin's trading action lately is wild even by crypto's standards and the drama is not over yet*. CNBC.

<https://www.cnbc.com/2021/05/24/bitcoins-trading-action-lately-is-wild-even-by-cryptos-standards-and-the-drama-is-not-over-yet.html>.

⁴⁶ Singh, H. (2021, June 14). *Bitcoin Rises Above \$40,000 on Elon Musk Tweet, MicroStrategy Plans*. The Wall Street Journal. <https://www.wsj.com/articles/bitcoin-rises-above-40-000-on-elon-musk-tweet-microstrategy-plans-11623697987>.

⁴⁷ Kovach, S. (2021, February 8). *Tesla buys \$1.5 billion in bitcoin, plans to accept it as payment*. CNBC. <https://www.cnbc.com/2021/02/08/tesla-buys-1point5-billion-in-bitcoin.html>.

⁴⁸ Cox, J. (2021, February 24). *Yellen sounds warning about 'extremely inefficient' bitcoin*. CNBC. <https://www.cnbc.com/2021/02/22/yellen-sounds-warning-about-extremely-inefficient-bitcoin.html>.

financial crisis (GFC), the fear of lender illiquidity sparking a financial crisis that ripples into other sectors has gripped China's central authorities in a way that borders on paranoia. These fears have only been strengthened by the Chinese stock market crash in 2015, which did not spark an economic catastrophe but provided plenty of red flags for China's economic planners.⁴⁹

In this context, Bitcoin has been closely linked with the rest of China's concerns over financial stability. Indeed, the first calls to impose stricter regulation on the shadow banking industry emerged in 2012, mere months before the very first Bitcoin crackdown.^{50,51} It is also no coincidence that less than a year before the 2017 Bitcoin crackdown, Zhou Xiaochuan, who headed the PBOC from 2002 to 2018, cautioned officials that a failure to curb financial risks on the mainland could lead to a "Minsky Moment."^{52,53} Shortly after Mr. Zhou's announcement, China launched a campaign to

crackdown on the massive shadow banking industry that was flourishing in the country in the wake of the GFC, and Bitcoin followed shortly thereafter.⁵⁴

Another factor at play in China's financial concerns with cryptocurrencies is China's strict limitations on capital transfers. The Chinese government is perpetually attempting to keep the value of the yuan low and stable to increase the attractiveness of Chinese exports internationally, drawing the ire of the U.S. and other manufacturing nations in the process. The Trump administration even went so far as to designate China a currency manipulator, a designation that was later retracted during Trump's last week in office.⁵⁵ In an attempt to ensure stable currency values and foreign reserve levels, China also implements fairly strict capital controls on its citizens and companies operating within its borders. These were made even stricter in late 2016, with mandated government approval for large transactions, purchases, and remittances made by foreign companies.⁵⁶ Cryptocurrencies like

⁴⁹ Lee, T. B. (2015, July 8). *China's stock market crash, explained*. Vox. <https://www.vox.com/2015/7/8/8908765/chinas-stock-market-crash-explained>.

⁵⁰ Gang, X. (2012, October 12). Regulating shadow banking. https://www.chinadaily.com.cn/opinion/2012-10/12/content_15812305.htm.

⁵¹ Hsu, S. (2015, November 19). *The Rise and Fall of Shadow Banking in China*. The Diplomat. <https://thediplomat.com/2015/11/the-rise-and-fall-of-shadow-banking-in-china/>.

⁵² Aluf, D., & Barzilai, D. (2021, May 28). *The real motivation behind China's digital Yuan*. Asia Times. <https://asiatimes.com/2021/05/the-real-motivation-behind-chinas-digital-yuan/>

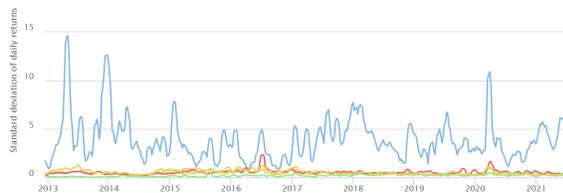
⁵³ A Minsky Moment refers to the collapse of asset prices ignited by debt or currency pressure following an extended period of growth.

⁵⁴ Wildau, G. (2016, July 29). *China regulator launches fresh shadow banking crackdown*. Financial Times. <https://www.ft.com/content/44ff3492-553f-11e6-9664-e0bdc13c3bef>.

⁵⁵ Franck, T. (2020, January 15). *US removes China from currency manipulator list ahead of trade deal signing*. CNBC. <https://www.cnbc.com/2020/01/13/us-will-no-longer-consider-china-a-currency-manipulator.html>.

⁵⁶ Wortley, S., & Bains, R. (2017, January). *China's Capital Controls - Implications for China Focused Companies*. McMillan LLP. <https://mcmillan.ca/insights/chinas-capital-controls-implications-for-china-focused-companies/>.

Bitcoin, with their wildly fluctuating exchange rates and high degree of anonymity, are a serious threat to China’s ambitions in this regard, as they make it easier for individuals and firms to transfer large sums of yuan into other currencies and out of the country, escaping scrutiny and circumventing capital controls in a way that would not be possible with traditional currencies.



Bitcoin price volatility (USD, blue) compared to USD-EUR (yellow), USD-CNY (green), and USD-GBP (red) since 2013⁵⁷

Mark Twain’s oft-repeated adage that “history doesn’t repeat itself, but it often rhymes” seems rather fitting in this context. In the months before the 2021 Bitcoin ban, China launched a campaign to rein in massive fintech companies Alibaba, Tencent, and ByteDance.^{58,59} The growing “independence” of these giants has

invoked anxiety amongst members of the CCP, as their control over massive amounts of data and immense popularity has raised newfound concerns surrounding the emergence of power cells that could morph into political pressure on Xi Jinping himself. This was particularly visible in the case of Jack Ma and the canceled IPO of his Ant Group in November of last year, which was widely reported in global media.^{60,61} This was reflected in the 14th Five-Year Plan, which called for harnessing the capabilities of financial technology and was accompanied by a series of new regulations designed to rein these companies in, along with their data. Beijing has since forced Ant to register as a financial holding company, making it subject to more extensive compliance with the respective regulatory authorities.

China’s financial system has long served as the central pillar of its state-led development model, facilitating experimental economic reform while maintaining centralized political control by the Party. Maintaining its integrity has always been of paramount concern. Against the backdrop of the COVID-19 pandemic and resulting global recession, maintaining financial stability has taken on a new significance to decision-makers

⁵⁷ *The Bitcoin Volatility Index*. Bitcoin Volatility Index. (2021). <https://www.buybitcoinworldwide.com/volatility-index/>.

⁵⁸ ByteDance recently entered the fintech industry with the launch of its very own mobile payment system. See: Kharpal, A. (2021, January 20). *TikTok owner ByteDance launches payments in China as it pushes into fintech and e-commerce*. CNBC. <https://www.cnbc.com/2021/01/19/tiktok-owner-byte-dance-launches-mobile-payments-in-china.html>.

⁵⁹ BBC. (2021, April 30). *Giants Tencent, Bytedance among companies reined in by China*. BBC News. <https://www.bbc.com/news/business-56938864>.

⁶⁰ Sender, H. (2020, November 17). *Jack Ma vs. the Party: Inside the collapse of the world's biggest IPO*. Nikkei Asia. <https://asia.nikkei.com/Spotlight/Most-read-in-2020/Jack-Ma-vs.-the-Party-Inside-the-collapse-of-the-world-s-biggest-IPO>.

⁶¹ Zhong, R. (2020, November 6). *In Halting Ant's I.P.O., China Sends a Warning to Business*. The New York Times. <https://www.nytimes.com/2020/11/06/technology/china-ant-group-ipo.html>.

in Beijing. As Fan Gang, Professor of Economics at Peking University, told the audience in his keynote address at the Huawei Intelligent Finance conference in June of this year, “the biggest risk post-pandemic will be financial risk.”⁶² Prof. Fan explained that in 2008, China was able to insulate itself from the crisis. But today, the country finds itself entangled in global value chains in a way that makes such insulation difficult to realize. This context helps lend clarity to China’s pursuit of the dual circulation⁶³ of the Chinese economy and illuminates the real concerns of the CCP regarding cryptocurrencies. All considered, it’s not surprising that the PBOC statement released in May dubbed virtual currencies “a specific virtual commodity that is not issued by a monetary authority, has no monetary properties such as legal compensation and compulsion, is not a real currency, and should not and cannot be used as currency in the market.”⁶⁴

⁶² Aluf, D. (2021, June 10). *China finance meets the 4th Industrial Revolution*. Asia Times. <https://asiatimes.com/2021/06/china-finance-meets-the-4th-industrial-revolution/>.

⁶³ The theory of “dual circulation” proposes a rebalancing of China’s economy away from global integration (the first circulation) and toward increased domestic reliance (the second circulation). It stems from Beijing’s belief that China has entered a new paradigm that combines rising global uncertainty and an increasingly hostile external environment, and aims to serve China’s goals of attaining self-sufficiency.

⁶⁴ China Internet Finance Association et al. (2021, May 18). 中国互联网金融协会 中国银行业协会 中国支付清算协会关于防范虚拟货币交易炒作风险的公告. https://finance.sina.com.cn/money/bank/bank_yhfg/2021-05-18/doc-ikmyaawc6082415.shtml

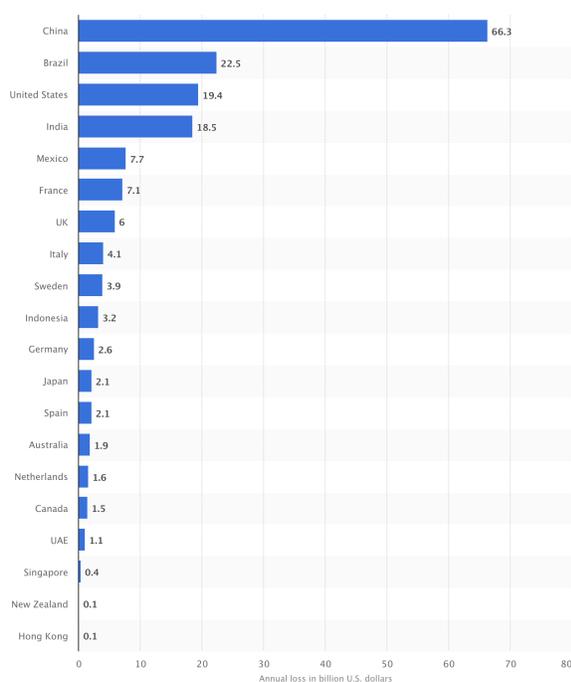
Financial Crimes

Bitcoin and the shadow banking industry are also both viewed as threats to China’s financial stability due to their ability to facilitate financial crime. As China’s economy rose to the ranks of the world’s second-largest economy, it also witnessed an explosion of financial crime. In 2017, it was estimated that financial crimes across the People’s Republic led to roughly \$66 billion in consumer losses, as much as the next four countries combined.⁶⁵ To lend perspective to the severity of the situation, China’s Ministry of Public Security (MPS) reported that its security apparatus investigated 159,000 financial crime cases in 2019, recovering an estimated 100 billion yuan (\$14 billion).⁶⁶ A year later, China’s judicial organs stepped up efforts to crack down on financial offenses, adopting a “zero-tolerance” policy on the issue. Results were quick to follow: the year 2020 saw the prosecution of 41,000 people for financial crimes, a 3.2% increase from the previous year.⁶⁷

⁶⁵ Johnson, J. (2021, January 25). *Countries with the largest cyber crime losses, 2017*. Statista. <https://www.statista.com/statistics/799875/countries-with-the-largest-losses-through-cybercrime/>.

⁶⁶ Xinhua. (2020, May 17). Chinese police handle 159,000 economic crime cases in 2019. http://english.www.gov.cn/statecouncil/ministries/202005/17/content_WS5ec0cbc6d0b3f0e9497d65.html.

⁶⁷ According to work reports of the Supreme People’s Procuratorate (China’s prosecutor general) and the Supreme People’s Court. See: Xinhua. (2021, March 8). *China toughens crackdown on financial crimes*. Xinhuanet. http://www.xinhuanet.com/english/2021-03/08/c_139794198.htm.



*Consumer losses from financial crimes by country, 2017*⁶⁸

Despite China’s efforts to curb money laundering, tax evasion, Ponzi schemes, and illegal fundraising, these crimes still cost the country many billions of dollars each year. Due to their anonymous properties, cryptocurrencies have been increasingly used by hackers and criminals to extort, defraud, and deceive individuals all over the world. While cryptocurrencies are not responsible for this development, their anonymity and difficulty in tracing have made it easier for criminals to target individual consumers and engage in ransomware attacks against commercial firms. According to the MPS, at least 1 trillion yuan (US\$145.5 billion) worth of funds flows out of China into gambling activities annually, and cryptocurrencies have an intractable role in this story. Liao Jinrong, the director-general of the

⁶⁸ Johnson, 2021.

International Cooperation Department under the MPS explained that “gangs running illegal gambling operations use digital currencies to collect and transfer funds, making it difficult to trace the source and adding significant challenges to investigations.”⁶⁹ On June 10, Reuters reported that Chinese police arrested more than 1,100 individuals suspected of using cryptocurrencies to launder illegal proceeds from telephone and Internet scams in a recent crackdown.⁷⁰ According to the MPS, these fraudsters charged criminals a commission of 1.5% to 5% to convert illegal proceeds into virtual currencies via crypto exchanges.

Scholars and policymakers alike have come to view financial crimes as another potential threat to the stability of CCP rule, giving the Party a clear incentive to take a proactive approach against vehicles like bitcoin that facilitate such financial crimes, both for the welfare of its citizens and for maintaining their trust in the government.⁷¹ So long as cryptocurrencies remain unregulated and relatively anonymous, they will continue to pose a threat to the Party,

⁶⁹ Lee, A. (2020, September 25). *Annual outflow of 1 trillion yuan for gambling strains China's economy*. South China Morning Post. <https://www.scmp.com/economy/china-economy/article/3103045/china-loses-1-trillion-yuan-casinos-and-gambling-every-year>.

⁷⁰ Shen, S., & John, A. (2021, June 10). *China arrests over 1,100 suspects in crackdown on crypto-related money laundering*. Reuters. <https://www.reuters.com/world/china/china-arrests-over-1100-suspects-crackdown-crypto-related-money-laundering-2021-06-10/>.

⁷¹ Liu, E. (1970, January 1). *The Prevention and Control of Economic Crime in China: A Critical Analysis of the Law and its Administration*. SAS. <https://sas-space.sas.ac.uk/6700/>.

and China can be expected to continue seeking to mitigate their use and influence in the Chinese economy. Some analysts have speculated that Chinese officials see their success cleaning up the peer-to-peer lending industry as a model for its cryptocurrency crackdown.

Surveillance Finance

China has built the world's most advanced government surveillance apparatus in human history. Closed-circuit cameras with facial recognition capabilities line the streets of Chinese cities, artificial intelligence is used to monitor individuals' actions and read their text messages, and data is collected about Chinese citizens and enterprises - all stored in vast government databases.^{72,73} Among the most comprehensive of data-driven projects is China's 'Sharp Eyes.'⁷⁴ The system is designed to integrate networks of closed circuit cameras with crowdsourcing technology, feeding large swaths of video footage into AI systems. Sharp Eyes allows authorities to instantly recognize faces, detect suspicious behavior, and track

people's movements in real time.⁷⁵ Another that has gained widespread media attention in recent years is China's "social credit system" (SCS): an array of data networks and initiatives that harness surveillance to monitor and assess the trustworthiness of individuals, companies, and government entities.⁷⁶ Good ratings translate into preferential treatment such as deposit-free housing benefits and priority healthcare, while negative ratings are accompanied by punitive action, such as banning individuals from flights or trains.

The Chinese Communist Party is obsessed with data. The 14th five-year plan is but one of many recent policy documents that has elevated data to the ranks of a small number of "factors of production" - national resources that form the foundation of the country's economy.⁷⁷ Since April 2020, data has been considered of equal importance to land, labor, capital and technology in its potential to generate GDP. In his speech at the Huawei Intelligent Finance Summit, Jason Cao, president of Huawei's Global Financial Services Business Unit, declared that "data is where the value lies. We need to unleash the

⁷² Davies, D. (2021, January 5). *Facial Recognition And Beyond: Journalist Ventures Inside China's 'Surveillance State'*. NPR. <https://www.npr.org/2021/01/05/953515627/facial-recognition-and-beyond-journalist-ventures-inside-chinas-surveillance-sta>.

⁷³ Yang, J. (2020, December 23). *WeChat Becomes a Powerful Surveillance Tool Everywhere in China*. The Wall Street Journal. <https://www.wsj.com/articles/wechat-becomes-a-powerful-surveillance-tool-everywhere-in-china-11608633003>.

⁷⁴ Gershgorn, D (2021 March 21). China's 'Sharp Eyes' Program Aims to Surveil 100% of Public Space. <https://cset.georgetown.edu/article/chinas-sharp-eyes-program-aims-to-surveil-100-of-public-space/>

⁷⁵ Peterson, D. (2021, March 2). *China's 'Sharp Eyes' Program Aims to Surveil 100% of Public Space*. Center for Security and Emerging Technology. <https://cset.georgetown.edu/article/chinas-sharp-eyes-program-aims-to-surveil-100-of-public-space/>.

⁷⁶ Aluf, D. (2019, July 4). *Business as Usual? China's Social Credit System*. Times of Israel. <https://blogs.timesofisrael.com/business-as-usual-chinas-social-credit-system/>.

⁷⁷ Yin, D. (2021, June 17). *China's plan to nationalize private companies' data*. Protocol. <https://www.protocol.com/china/china-national-security-data-exchange>.

data.”⁷⁸ Both the CCP and Mr. Cao understand that the more data is collected, the better AI machines work and the greater are the chances of attaining a complete (or near-complete) picture of any given enterprise. Rather than relying on static growth measures such as financial reports, China’s financial sector has also come to favor dynamic ‘surveillance’ mechanisms that transmit data in real-time, such as satellites, smart cameras, and sensors.⁷⁹ For example, should a bank wish to evaluate a request to finance a farm, the abovementioned technologies can be used to assess arable land without deploying a single person to remote rural areas that are often difficult to reach. When assessing a food business today, analyzing data acquired from Meituan -a digital food order app- is more valuable than examining a company’s quarterly financial summary. Notably, mobile payment services such as WeChat and Alipay, which collect vast amounts of financial data, have become ubiquitous across the country, achieving a penetration rate of 86% according to PBOC statistics.⁸⁰

Such financial data is incredibly useful. In his book *AI Superpowers: China, Silicon Valley and*

⁷⁸ Aluf, 2021.

⁷⁹ Browne, A. (2021, February 20). *Bloomberg New Economy: China Cashless Economy and Surveillance*. Bloomberg.com. <https://www.bloomberg.com/news/newsletters/2021-02-20/bloomberg-new-economy-china-cashless-economy-and-surveillance>.

⁸⁰ Gongsheng, P. (2021, January 28). *How China is Tackling Fintech Risk and Regulation*. People's Bank of China. <http://www.pbc.gov.cn/en/3688110/3688175/4176118/index.html>.

the New World Order, Kai-Fu Lee notes that “data from mobile payments is currently generating the richest maps of consumer activity the world has ever known, far exceeding the data from traditional credit-card purchases or online activity captured by ecommerce players like Amazon or platforms like Google and Yelp.” That data, in turn, gives China an edge in developing AI-driven services. “More data leads to better products, which in turn attract more users, who generate more data that further improves the product.”⁸¹

Prof. Fan Gang, who is also the vice president of the China Society of Economic Reform, explained at the same Huawei summit that the Covid-19 pandemic had only accelerated the trend towards digital payments. Fan highlighted that the introduction of a digital yuan marked a new phase in the digitization of fiat money. “Now when a central bank wants to get information on a transaction, they need to get it through platforms, banks or financial institutions because that’s where the information resides. With digital renminbi, the central bank will have access to such information immediately.” Prof. Fan also took the time to address the topic of bitcoin. “Cryptocurrency is not currency. We need to agree to that,” said Fan. “If you place a bet, people will gamble. It may have some credit that makes it seem like a currency, but it’s not a means of transaction,” he added. Fan further

⁸¹ Lee, K.-F. (2018). *AI Superpowers: China, Silicon Valley, and the New World Order*. Houghton Mifflin Harcourt, 2018.

qualified that “the reason for talking about this is that it is crucial for setting the boundaries clear, we need to digitize currency to protect financial risk”.⁸²

China’s push to digitize its yuan has been met with alarm in the West, where concerns have been raised that the digital yuan would allow the CCP to subvert American sanctions and displace the US dollar as the global reserve currency.^{83,84} These arguments, however, seem to miss the point. China has no intention of displacing the dollar as the global reserve currency, at least not directly. Rather, by augmenting advanced technology such as cloud computing, AI, blockchain, quantum computing, and robotics, China is working to create its very own financial system in parallel to the current one dominated by the US. As David Goldman, deputy editor at the *Asia Times*, explains: “China is creating a new system of world trade and finance that will – as a byproduct – replace the methods of trade financing that have remained in place since the Venetian Republic introduced them in the 13th century.”⁸⁵ Within this Sino-centric financial system, there is little place for cryptocurrencies

like Bitcoin, especially as a medium of exchange that would compete with China’s digital yuan.

In the context of these developments, the use of cryptocurrencies presents a major threat to China’s financial surveillance plans. As mentioned previously, cryptocurrencies like Bitcoin are by their nature anonymous, allowing individuals to trade them without revealing their identities or registering with a larger financial database like a bank account requires.⁸⁶ This is highlighted by the recent spike in ransomware attacks demanding payment in Bitcoin, much of which is untraceable after payment.⁸⁷ There have already been media reports of wealthy Chinese individuals purchasing large amounts of cryptocurrency to shield their wealth from government scrutiny and taxation.⁸⁸ The widespread use of cryptocurrencies by Chinese individuals and firms would allow them to evade state surveillance which has been painstakingly built up over the years, forcing the Chinese government to cede control of crucial information it would most certainly like to possess. This makes cryptocurrencies a threat to the most elaborate surveillance state, which is on the path to becoming the world’s largest cashless society and leader in financial technology.

⁸² Fan, G. (2021, June 3-4). *Global Economic Recovery: Certainties and Uncertainties* [keynote address]. Huawei Intelligent Finance Summit 2021, Shanghai, China.

⁸³ Fanusie, Y. J., & Jin, E. (2021, January 26). *China's Digital Currency*. Center for a New American Security. <https://www.cnas.org/publications/reports/chinas-digital-currency>.

⁸⁴ Rapoza, K. (2021, January 10). *Does China Have A Role In Bitcoin's Rise?* Forbes. <https://www.forbes.com/sites/kenrapoza/2021/01/10/does-china-have-a-role-in-bitcoins-rise/?sh=1b0b7c2b4965>.

⁸⁵ Aluf & Barzilai, 2021.

⁸⁶ *How Anonymous Is Cryptocurrency?* Acuant. (2020, December 9). <https://www.acuant.com/blog/how-anonymous-is-cryptocurrency/>.

⁸⁷ Myre, G. (2021, June 10). *How Bitcoin Has Fueled Ransomware Attacks*. NPR. <https://www.npr.org/2021/06/10/1004874311/how-bitcoin-has-fueled-ransomware-attacks#>.

⁸⁸ Rapoza, 2021.

Climate Change

China has positioned itself as a world leader on climate change, pledging last year to become carbon-neutral by 2060 and making climate policy a central feature of the 14th Five-Year Plan. As the number-one emitter of greenhouse gases responsible for 28% of global emissions, China faces a tremendous challenge in realizing this goal, and cryptocurrencies have become a surprise obstacle in its path.⁸⁹ Crypto mining requires enormous amounts of electricity to be profitable, and Chinese entrepreneurs have taken advantage of government-subsidized electricity in the country to become responsible for an astonishing 79% of global Bitcoin mining operations. As a result, Bitcoin mining alone is expected to emit a peak annual value of over 130 million tons of carbon in 2024, more than the total emissions of entire countries such as Qatar or Czechia, twice as much as Israel, or equivalent to one of China's ten largest (and famously smog-choked) cities.⁹⁰ The energy consumption of Chinese Bitcoin mining alone is projected to surpass the total consumption of Italy and Saudi Arabia, and would have been the 12th-most polluting country in 2016.⁹¹

⁸⁹ Myers, S. L. (2020, September 23). *China's Pledge to Be Carbon Neutral by 2060: What It Means*. The New York Times. <https://www.nytimes.com/2020/09/23/world/asia/china-climate-change.html>.

⁹⁰ Central Intelligence Agency. (2021, June 15). *Israel - The World Factbook*. Central Intelligence Agency. <https://www.cia.gov/the-world-factbook/countries/israel/>.

⁹¹ Jiang et al., 2021. pp.1-3

These shocking figures highlight the depth of the problem China's climate reformers face if they expect to meet Xi's ambitious targets. While China leads the world in installing solar and wind energy generation capacity, it still generates only 24% of its power from renewable sources, dwarfed by the 58% (2019) generated from heavily-polluting coal.^{92,93} To be able to achieve peak carbon emissions by 2030 as planned, China will have to dramatically reduce the amount of electricity it generates from coal in the next few years, and the tremendous domestic demand for power to mine cryptocurrencies makes that very difficult to do. In fact, China actually built more coal plants than the rest of the world combined in 2020 to keep up with demand - over *three times* as many.⁹⁴ This further incentivizes the Chinese government to take a heavy hand against crypto mining, but crypto trading does not factor into this calculus.

What the Future Holds for Bitcoin in China

At the time of authoring this paper, there remains no official law designating buying,

⁹² Shukla, H. (2021, January 21). *China Adds 48.2 GW of Solar Capacity in 2020, its Second Best Year on Record*. Mercom India. <https://mercomindia.com/china-adds-solar-capacity-2020/>.

⁹³ *Coal's share of China energy mix falls to 57.7 per cent in 2019*. IEA Clean Coal Centre. (2020, March 2). <https://www.iea-coal.org/coal-share-of-china-energy-mix-falls-to-57-7-per-cent-in-2019/>.

⁹⁴ Shearer, C., & Myllyvirta, L. (2021, February 2). *China Dominates 2020 Coal Development*. Global Energy Monitor. <https://globalenergymonitor.org/report/china-dominates-2020-coal-development/>.

selling, or owning crypto assets as a criminal offense. All the directives against cryptocurrencies in China were directed by administrative bodies. Nevertheless, the curbing of intermediary services reflects that the Chinese state does not want its citizens dealing in the crypto market. This raises an important question: if Bitcoin is viewed as such a threat to China's leadership, why did the central government not simply designate all Bitcoin-related activity a criminal offense? The answer to this question may well lie in the CCP's need to maintain domestic stability. Despite all the bans and their resulting consequences, Bitcoin remains a big business in China, and millions of private investors holding billions in Bitcoin would likely struggle to move their money out of the market. Any moves to officially criminalize all Bitcoin-related activity could well spark panic across the mainland and trigger instability in the financial system. Nevertheless, China's approach suggests that it isn't going to change course on its actions towards Bitcoin any time soon. From the perspective of the central authorities, there seems no reason (or interests) that would warrant making such a U-turn. Rather, Beijing will likely continue working to squeeze Bitcoin out.

Winston Ma, an adjunct professor at NYU Law School and author of the book *The Digital War*, told the *Guardian* that "the government makes it clear that no Chinese version of Elon Musk can exist in the Chinese crypto market." Ma predicts

that China's supreme court is expected to publish a judicial interpretation in the near future that may link crypto mining and trading businesses with China's criminal law. Ma's view was echoed by a financial regulator, which declared that such an interpretation would address the legal ambiguity that has failed to clearly identify Bitcoin trading businesses as "illegal operations."⁹⁵

⁹⁵ Reuters. (2021, June 7). *China blocks cryptocurrency Weibo accounts in 'judgment day' for bitcoin*. The Guardian. <https://www.theguardian.com/world/2021/jun/07/china-blocks-cryptocurrency-weibo-accounts-in-judgment-day-for-bitcoin>.