

Legal Framework of China's Response to Cryptocurrency: Evidence from Legislation and Judicial Adjudication

Hang Yin, PhD

School of Law, Wuhan University, Wuhan, Hubei, 430072, China
2020101060045@whu.edu.cn

Guo Feng*

Professor, School of Law, Wuhan University, Wuhan, Hubei, 430072, China
fxyfg@whu.edu.cn

Haidong Jia, PhD*

School of Law, Wuhan University, Wuhan, Hubei, 430072, China
2014300080105@whu.edu.cn

Yumei Nan

Associate Professor, School of Law, Wuhan University, Wuhan, Hubei, 430072,
China
wendynym@whu.edu.cn

Abstract: The world's monetary system is changing dramatically, while currencies constitute the backbone of the financial system, the digital economy powered by computers, smartphones and the internet has given rise to crypto-currencies. In October 2022, the UK government in a bid to become a global centre for cryptotechnology and investment enable regulators to react faster developments in the field, the House of Commons voted to allow the Treasury to regulate cryptocurrencies as financial instruments under the Financial Services and Markets Act 2000 (FSMA). An executive order detailing the Biden administration's strategy for regulating crypto-currencies as financial instruments was released in the US. A measure enacted by Congress in 2021 that mandated additional reporting obligations for those engaged in significant cryptocurrency transactions went into the effect in January 2024. China is pushing the "Pilot of the Central Bank's Digital Currency" (DCEP) but has not yet acknowledged the currency status of virtual currencies such as Bitcoin. To adapt shifting times and settings, cryptocurrency policy and legal regulation must strike a balance between financial stability and innovation. This article examines how China's financial stability law can influence future regulatory reforms and the country's legal framework for dealing with crypto-currencies. Understanding China's unique cultural context is crucial for anticipating future regulatory reforms in the global cryptocurrency landscape.

Keywords: Cryptocurrency; Judicial Decision; Regulation; Financial Innovation; Financial Stability

1. INTRODUCTION

According to official statistics, China's digital economy will exceed 45 trillion yuan in 2021, accounting for 39.8% of GDP, an increase of 22.3% compared with 2020. The digital economy has become the most dynamic economic growth point in China. It is estimated that in the past 20 years since China entered into WTO, the contribution of the digital economy to China's overall economic growth has reached as high as 2 / 3, It has dominated China's overall economy's growth performance (David et al., 2022). However, in the same period, the proportion of the digital economy in the GDP of the United States has exceeded 60%, and that is still a significant divide between China and the United States. The development of digital platforms in China and the United States, on the one hand, benefits from the dynamic innovation environment of the two countries, it also benefits from the inclusive and relaxed policy environment of the two countries in the early stage of digital platform development. Recent developments in regulation, and initiatives to provide regulatory clarity in this space, such as the US's Framework on International Engagement on Digital Assets and the EU's Markets in Crypto-Assets (MiCA) preliminary accord. The degree and caliber of regulation in a particular jurisdiction will have an impact on the uptake of stable coins and cryptocurrencies in the future. Large economies like the US and the EU are moving to provide preliminary guidelines since the clarity of regulations influences economic activity (Akhtaruzzaman et al., 2020). However, with weak global economic growth and the accumulation of financial risks, countries have begun to turn to the prevention and control of financial risks and China is no exception. The People's Bank of China and other similar organization issued the prospectus of new financial stability laws for People's Republic of China on 6th April of future years, 2022. In this case, the document is identified as the financial stability law (Draft) and specifically focusing on minimizing, eradicating and averting financial risks. From this standpoint, the policy environment of China for processing the cryptocurrencies has become constrained, revealing signals of the estrangement that requires to defy. Furthermore, more attention should be paid to the cultural factors, and especially, the state-centric and socially conservative orientation in Chinese culture, which helps to shed more lights on such variables as China's regulatory approach and its future evolution. In this context, China has become rather hostile to cryptocurrencies and it is tightening its policy environment to face this challenge, which indicates that there is a form of estrangement that requires to be reversed.

2. THE POSSIBLE JUDICIAL SITUATION

2.1 The Legislative Trends of Digital Currency in China

The People's Republic of China's civil code is one of the most important pieces of legislation in the country. In line with the law's Article 127, "the provisions shall be followed if there are provisions on protecting information and virtual property on networks", thus establishing the fundamental idea of "protecting virtual property on networks in compliance with the law". From the standpoint of data and personal information, China's People's Republic's data security legislation and personal information protection have established the groundwork for the development of cryptocurrencies. The three normative documents issued by regulatory authorities directly regulate cryptocurrency. First, on December 3rd, 2013, the People's Bank of China the China Securities Regulation Commission, and many other agencies released a joint "notice on preventing the risk of bitcoin", which explicitly denied the monetary attribute of Bitcoin (Buchwald, 2019). Second, on September 4th, 2017, the "notice on preventing the financing risk of token issuance" was released by the People's Bank of China collaborating with pertinent ministries, strictly restricted the business activities of ICO, and no longer allowed the crypto digital asset exchange to directly carry out exchange transactions between French currency and cryptocurrency; Thirdly, on September 15th, 2021, jointly issued by the People's Bank of China and the Supreme People's Court a notification on the continued prevention and mitigation of the speculative risk associated with virtual currency transactions, which identified the related business activities of cryptocurrency as illegal financial activities, and cryptocurrency has faced more stringent control in China since. At the same time, taking "The Belt and Road Initiative" construction as an opportunity, China proposes to launch and join a series of international cooperation initiatives and agreements, for instance, "The Belt and Road Initiative" Digital Economy International Cooperation Initiative, the G20 Digital Economy Development Cooperation Initiative, proactively engage in bilateral and international work related to digital governance and support the creation of a transparent, equitable, and nondiscriminatory digital business environment. Therefore, it is not difficult to see that China's legislation on cryptocurrency presents a "pyramid" structure: the effective basic legal rules stipulate the cryptocurrency in principle, but do not directly deny its legitimacy. The less effective rules formulated by the regulators impose strict restrictions on cryptocurrency, which denies its monetary attribute but also denies its

property attribute. The lower-level law is added layer by layer, eventually forming a pyramid-like legislative structure. Understanding this structure through a cultural lens reveals how traditional Chinese values of social harmony, state control, and collective well-being shape the legal and regulatory landscape. This cultural context underscores the cautious approach China takes towards integrating cryptocurrencies in its financial system, balancing innovation with the preservation of social and economic stability.

2.2 Sorting out Judicial Cases: An Empirical Analysis

The exponential expansion of worldwide cryptocurrency marketplaces poses unprecedented obstacles for regulatory bodies. Regulators fear that trading activity may flow over the borders into less regulated jurisdictions and perhaps suffocate a promising new class of financial assets, according to some experts and officials. By giving market players clarification that regulatory interventions may increase activity (Feinstein & Werbach, 2021). Due to the unclear nature of cryptocurrency in the existing laws and the vague regulatory attitude, there are cognitive biases on cryptocurrency and its trading behavior in China, confusing judicial decisions. On the whole, the cases involving cryptocurrency in Chinese courts can be divided into the following types: 1. Whether the disputes involving cryptocurrency transactions between natural persons fall in the scope of the court's acceptance. The People's Court will hear civil cases presented by individuals, legal entities, and other organizations, and between property and interpersonal relationships, according to Article 3 of the People's Procedure Law of the People's Republic of China. However, in practice, some courts hold that, because the regulatory authorities regard cryptocurrency as a non-legal currency, its transaction financing behavior belongs to illegal financial activities. Therefore, as a kind of virtual property, bitcoin lacks legal economic evaluation standards, and disputes involving cryptocurrency are not in the scope of civil litigation because they have no legal property attribute (Savoie & Edwards, 2019). According to the provisions of our country regarding cryptocurrency transactions as illegal financial activities, some courts have identified debts involving cryptocurrency as illegal debts. According to the legal principle that illegal debts are not protected by law, they will not accept such lawsuits and the parties shall bear their risks (Qiao, 2023). 2. Defining the attributes of cryptocurrency, some courts hold that China's legal documents deny the legal status of cryptocurrency as a currency, it does not deny its property

attribute as a commodity. Furthermore, it analyzes the characteristics of the object rights of cryptocurrency from three aspects: the economic value, the degree of scarcity, the controllability and exclusiveness of rights and affirms the property attribute of cryptocurrency (Van Nguyen et al., 2022). However, there are a few courts that regard cryptocurrency as having no legal status, which is regarded as illegal (Xin, 2022).

3. Whether the contract signed with the natural currency is valid or not. At present, there are three types of disputes in the cases accepted by Chinese courts: first, disputes over cryptocurrency sales contract, the buyer purchases corresponding amount of bitcoin, Ethereum and other cryptocurrencies from the seller and pays the price, but the seller fails to perform the payment obligation (Alexander et al., 2020); Second, the contract dispute of cryptocurrency entrusted financial management, the client pays a certain amount of legal currency or cryptocurrency to the trustee, and the trustee makes investment on behalf of the trustee and both parties agree on the corresponding rate of return or minimum guarantee clause and finally causes disputes due to losses; Third, the contract dispute of purchasing mining machine producing cryptocurrency, is the buyer purchases the computer equipped with special mining chip from the seller in order to obtain the virtual currency, or both parties contribute to purchase the mining machine and agree to share the virtual currency after obtaining the virtual currency, and then the dispute is caused due to the seller's failure to deliver or share. In these three kinds of disputes, the defendants put forward the defense of an invalid contract to achieve the purpose of exemption. There is no uniform standard for the judgment of such disputes in Chinese courts and there are big differences. Nearly half of the courts hold that the contract with cryptocurrency as the subject matter is legal and effective. The main reason is that China denies the legal currency attribute of cryptocurrency, it does not deny the property attribute of cryptocurrency, nor does it prohibit the free flow of cryptocurrency among the people. Therefore, both the contract for the sale of cryptocurrency and the contract for entrusted financial management are valid. However, half of the courts held that the contract with cryptocurrency as the subject matter was invalid, because the transaction of cryptocurrency disturbed the financial order and violated the social and public interests. According to the provisions of Article 8 and Article 153 of the civil code on "the contract against public order and good customs is invalid", the validity of the contract was denied.

4. Are other actions related to cryptocurrency invalid? The growing acceptance and use of cryptocurrencies, according to a material called "The Global Financial

and Monetary System in 2030," will help unite markets, institutions and infrastructure in a multipolar, complex and interconnected world. This will pose a problem for the implementation of monetary policy and have an impact on the prevention of financial crime and financial stability (Alekseenko, 2022). In addition to the above disputes, there will be other disputes related to cryptocurrency in practice, such as whether private lending based on cryptocurrency is legal or not, and whether the judicial judgment standards are not uniform. In the contract for entrusted financial management of cryptocurrency, the trustee voluntarily undertakes the loss caused by operational errors, which is recognized by the court (Wu & Zheng, 2020). However, the court denied whether cryptocurrency can be used to repay debts, the main reason is that cryptocurrency does not have monetary property (Fan, 2020). At the same time, in the transaction of cryptocurrency, the party who actively publicizes and introduces others to purchase cryptocurrency will be considered as faulting by the court, thus increasing its responsibility (Macfarlane, 2020). These values and the cultural context of China play a huge role in the approach taken by the Chinese regulators and judiciary to cryptocurrencies, thus having a conservative and rather cautious attitude towards cryptocurrencies, as Confucianism emphasizes hierarchy and respect for authority.

2.3 Contradictions of Judicial Judgment: Overview of 363 Cases from 2018 to 2022

The use of cryptocurrencies can streamline, expedite and secure international payments while eliminating the onerous security and operational procedures associated with the transfer of fiat currency. Regulators are faced with difficulties as a result of their increasing prominence, including concerns about financial stability, stopping money laundering, and stopping the financing of terrorism. Regulators must collaborate with technology specialists and exercise forward-lengthiness in crafting purpose-driven legislation to tackle these crypto crimes (Conlon & McGee, 2020). To form an overall perception of the current judicial decisions of Chinese courts, this paper searches the China judicial documents website for 363 cases involving cryptocurrency disputes in the past five years, which are distributed about more than 20 administrative provinces in China, among Guangdong, Jiangsu, Zhejiang, and Fujian have the most cases. The analysis also considers the cultural context in which these judicial decisions are made. China's rich cultural heritage and societal values undoubtedly influence the interpretation and application of laws

related to cryptocurrencies.

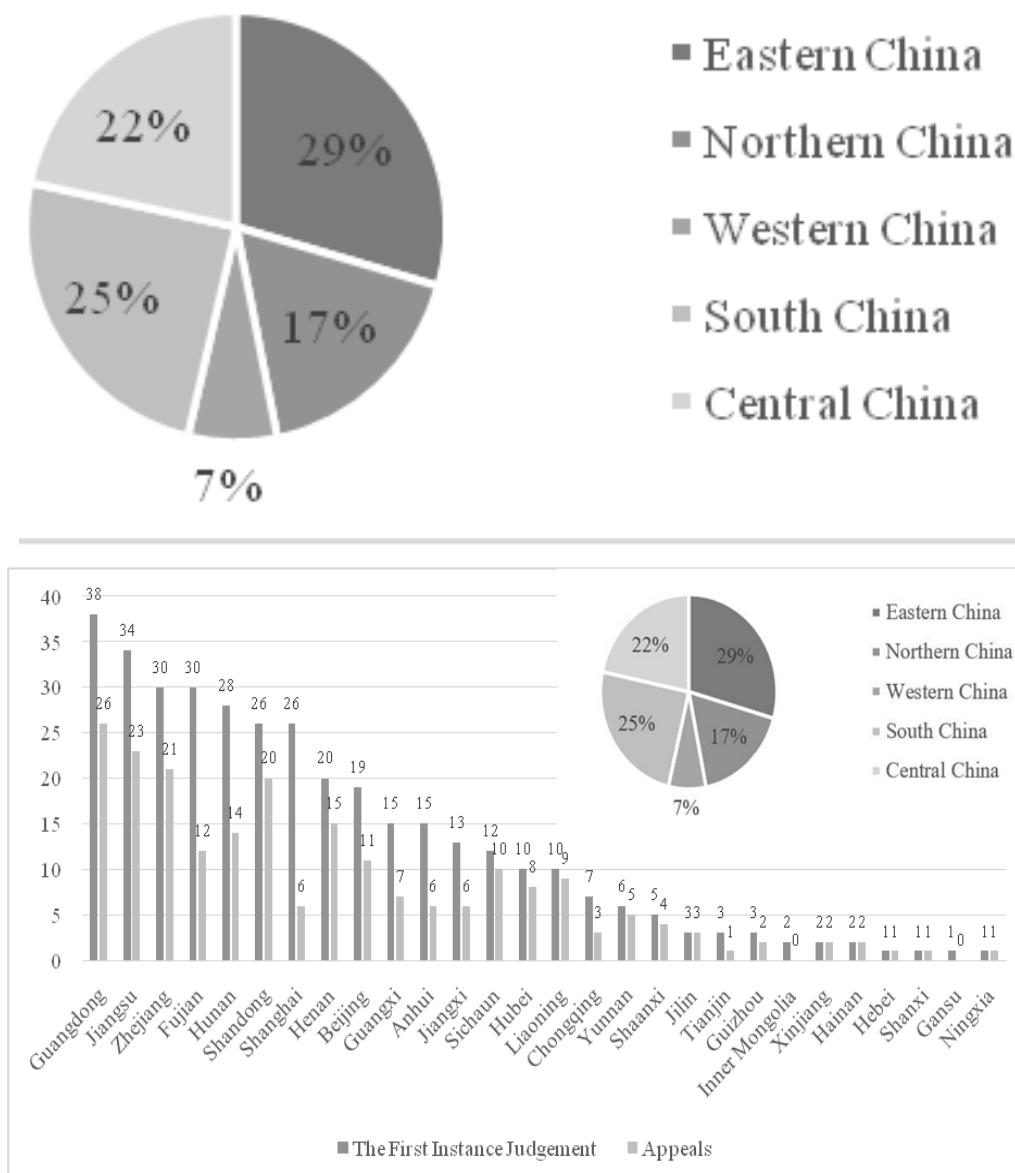


Figure 1: Distribution of Cryptocurrency Judicial Disputes in China's Administrative Regions (2018-2022)

It can be seen from Figure 1 that the current disputes about cryptocurrency are consistent with the development level of China's regional economy, with East China, South China, and Central China having the largest number of disputes, which proves to a certain extent to the positive correlation between the digital economy and economic development. It is worth noting that the appeal rate of cryptocurrency cases is high, which is significantly higher than that of the current ordinary litigation. This shows that the existing judgment standards and reasons of the court have failed to resolve disputes and the underlying reason is the current judicial decisions fail to grasp the core characteristics value of

cryptocurrency (Maciejasz-Świątkiewicz & Poskart, 2020). Combing the legal basis of the current court judgment, mainly focuses on the two provisions: "cryptocurrency does not have monetary attributes" and "transactions involving cryptocurrency are illegal financial activities". However, under this rule, the above-mentioned judicial decisions present contradictions: (1) the contradiction of judgment standards. For example, given the validity of cryptocurrency transaction contracts, the judgment standards of Chinese courts are very inconsistent. Some courts hold that China denies the monetary attribute of cryptocurrency, but not its property attribute, so the relevant contract is valid. However, more courts hold that cryptocurrency is illegal and its trading activities violate public order and good customs, so it is invalid. Furthermore, if the cryptocurrency contract is invalid, whether one party should return the benefits obtained, some courts think that it is necessary to return the interests if they constitutes unjust enrichment, while other think that the parties should bear their risks, and others think that they should bear half of the responsibilities according to the principle of fairness. This divergence extends to the question of returning benefits obtained from invalidated contracts, illustrating varied interpretations rooted in cultural and legal contexts. (2) The basis of the judgment. When the court invokes the rule that "cryptocurrency does not have monetary attributes", it can generally clearly determine that cryptocurrency still has property attributes. However, when the court says "the transactions involving cryptocurrency are illegal financial activities", it will deny the property value of cryptocurrency and consider that it does not meet the economic evaluation criteria (Reiners, 2020), can't be used as a debt service property (Natalya&Abd, 2020), It is even considered illegal. (3) The contradiction of the referee boundary. Given the disputes related to cryptocurrency, some courts strictly abide by the judgment boundary, only denying the monetary attribute of cryptocurrency, but not the property attribute of cryptocurrency. However, there are still many courts to expand the interpretation of "cryptocurrency transactions are illegal transactions", based on which to deny the effectiveness of all transactions related to cryptocurrency. These differing approaches reveal cultural attitudes toward risk management and legal interpretation. The root of judicial conflicts lies in the conflict of legislative norms: as far as the current basic rules of China are concerned, the civil code has established the principle of legal protection of network virtual property. However, to prevent systematic financial risks and maintain financial stability, regulatory policies have further tightened the supervision of cryptocurrency, resulting in conflicts over judicial rules.

3. THE CHINESE MODEL OF DIGITAL CURRENCY REGULATION: POSSIBLE DRAWBACKS

3.1 The Chinese Model of Cryptocurrency Supervision

With the rapid development of financial mixed business, China's financial regulatory model is gradually transitioning to a regulatory model that takes into account the stability of the financial system and market behavior norms. Based on this, the keynote of China's current regulatory policy is to strictly prohibit the exchange of cryptocurrency and legal currency. In addition, due to the strict prohibition of floor trading and the vigorous prevention and control of financial risks, OTC cryptocurrency transactions that are not explicitly prohibited by law are in the marginal zone of "legal" and "illegal", and are faced with greater uncertainty risks. There is a culture of risk in the Chinese market and regulation that leads to strict measures against floor trading and enhanced probe of over-the-counter cryptocurrency transactions, thereby making a distinction between 'legal' and 'illegal' rather hazy.

3.2 Is Cryptocurrency without Legal Tender Attributes Useless?

Results from the provision of an alternate route for unbanked individuals to access formal financial services, fintech, CBDC, and cryptocurrencies can enhance financial inclusion (Middlebrook et al., 2020). While Bitcoin poses threats to financial stability that are reduced with sensible regulation, fintech services like CBDC have the potential to protect financial stability (Ozili, 2022). On July 19th, 2017, the Uniform Regulation of virtual currency business (ACT) was passed in California, USA, which makes provisions on virtual currency-related business practices. The definition of virtual currency in Article 102 of the law highlights the general characteristics of virtual currency and reserves institutional channels for cryptocurrency. The encouragement and recognition of private cryptocurrency in the United States is also reflected in the subsequent research and development center of legal digital currency. Given the global competition of the central bank's digital currency (CBDC), Brian Brooks, acting director of the Office of Comptroller of Currency, said that United States has established a \$10 billion private stable currency market. The private cryptocurrency field should be the focus of development, and the role of the government is to regulate the stable currency, not the development of central bank digital currency. In this way, private stable currency has become a financial product focused on by financial governance and regulatory agencies in the United States. In January 2021,

Brian Brooks said that banks can use block chain and stable currency to make payments, which means that the U.S. regulation recognizes and encourages the use of stable currency. If the SEC mandated the registration of Bitcoin and other currency exchanges that are substantially comparable to federal securities exchanges, it might further enhance the state of virtual currencies. The advantages of such laws would significantly ameliorate the problems that these exchanges are currently confronting. Exchanges would have to keep stronger financial records and accounting records, which would decrease the possibility of illegal conduct and boost investor trust in Bitcoin (Warren, 2019). Even if it is not given the status of cryptocurrency in the financial market, it is not based on the fact that some countries have not been given the function of cryptocurrency in the world. In Germany, cryptocurrency is changing from an "economic asset" to a "bookkeeping unit"; In Canada, bill-31 introduced in 2014 regards cryptocurrency as a money services business (MSB), which makes it clear that the business of "dealing in virtual currencies" needs to be recorded, authenticated, reported or registered according to the anti-money laundering act; In Japan, the regulatory authorities are more radical (Griffith & Clancey-Shang, 2023). On April 1st, 2017, the newly revised law on cash settlements in Japan officially took effect, listing Bitcoin and other cryptocurrencies as legal payment methods, and allowing exchange transactions between cryptocurrencies and between cryptocurrencies and legal currencies (Riley, 2021). It can be seen that there are obstacles in legalizing cryptocurrency in monetary law, but it does not hinder the legal regulation of cryptocurrency around monetary functions. The function of cryptocurrency presents a trend of diversification. The monetary function is only one of the functions of cryptocurrency. Even if cryptocurrency is endowed with some monetary attribute from the perspective of monetary law, it's also a regulatory idea that lacks comprehensive consideration. Therefore, we can draw the basic conclusion that cryptocurrency without legal tender attribute does not mean that it does not have other functions of currency, and all functions of cryptocurrency are not limited to the field of monetary law. Cultural beliefs as to the use of and control of innovation significantly influence various types of regulation across the globe. In the United States, private issuance of stable coins is welcomed and acknowledged, while Japan and Canada have embraced differentiated regulation and accept cryptocurrency for several uses besides as a medium of exchange.

3.3 Spillover Effect of Harm: Evidence from Judicial Judgment

In judicial practice, due to the different understanding of the nature of

cryptocurrency, the judgment rules of relevant cases are relatively chaotic, without obvious rules. Once the court invokes the notice, it will determine that the act of buying and selling cryptocurrency is not legitimate, and then determine that the civil legal act involved is invalid. In this way, the fault party does not have to bear the legal consequences, and the opposite party has no choice but to bear the losses. This is contrary to the original intention of civil and commercial legislation to encourage trade and maintain the order of fair trade. The current Chinese model of cryptocurrency supervision shows a great harm spillover effect: on the one hand, judicial judgment easily goes beyond the boundary, which not only denies the monetary attribute of cryptocurrency, but also denies its property attribute; it denies all functions of cryptocurrency, strictly limits the exchange trading of cryptocurrency, and restrains the financial innovation application of cryptocurrency. Thus, consistent with the ideas of cultural relativity, cultural differences in perceiving cryptocurrency cause disorder in judgment rules in judicial practice. Legal tussles reduce the recognition of cryptocurrencies as financial assets and property, thus reducing the exploration and trading of global financial instruments. It therefore violates civil and commercial law, eroding the social fabric necessitating business and fair dealings. Therefore, one can infer that the current Chinese model of cryptocurrency supervision is inherently toxic because of the aforementioned cultural implications and excess regulation.

3.4 Cultural Considerations in China's Cryptocurrency Regulation

(1) Influence of Cultural Factors: As a result, it can be pointed out that Chinese culture has a great impact on what kind of positions this nation takes in the sphere of finance and innovations. Traditionally, China is not aggressive and insists on maintaining balanced financial systems and that can be reserved regarding innovations like cryptocurrencies. (2) Impact of Cultural Attitudes: Finance and innovation culture also affect digital currencies, which define the legal measures. They discovered that China leans more towards 'collectivism' than 'individualism'; it is for this reason that its attitude toward cryptocurrencies might be relatively conservative in an effort to avoid volatility. (3) Role of Societal Values: It operates under society; this means authorities are trusted, and many feel obligated to help change the campaigns. The Chinese political system is predominantly a centralized autocratic political system in which the government operates with full control and aims at stability hence there is high likelihood that; it will implement a hardline friendly policy concerning use of cryptocurrencies hence leading to reduction of risks associated with them.

(4) Government Philosophy in Regulatory Policies: The policies of the Chinese authorities in the field of cryptocurrency regulation are consistent with the government's approach to managing various sectors of the economy, maintaining the innovative development of financial services while addressing risks and social challenges. This has the tendency to shape laws and regulations regarding innovation and its impact on citizens and the economy.

4. FUTURE TURNING: CRYPTOCURRENCY UNDER THE BALANCE OF FINANCIAL INNOVATION AND FINANCIAL STABILITY

4.1 Defining the Attributes of Cryptocurrency

The definition of cryptocurrency attributes should be divided into two levels: first, the level of monetary law. Cryptocurrency does not belong to legal tender (i.e. money in a narrow sense) because it has no national willpower and has not been endorsed by the central bank; cryptocurrency yet has some functions of currency, which cannot be denied (Kayal & Rohilla, 2021). The second is the financial law. Cryptocurrency may appear in the capital market as collective investment plans, securities, depository receipts, derivatives, crypto financial assets (Zeng et al., 2020), etc. For the business model innovation and financial innovation that cryptocurrency may bring, we need to adopt progressive supervision according to different types, instead of denying the legality of cryptocurrency from the source. Further, culture and legal requirements are part of the foundation for understanding the attributes of cryptocurrency. Cryptocurrency as a cultural feature reshuffles conventional fundamentals of currency but embodies innovation in financial systems. Analyzing its definitive characteristic as a medium of exchange that is not legal tender yet it may transform and function in a way that is similar to financial security, calls for policies that seek to capture or adapt with culture and technology advancement.

4.2 The Effect of the Currency Range Encryption

Based on the above-mentioned hierarchical definition of cryptocurrency attributes, the supervision and adjudication of cryptocurrency should abide by this level in practice. The attribute level of the cryptocurrency is the only factor used to determine the effectiveness of a transaction behavior with it as the target. China's courts should change the existing mode of

adjudication, and prudently determine the effectiveness of relevant behaviors based on classification and innovation. It's not appropriate to strictly restrict the market innovation of cryptocurrency by directly invoking "transactions involving cryptocurrency are illegal financial activities", which will greatly inhibit the growth of China's digital economy. There is a need to establish supervision and adjudication processes, considering different cultural and technological factors. Limiting the evaluation of transaction effectiveness to the characteristics of the cryptocurrency sphere can reduce potential risks in regulating the process. Chinese courts also lack specific policies, which hinder cryptocurrency market development, so it is necessary to retain China's digital economy growth rate.

4.3 Unification of Legislation and Restraint of Judicature

At present, all countries in the world are exploring the legislative model to adapt to the development of cryptocurrency. For example, the United States is exploring the progressive regulatory mode of a "dual line" between state and federal, and a "multipole" of various regulatory agencies, and has issued special laws to balance the financial risks and financial innovation of cryptocurrency. Therefore, China's legislation on virtual currency should be more unified. Under the general tone of protecting virtual assets in the civil code, the attributes of cryptocurrency should be defined by layers and categories, and the innovation of financial products and business models of cryptocurrency should be encouraged. On this basis, the judicial trial should maintain considerable restraint, not expand the interpretation of existing rules, and allow the diversification of cryptocurrency based on controllable risk. As states continue to debate on the regulation of crypto, cultures and laws set out ways of dealing with the menace. Similar to the global trends, the US financial regulation is shifting to a progressive model focusing both on financial risks and innovation. Chinese legislation should reflect its culture better; it should adopt laws that protect virtual assets to foster financial innovation. Based on cultural indications, judicial restraint is thus both flexible with regulation and maintains cautious levels of cryptocurrency expansion.

4.4 Global Implications and Cultural Differences

The effect of culture and cultural differences explains the perception that people have concerning cryptocurrency affecting the regulatory policies in several countries in the world today. It has been seen that due to differences

in cultural expectations about finance innovation, and risk-taking, the use and regulation of cryptocurrencies presents systems that require a differentiated approach to finding appropriate regulatory solutions. Global governance and problems of international cooperation among countries are vital to solving borderless issues, mainly in the regulation of cryptocurrencies. However, the regulatory frameworks and social practices on the different continents differ, leading to some challenges in harmonization. The adoption of similar standards, including the creation of common protocols for the sharing of information may also improve the efficiency of regulations governing monetary transactions, spur innovation with regards to cryptocurrency in the global economy as well as, at the same time, help to provide protections against the possible risks that they entail.

5. CONCLUSION

The cryptocurrency, born in digital technology, is inextricably linked with traditional finance. The understanding of cryptocurrency should not be limited to the narrow perspective of legal tender and monetary law but should be extended to the whole territory of finance and commerce. In fact, from completely decentralized private digital currency (such as Bitcoin), semi-centralized stable currency (such as USDT), and centralized legal digital currency, cryptocurrency is constantly adjusting its characteristics to adapt to regulation and promote market innovation. Therefore, China should timely revise and adjust its policy of banning cryptocurrency and stable currency. While emphasizing financial stability, China should pay attention to financial innovation. From one aspect, it should provide a hierarchical classification for the attributes and effectiveness of cryptocurrency, and on the contrary, encourage private enterprises to actively participate in mature cryptocurrency practices such as stable currency, together with digital RMB to promote the innovation process of digital currency in China. By doing so, China can advance the innovation process of digital currency in alignment with its cultural and regulatory landscape.

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