



ROLE OF CRYPTOCURRENCIES REGULATION IN CHINA-CEEC COOPERATION

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Abstract

This paper explores the impact of cryptocurrencies on international trade, focusing on the regulatory challenges in China, the European Union, and Serbia. Cryptocurrencies offer promising opportunities for cost efficiency and transparency, yet their adoption in global trade encounters legal complexities, particularly in anti-money laundering efforts. This study aims to underscore the importance of a shared regulatory framework to strengthen trust and facilitate seamless cross-border transactions between China and Central and Eastern European Countries (CEEC) for win-win cooperation. Through a comparative analysis of the regulatory landscapes, this study offers insights into aligning legal frameworks to navigate the intricacies of cryptocurrency adoption in global commerce. It argues that a unified approach to cryptocurrency regulation can significantly streamline trade, promote transparency, and strengthen economic relationships. By proposing harmonized regulatory measures, this research emphasizes the potential of cryptocurrencies to reshape international trade dynamics, while also stressing the importance of comprehensive legal structures to address the challenges posed by the digital financial landscape.

Keywords: China-CEEC, Cryptocurrencies, Regulation, International Trade, Regulatory Framework, Regulatory Landscapes, Global Commerce.

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1 INTRODUCTION

Cryptocurrency, a form of digital or virtual currency utilizing cryptographic techniques for security, has emerged as a compelling alternative to conventional currency systems. Its decentralized nature, operating independently of government-controlled monetary policies, has sparked widespread interest among individuals and businesses seeking financial autonomy. The appeal of cryptocurrency is underscored by its potential benefits in international trade. With reduced transaction costs, accelerated settlement times, and enhanced transaction transparency, cryptocurrencies present a promising avenue for facilitating global commerce. Traditional payment systems, characterized by comparatively high transaction fees ranging from 2% to 5%, stand in stark contrast to the cost-efficiency offered by cryptocurrency transactions, which can be processed for mere cents. Despite the evident advantages, the adoption of cryptocurrency in international trade faces formidable challenges. Regulatory and legal hurdles loom large as one of the primary obstacles demanding urgent attention. The decentralized nature of cryptocurrency poses a unique challenge for governments attempting to regulate and monitor its usage, resulting in a landscape marked by confusion and uncertainty for businesses and investors alike (Anuyahong & Ek-udom, 2023).

The rise of cryptocurrencies presents new legal challenges, focusing on economic, tax, and financial regulations. Governments are explicitly regulating cryptocurrencies, particularly addressing anti-money laundering (AML) concerns, and reinforcing legal frameworks for prosecution. With an uptick in cryptocurrency-related crimes, there is a need for enhanced regulatory and proactive crime prevention measures, all while safeguarding citizens' fundamental rights. Current legal discourse lacks exploration of the intricate relationship between AML regulation, crime prevention, prosecution of cryptocurrency-related offenses, and the protection of fundamental rights. Future frameworks must reconcile regulatory imperatives with the fundamental rights of cryptocurrency owners, considering aspects like property rights and freedom to pursue a profession. In peer-to-peer cryptocurrency systems, the freedom of association must be acknowledged. In

prosecution, law enforcement actions may encroach on fundamental rights, requiring clear regulatory and investigative approaches meeting the criterion of necessity. The evolving cryptocurrency landscape demands interdisciplinary research for effective prevention, investigation, and prosecution strategies (Rueckert, 2019).

It is crucial to note that stringent regulatory policies can adversely impact the cryptocurrency market, leading to a sharp short-term drop in cryptocurrency prices. The extent of volatility varies among different cryptocurrencies and largely depends on the stability and maturity of the currency. However, this initial drop and uncertainty are likely to dissipate over the long run (Luo, 2022).

Building upon the legal challenges posed by the rise of cryptocurrencies and the need for robust regulatory frameworks, it is crucial to understand the foundational elements of blockchain technology. Characterized by key features such as decentralization, persistency, anonymity, and auditability, blockchain offers a distinctive and efficient alternative in various sectors, particularly within financial services like digital assets, remittances, and online payments. The decentralized nature of blockchain eliminates reliance on central authorities, providing a cost-effective and streamlined solution. Its persistent and tamper-resistant architecture ensures the immutability of recorded transactions, establishing a trustworthy record. The inherent anonymity in blockchain transactions, where users interact through generated addresses, contributes to enhanced privacy considerations. Moreover, the auditability feature, as seen in the Bitcoin blockchain's utilization of the Unspent Transaction Output (UTXO) model, facilitates straightforward verification and tracking of transactions. These objective characteristics collectively define blockchain's utility and reliability across a spectrum of applications (Zheng, Xie, Dai, Chen, & Wang, 2017).

Continuing our exploration of blockchain's impact, the distribution of cryptocurrency users globally reveals significant differences. Table 1 showcases that the Euro Area has the highest user base at 141 million, closely followed by the USA with 74.37 million users. In contrast, China and Serbia have

smaller user bases of 1.23 million and 0.54 million, respectively. These figures highlight the diverse landscape of cryptocurrency adoption worldwide, reflecting varying levels of acceptance and engagement within different regions.

On the other hand, Bitcoin mining distribution in 2022 illustrates notable shifts. Most Bitcoin mining took place in the United States, accounting for 37.84%, followed by China at 21.21%. It's noteworthy that China previously held the top position in 2019, commanding 75.53% of Bitcoin mining activities (FiatMarketCap, 2023). However, following a ban implemented in mid-2021, they relinquished this lead (Statista, 2024A).

Table 1. Number of cryptocurrency users of the selected market in millions for 2023 (Statista, Cryptocurrencies - Worldwide, 2024B)

Country	Users [millions]
China	1.23
Euro Area	141
USA	74.37
Serbia	0.54

2 CHINA

China: The People's Bank of China (PBOC) has been actively developing digital fiat currency since 2014, establishing a dedicated task force and the Digital Currency Institute to create the first-generation prototype. With the State Council's approval in 2017, pilot programs were launched for e-CNY, focusing on safe implementation while emphasizing mobile payments over cash transactions. Regulatory shifts in 2017 led to stringent measures to control cryptocurrency growth, banning Initial Coin Offerings (ICOs) and cracking down on mining and trading (People's People's Bank of China, 2021).

As China's digital economy advances, there's a clear shift away from cash transactions. According to a 2019 PBOC survey mobile payments constituted 66 percent of the total number and 59 percent of the total value, whereas cash transactions accounted for 23 percent of the total number and 16 percent of the total value. Card payments represented 7 percent of the total number and 23 percent of the total value (People's People's Bank of China, 2021).

China initially adopted a permissive regulatory stance toward cryptocurrencies. In 2013, the Central Bank, in collaboration with regulatory authorities, issued a notice addressing potential bitcoin-related risks. Subsequently, cryptocurrency transactions gained substantial traction in China, commanding 70% of the global market share. However, a regulatory shift occurred in 2017, marked by the implementation of stringent measures aimed at curbing the unchecked growth of cryptocurrencies and mitigating financial risks. The central bank, along with other regulatory bodies, explicitly prohibited Initial Coin Offerings (ICO). In 2019, the China Internet Finance Development Association issued cautions against ICOs and trading activities camouflaged by blockchain terminology. By May 2021, the State Council's financial commission underscored a crackdown on bitcoin mining and trading. These regulatory developments underscore China's assertive regulatory stance within the cryptocurrency domain, reflecting the government's commitment to oversight and control (Luo, 2022).

3 EUROPEAN UNION

European Union: The EU has taken steps to regulate crypto-assets with the Digital Finance Package (DFP) and the Markets in Crypto-Assets (MiCA) regulation effective from December 30, 2024. MiCA sets rules for crypto-assets, strengthens consumer protection, ensures financial stability, and promotes innovation in digital finance. The regulation addresses the evolving crypto-asset landscape and aims to create a secure and regulated digital finance ecosystem in the EU (European Parliament, 2023).

The European Parliament's self-initiated resolution on October 8, 2020, further underscores the importance of monitoring and regulating digital finance. In endorsing the DFP, the Parliament emphasizes the pivotal role of digital finance in the success of the Capital Markets Union (CMU), providing expanded financing options for companies and citizens. MiCA, at the core of this regulatory initiative, categorizes crypto-assets, governs their issuance and trading, and introduces transparency and disclosure requirements. This forward-looking

regulation responds to the evolving landscape of crypto-assets, aiming to create a robust legal framework that promotes innovation and addresses potential systemic impacts. The regulation, signed into effect on May 31, 2023, will become operational from December 30, 2024, marking a significant stride toward a secure and regulated digital finance ecosystem in the EU (European Parliament, 2023).

The MiCA regulation has jurisdiction over entities involved in certain crypto-assets that do not fall under the category of 'financial instruments' in existing EU legislation. This includes offerors requiring a license and enjoying an EU passport, such as cryptocurrency exchanges offering cryptocurrencies and tokens. Additionally, Crypto Asset Service Providers (CASPs) are covered, necessitating authorization, such as by the Central Bank of Ireland, irrespective of whether the crypto-asset falls under MiCA regulation. Both entities, offerors and CASPs, benefit from an EU passport under the MiCA framework (pwc, 2023).

The MiCA regulation categorizes crypto-assets into three groups: Asset-referenced tokens (ART), Electronic money tokens (EMT), and other crypto-assets not covered by existing EU legislation, including utility tokens. Although the term 'stablecoin' is not explicitly used, both ARTs and EMTs, considered variants of stablecoins, may be deemed 'significant' by the European Banking Authority (EBA) based on specified criteria. Significant ARTs and EMTs face additional regulatory scrutiny, such as stringent capital requirements. The regulation excludes cryptoassets that are unique and non-fungible to others (pwc, 2023).

Businesses falling under the MiCA regulation, or crypto-asset service providers (CASPs), encompass custodial wallets, exchanges facilitating crypto-to-crypto or crypto-to-fiat transactions, crypto-trading platforms, crypto-asset advising firms, and crypto-portfolio managers. Regarding asset applicability, MiCA covers Asset-referenced tokens (including stablecoins backed by commodities or multiple currencies), E-money tokens (stablecoins backed by a single fiat currency), and other tokens, including utility tokens. The regulation also

outlines that MiCA will only apply to non-fungible tokens (NFTs) if they share characteristics with assets explicitly covered by MiCA. For instance, if an NFT resembles a utility token or a financial instrument, MiCA rules may apply. It's crucial to note that merely assigning a unique identifier to a token doesn't guarantee non-fungibility under MiCA, and NFTs issued in large series could be considered fungible, necessitating authorization. This has implications for projects involved in fractionalizing NFTs (Legal Nodes, 2023).

4 REPUBLIC OF SERBIA

The Serbian Parliament enacted the Law on Digital Assets on October 28, 2020, defining digital assets as electronic value or rights that can be transferred, stored, and traded. The National Bank of Serbia (NBS) is designated as the supervisory authority responsible for overseeing the law's enforcement and ensuring investor protection and market development. The law covers all individuals and entities involved in digital asset issuance, trading, or investment, including cryptocurrency-related activities. The regulatory landscape in different regions, such as China, the European Union, and Serbia, reflects varying approaches to cryptocurrency regulation. Collaboration between China and Central and Eastern European Countries (CEEC) can enhance trust and streamline cross-border transactions, contributing to a conducive environment for trade and investment. Regulatory alignment and joint initiatives for education on cryptocurrency technologies are crucial for fostering resilience and efficiency in the financial ecosystem. (NBS, 2020).

The Law on Digital Assets in Serbia extends its regulatory scope to encompass all individuals and entities involved in the issuance, trading, or investment of digital assets. This includes individuals engaged in cryptocurrency mining or trading, companies operating cryptocurrency exchanges or Over-the-Counter (OTC) markets, and service providers offering various cryptocurrency-related services such as wallets, custodians, and exchanges. The comprehensive application of the law reflects its intent to regulate a broad spectrum of digital asset activities within the Serbian market (NBS, 2020).

5 CONCLUSIONS

In summary, the rise of cryptocurrencies introduces both opportunities and challenges in international trade. As we've explored, the benefits of reduced transaction costs and increased transparency coexist with regulatory complexities and security concerns.

In considering the regulatory landscapes of China, the European Union, and Serbia, it's evident that each region navigates cryptocurrency regulation differently. However, the collaboration between China and Central and Eastern European Countries (CEEC) holds special importance.

Aligning regulatory approaches between China and CEEC can not only enhance trust but also streamline cross-border transactions.

Emphasizing a shared regulatory framework in China-CEEC cooperation becomes crucial. Such alignment could foster resilience and efficiency in the financial ecosystem, contributing to a conducive environment for trade and investment. Additionally, ongoing collaboration should extend beyond regulatory measures to include joint initiatives for education and awareness about cryptocurrency technologies.

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