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Headline: Is Trump right to worry that China could 'take over' crypto?

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Does China regret banning Bitcoin mining in 2021? Could it opt back in? Can a single nation even control decentralized assets like BTC?



It's only recently that Donald Trump has paid any attention to crypto. But now he wants to be the "crypto president," and he's raising digital assets as a geopolitical issue.

Asked on July 16 why he's suddenly embracing the crypto community, he told Bloomberg:

"If we don't do it, China is going to pick it up and China's going to have it—or somebody else, but most likely China."

In the interview, Trump explained how the recent experience with his "Mugshot" NFT Collection "opened my eyes" to cryptocurrencies, saying, "80% of the money [from the NFT sale] was paid in crypto. It was incredible."

"So we have a good foundation [i.e., crypto]. It's a baby. It's an infant right now. But I don't want to be responsible for allowing another country to take over this sphere," he added.

His remarks raised several interesting questions — and not just whether China, which banned crypto trading and Bitcoin mining in 2021, is even interested in reentering the crypto trading and mining markets.

It touches on the relationship between governments and the crypto/blockchain sector generally.

To what extent can any single sovereign nation control decentralized and diversified digital assets like Bitcoin

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BTC

tickers down

\$65,823

and Ether

ETH

tickers down

\$3,468?

Is it even possible?

Why China?

China was once a major crypto player. The largest crypto exchanges, such as Binance, were located in China, and as much as 75% of Bitcoin mining took place on the Chinese mainland, according to estimates.

But in 2021, China cracked down on crypto trading and mining, and by July of that year, Bitcoin mining had essentially vanished on the mainland.

Recent developments, however, have raised speculation “that the Chinese government may be warming to cryptocurrency and that Hong Kong may be a testing ground for these efforts,” noted Chainalysis in October.

Indeed, in April 2024, the central government approved the launch of several Bitcoin exchange-traded funds (ETFs) in Hong Kong. Some observers think China wants to make Hong Kong a crypto hub — despite a continued trading ban on the mainland. China’s Bitcoin ban a “strategic blunder”

Does China regret vacating the crypto playing field in 2021?

“Absolutely,” Daniel Lacalle, chief economist of Tressis, told Cointelegraph. “China made an enormous mistake banning crypto trading and mining, particularly when they want to de-dollarize at some point. The decision did not help the yuan and eliminated an important disruptive technology development.”

“Beijing’s 2021 mining crackdown was a strategic blunder,” Emiliano Pagnotta, associate professor of finance at Singapore Management University, told Cointelegraph. “They accounted for 75% of the mining industry and, in a short period, lost a considerable percentage to the US, chiefly.”

Why a strategic error? “An adversary to Bitcoin has much more leverage against the security properties of the network by controlling the majority of the hashrate. That latent threat is much more powerful than the ban itself, which only caused a temporary fall in the hashrate,” said Pagnotta.

Still, he couldn’t say for sure whether China lamented its decision.

Yikai Wang, assistant professor in the economics department at the University of Essex, said, “I don’t think that China regrets banning crypto trading and mining in 2021 because the capital markets in China and Hong Kong are different.”

China wants to maintain tight control of capital outflows on the mainland, Wang told Cointelegraph, which is why it banned crypto trading.

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But Hong Kong, while controlled by China, has a different economy. It has always had open market policies and free capital flow, and crypto might find a natural home in the former British colony. Wang added:

“Hong Kong serves as the hub to allow some capital flow in and out of mainland China, which is important for Hong Kong and also for mainland China.”

“The digital asset ETF market in Hong Kong has indeed seen substantial growth since its launch in April 2024,” Patrick Pan, chairman and CEO of OSL — a crypto-exchange now operating in Hong Kong — told Cointelegraph.

Pan added that mainland China “has maintained a stringent stance against cryptocurrency trading and speculations.”

Pan points out, however, that China has largely accepted the importance of cryptocurrencies' underlying blockchain technology.

“China’s development and gradual rollout of the digital yuan showcase an interest and capacity to embrace blockchain technologies, which bring long-term benefits to the country’s financial infrastructure through enhanced efficiency and security of its financial systems,” said Pan.

China may be softening its stance on crypto

Chinese government decision-making is opaque, so one may never know if China truly regrets its 2021 crypto ban. But what is clear is that “the country is reassessing its approach, especially as it sees the strategic value in digital assets,” Zennon Kapron, founder and director of consulting firm Kapronasia, told Cointelegraph, adding:

“The softening stance in Hong Kong could be a strategic move to remain competitive in the fintech and digital finance space without fully reversing its mainland policy.”

But is it too late?

“China still has advantages, such as access to cheap hardware and electricity in certain regions,” Kapron allowed. “If the government were to provide incentives or loosen restrictions, it’s conceivable that some level of dominance could be reestablished.”

It wouldn’t be easy, though. “The global mining landscape has become more diversified, making it harder for any single country to dominate,” observed Kapron.

Wang said that if China allowed Bitcoin mining, it would still “have a high chance of succeeding” because Bitcoin mining is not high-tech but rather “medium-tech and a capital-, energy-, infrastructure-intensive production.” Wang added:

“Bitcoin mining is not like making CPUs, but more similar to producing solar panels, building railways, etc. China has the capacity and even the comparative advantage in this type of mass production.”

Crypto trading may be a different matter, though. China is unlikely to change its trading ban on the mainland unless it first changes its capital markets policy, said Wang.

Economist Lacalle was doubtful. “Once traders and miners see the risk of interventionism and legal or investor insecurity, it is hard for many to regain confidence.”

Pagnotta, by comparison, said China could still be a force within the crypto sector, particularly if it demonstrates more pragmatism and regulatory clarity, adding:

“Bitcoin mining is still important in China despite the ban. Most of the ASIC [application-specific integrated circuit] equipment is developed and manufactured there, and there is a lot of know-how.”

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Many local governments within China have benefited from mining tax revenues, smooth energy demand and job creation in past years. Presumably, they would also support a return to legalized BTC mining.

"I am more skeptical about China embracing self-custody for its citizens, in contrast to Trump's recent rhetoric," continued Pagnotta. "China could ease investors' exposure to Bitcoin-related products through ETFs," as the Biden administration has done, but "the domestic custodial firms would always be under Beijing's control."

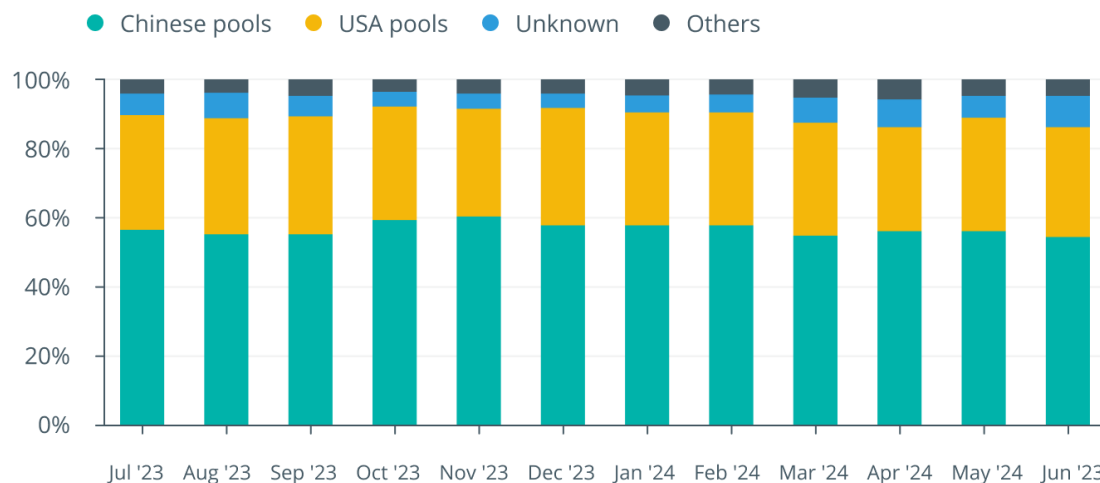
"They certainly made some mistakes in the past by banning crypto investments and Bitcoin mining," CryptoQuant's head of research, Julio Moreno, told Cointelegraph. "Other countries, like the US in the case of Bitcoin mining, took advantage of this ban to grow their crypto industry."

"But China now seems more open to the crypto industry and has allowed the launch of Bitcoin and ETH ETFs in Hong Kong," said Moreno.

Also, it's not as if Chinese influence on Bitcoin mining reverted to zero even when mining was banned on the mainland. "All that equipment operating in China simply found a home in other places," Moreno added.

"Despite China's ban on Bitcoin mining, Chinese mining pools still hold nearly 54% market share," CryptoQuant founder Ki Young Ju posted on July 1. "While not all participants in these pools are Chinese, some mining farms might still be operating covertly in China, with authorities possibly concealing data."

Bitcoin mining pools hashrate



 | cointelegraph.com

source: *CryptoQuant*

To be clear: The mining pools Ju referenced were operating beyond the Chinese mainland.

China's central government also remains a Bitcoin "whale" as a result of its past activities — [holding](#) 190,000 BTC, or about 1% of the Bitcoin currently in existence. This is not a trivial amount.

Could China dominate crypto again?

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Wang, for his part, believes that if China really sets its mind to it, it could still “play a super important, if not dominating, role” in the global crypto sector.

Not only does it have natural advantages in Bitcoin mining cited above, but there is a huge demand for using cryptocurrencies to send Chinese assets abroad, Wang added, especially given China’s tight capital market controls.

The biggest cryptocurrency exchange platform in the world in terms of trade volume is still Binance, “which is a company started in China by a Chinese but later moved abroad, and still 20% of Binance’s trade comes from China,” noted Wang.

Before China banned crypto trading, “there were even more Chinese cryptocurrency exchange platforms in a similar size to Binance,” added Wang.

As per Trump’s remarks, is crypto really emerging as a new theater of competition between the great powers? According to Pagnotta:

“Trump wants votes, and he understands that tens of millions of Americans hold digital assets and see it as an important electoral issue. Drawing a contrast to Biden or China in this regard is politically astute.”

He may be applying some game theory, too.

“At a more profound level, Trump does not want a Chinese/BRICS [i.e, Brazil, Russia, India, China, South Africa]-led central bank digital currency [CBDC] to become dominant. Even if he did not suddenly become a genuine Bitcoiner, he surely comprehends enough game theory to realize that Bitcoin is the politically neutral global property rights system in the 21st century,” added Pagnotta

In doing so, the former US president could simply be applying the ancient wisdom that “the enemy of my enemy is my friend.”

Still, others believe the suggestion that China may once again try to gain dominance in the global crypto market is just plain wrong. Leading cryptocurrencies like Bitcoin and Ether are too diversified and decentralized now to allow control by any one sovereign state.

“China’s influence in the crypto market may grow, particularly through initiatives like the digital yuan,” said Kapron, “but achieving dominance over decentralized cryptocurrencies is a different challenge altogether.”

Trump’s recent utterances may reflect a strategic concern, continued Kapron, “but the reality is that the decentralized and diversified nature of these digital assets acts as a significant barrier to dominance by any single nation.”

Added economist Lacalle:

“There is no such thing as nationalist crypto. The beauty of the crypto market is that it is completely diversified and decentralized. The concept of government control of crypto makes no sense to anyone that understands independent currencies.”