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Bitcoin and its kind not welcome in China

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China intensified its crackdown on cryptocurrency Friday, declaring all financial transactions involving cryptocurrencies illegal and issuing a nationwide ban on cryptocurrency mining, the energy-hungry process in which vast computer networks compete for newly created crypto tokens.

Bitcoin, the world's largest cryptocurrency, dropped 4% on the news, to around $43,000 Friday.

The clampdown comes as China's central bank has been testing its own digital currency, the electronic Chinese yuan. A notice posted by the central bank explicitly called out Bitcoin and Ether, the two most popular cryptocurrencies, for being issued by "nonmonetary authorities."

George Selgin, an economist and senior fellow at the Cato Institute, said creating a central bank digital currency and making crypto transactions illegal were part of the Chinese government's broader effort to channel citizens away from popular private financial services providers, such as AliPay and WeChat. A state-controlled digital currency would allow the government to collect data and keep tabs on citizens' everyday transactions and would make it easier for the government to control access to an individual's funds, among other concerns.

"This is really about establishing a state monopoly in payments," Selgin said. "The most obvious implication is that the state will have more opportunities to monitor citizens' economic activity."

In a joint statement by 11 Chinese government entities, authorities vowed to work closely to punish illegal crypto mining activities to help prevent the "hidden risks caused by the blind and disorderly development" of the industry and to help the country achieve its carbon reduction goals.

Two years ago, China accounted for about three-quarters of all the electricity used for crypto mining, according to the Cambridge Bitcoin Electricity Consumption index. By April of this year, before the latest crackdown, China's share had fallen back to 46%. That still towers over the No. 2 country, the United States, at less than 17%.

China's central bank also announced that other activities tied to cryptocurrencies, like trading, token issuance and derivatives for virtual currencies, would be strictly prohibited. The bank reiterated that it was illegal for offshore crypto exchanges to serve customers in mainland China, one way that traders there have skirted a long-standing ban on domestic crypto exchanges.

ONGOING CAMPAIGN

The moves Friday were the latest signal of Beijing's determination to turn the screws on cryptocurrencies. China banned domestic cryptocurrency exchanges years ago, but trading has continued clandestinely. And China has remained a major hub for cryptocurrency mining operations, in which computer farms compete to solve complex equations in return for Bitcoin, despite restrictions on the practice.

In May, China's State Council, the government's main administrative Cabinet, vowed to crack down on Bitcoin trading and mining, leading local authorities in several parts of China to shut down crypto mining operations. As recently as 2017, Chinese mining groups generated more than two-thirds of all Bitcoin issued daily.

In terms of the environmental effects of crypto mining, there are probably only limited benefits derived from China's latest announcement, said Alex DeVries, an economist in the Netherlands who studies the environmental effects of the crypto industry.

"Altogether, as long as other countries don't implement similar policies, the overall effect on the global environmental impact of mining will remain low," he said.

A regulatory blitz by Chinese authorities is also cracking down on the country's tech, education and property sectors.

A STEP AHEAD

China is not the only country to have restricted access to crypto exchanges and related services. But crypto traders have found workarounds, masking their locations or using peer-to-peer methods to buy and sell digital currencies.

U.S. officials have also recently expressed concern about users gaining access to offshore crypto exchanges that operate under different rules. The exchanges are required to block access to U.S. users, which has prompted some to hop to other countries in search of more amenable laws.

Worldwide, governments are racing to keep up with developments in the $2 trillion cryptocurrency industry, which is growing fast and beginning to disrupt traditional banking and finance. Some officials fear these digital tokens could become a systemic risk, threatening the wider financial system. The rules on what is allowed in cryptocurrency vary by country to the dismay of industry executives, who say a lack of regulatory clarity or overly prescriptive rules hamper innovation.

BRAINSTORMING

U.S. banking regulators have held interagency "crypto sprints" in recent months to lay out pathways for regulation. Financial regulators have met under the Treasury Department's guidance to prepare a report this fall on the risks of a particular kind of cryptocurrency, known as a stablecoin, that has exploded in use in recent months.

In some smaller nations, like El Salvador, which recently adopted Bitcoin as legal tender, the open, global financial network based on cryptocurrencies is being promoted as a tool to foster financial inclusion and economic growth.

The Bahamas created a digital "sand dollar" -- a version of the Bahamian dollar that is the most advanced central bank digital currency in the world -- and has welcomed cryptocurrency businesses interested in relocating.

This week, crypto derivatives exchange FTX, a large cryptocurrency platform, announced that it would move from Hong Kong to the Bahamas, which has "one of the world's few comprehensive crypto regulatory structures," the exchange's founder, Sam Bankman-Fried, said in a statement.

Binance, the world's biggest cryptocurrency exchange, was founded by Changpeng Zhao in China in 2017 but moved to Japan within months, after Chinese officials cracked down on crypto trading platforms. After other moves, including at one point saying it had no official headquarters, Binance announced in July that it would create regional headquarters in every area of the world where it operated.

"Most people don't understand how much work we do to follow the rules," said Zhao, who is now based in Singapore.

Regulators in other countries have increasingly warned that cryptocurrencies need greater oversight. In the U.S., Gary Gensler, chairman of the Securities and Exchange Commission, has said investors need more protection in the cryptocurrency market, which he called "rife with fraud, scams and abuse" and compared to the Wild West.

The SEC has won dozens of cases against crypto fraudsters, but Gensler says the agency needs Congress to give it more authority and funding to adequately regulate the market.