

Bitcoin's Influence on China's Political Policy from a Realist Perspective

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Abstract

This study aims to see how Bitcoin as a Cryptocurrency can affect China's Political Economy Policy. By using Susan Strange's Theory of Finance structure, this research will focus on strategy and how the Chinese government takes policy on Bitcoin's existence. This study uses secondary data obtained from news, reports, and previous studies, which are then analyzed using the Variable Operational or Measurement method, namely the attributes or properties of objects or activities that have certain variations set by the researcher to be studied and then draw conclusions. This study shows that Bitcoin with all its Cost and Benefit can disrupt the national economic politics of China so that China takes steps to illegally use Bitcoin as a Payment Instrument and mining Bitcoin.

Keywords

China Digital Currency, China Currency Policy, Bitcoin in China

1. Introduction

People has been using currency over the years. In the past, currency was minted directly from precious metals such as gold and silver. Then, The introduction of paper money and the face value of cash was separated from its face value, but the currency is still backed by gold deposits. (Vranken 2017) In the last decade, The increase in Information Technology due to globalization. The development of information technology will relate to all fields including the financial sector (Noorsanti et al. 2018) Cryptocurrency or often called virtual/digital currency is the result of a development of financial technology. Bitcoin has been released since 2008 and started growing in 2011 all over the world. In its development, bitcoin has the concept of P2P (Peer to Peer) or decentralized between server users in an internet network. Bitcoin is growing fast because of the efficiency that makes people use Bitcoin. (Warmke 2020) However, Bitcoin legal status currently in many European countries such as Belgium, Bulgaria, Denmark, Finland, Germany, Lithuania, Norway, Poland, Slovenia, Switzerland or Turkey. This type of currency has been used that many coffee shops and restaurants provide bitcoin addresses making it possible to make transactions using Bitcoin (Maftei 2014)

Different from banking systems or commodity exchanges, Bitcoin transactions do not involve intermediaries who record and verify all transactions. All those Bitcoin transactions are verified via Blockchain. Mining Bitcoin is one of the ways to earn Bitcoin which is the most popular cryptocurrency in the world. Bitcoin mining is done by using special computer devices to solve algorithms or mathematical calculations of Bitcoin transactions made by miners.(Xu et al. 2021). One of the countries that use Bitcoin the most is China. Chinese society is a big country that makes Bitcoin transactions. The bitcoin exchange rate continues to increase due to demand from all over the world who continue to transact everyday. China is also one of the industries that has created the largest Bitcoin mining pool in the world due to growing users. (Qi 2021) The recent use of bitcoins has been a benefit for users but might bring up a problem for the government. Bitcoin does offer a lot of convenience and guaranteed privacy because this currency is not supervised by the state legality regulatory agency. Of course, several governments have taken steps to ban or prevent the use of Bitcoin. (Xie 2019)

1.1 Objectives

This research aims to see the impact of Bitcoin Cryptocurrency affect the China Economic Policy. The theoretical contribution of this research can explain the relationship between the Bitcoin and China Economic Policy. Practically, this research also contributes to complementing previous research. We hope that this research can be helpful as information for many parties and become a reference for further study.

2. Literature Review

The development of Bitcoin in this country is growing fast, seemly by Bitcoin mining activities out in many cities in China. The price of energy materials, the majority of cheap coal-fired energy in China makes bitcoin mining in this country more profitable. The process of producing new units of bitcoin, which requires a large supply of energy, more easier and more affordable. Bitcoin mining is done out by various software or software as well as a super-advanced computer called an application specific integrated circuit (ASIC) to solve complex algorithms in the bitcoin mining process. The process of solving these mathematical problems is an effort to add new blocks in the bitcoin transaction system called blockchain. (Cao 2018)

From an economic perspective, there is some controversy about what Bitcoin actually is and what it does. some authors argue Bitcoin as a medium exchange or tools of payment, others as speculative investments(Decker & Wattenhofer 2013). starting from the identification of cryptocurrencies as financial assets. The volatility of the Bitcoin exchange rate is a challenge in the world of economy, along with lack of liquidity, work in the informal market with high security risk, lack of market and government regulation control. (Böhme et al. 2015) Lately, about energy consumption needed for Bitcoin mining has started to develop. public concern on CO2 and natural gas emissions due to Bitcoin Mining cannot be ignored (Yuan & Wang 2016). At the same time that air pollution is harmful to the environment, not only resulting in costs and harm to the economy, but also resulting in the loss of human life (Gervais et al. 2016). However, when comparing systems that use Bitcoin with banking systems, one must take into account the fact that the services offered are not identical and the fact that unlike fiat money, Bitcoin requires special conditions to use, meaning that its existence is conditioned by use technology. One cannot use Bitcoins if one does not have an Internet Connection and special devices, such as smartphones, laptops, etc. (Eyal et al. 2016).

Without encouraging the more sustainable development of potential applications of Blockchain technology that can have significant social and economic benefits, besides their combined resource-intensive design they now pose a serious threat to global commitments to reduce greenhouse gas emissions due to the wasteful use of power in Bitcoin mining. (Truby 2018).

The cryptocurrency asset portfolio not only offers attractive offers but also it may be a protection against depreciation for traditional assets, The considerable digital liquidity of the currency results in the development of an ever-increasing number of cryptocurrencies. Currently, the market contains more than Tokens of various cryptocurrencies and one of the largest is Bitcoin(Tzouvanas et al. 2020)

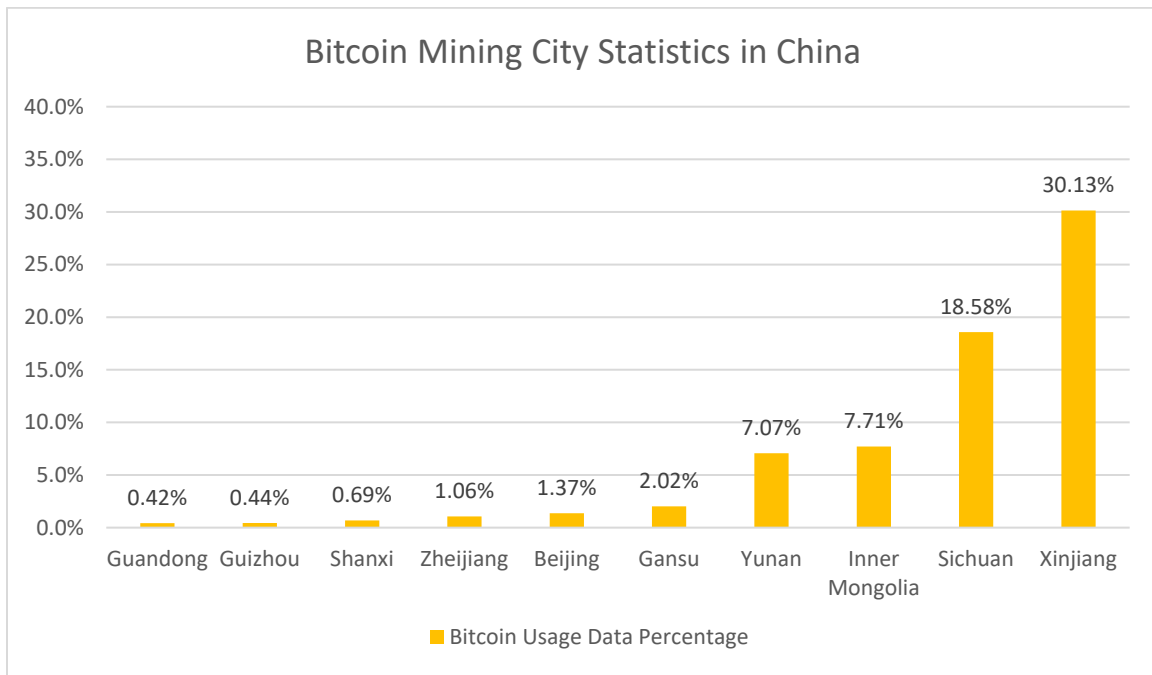
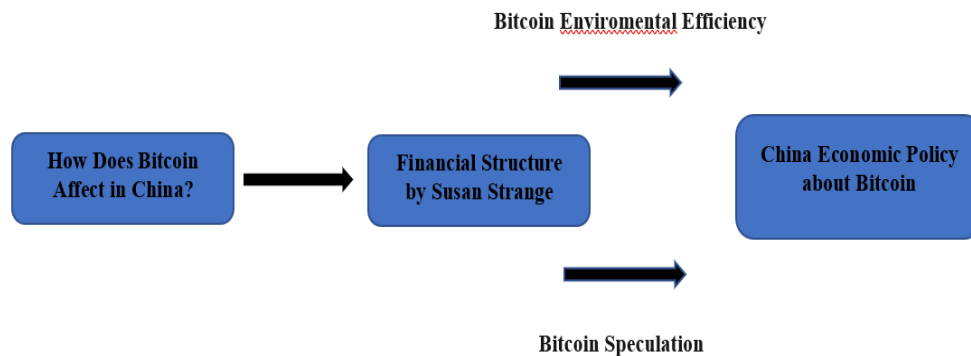


Chart 1.1 Bitcoin Mining Statistic City in China

Source: <https://news.cgtn.com/news/2021-03-29/What-makes-China-a-world-cryptocurrency-mining-hub--Z1CL94J3Ik/index.html>

The Growth flow of Bitcoin makes the Chinese government threatened because it can influence the Chinese government's political and economic policies. The Chinese government made a policy of prohibiting ICO transactions (Initial Coin Offering) and closing Bitcoin which is the largest Cryptomarket in China. The People's Bank of China (PBoC) and six other financial regulators in the PRC issued a circular on 4 September 2017 banning ICOs in the PRC (People's Republic of China). (Bloomberg, 2018) (Cao 2018). We see that the discussion China's policy regarding Bitcoin as a new way of payment with an essence that cannot be controlled by the state, can it affect the Sovereignty of the China currency has not been specifically discussed. Therefore, we discuss the topic with the research framework shown in the image below.



Framework 1.1
Source : Author Creation

3. Methods

This research uses a qualitative method by conducting open observations. This research has two main variables: the Bitcoin Cryptocurrency as an independent variable that affects the independent variable, China Economic Policy. By using secondary data obtained from previous research and primary data obtained directly through interviews with

related parties, the author uses the explanatory method to analyze the data that has been obtained and explain the results of research on the relationship between Bitcoin Cryptocurrency and China Economic Policy

4. Data Collection

This research uses secondary and primary data. Secondary data is obtained from previous research that contains some data regarding Growth of Bitcoin, Cost and Benefit Mining Bitcoin. Then we received primary data through interviews with IMAM KASTOWO. as the professional cryptocurrency analyst on Bidara Trader. This study will further analyze how China's policy regarding Bitcoin as a new way of payment with an essence that cannot be controlled by the state, can it affect the Sovereignty of the China.

5. Results and Discussion

According to Susan Strange, structural power is a concept of power used to shape and determine a country's global economic and political structure, IGOs, Multinational Enterprises, scientists, and professional organizations tied to each other. According to Susan Strange, security, Production, Finance, and Knowledge are the four aspects of structural power. We concentrate on one of the components of structural power theory, Financial structure and Knowledge which claims that capitalism and socialist economies are managed by anyone who can acquire other's confidence in the ability to issue credit (Strange 1990). Due to the integration of the international financial system, where every market participant can get credit in foreign currencies and interest rates, Bitcoin is come as a new way of payment that offers all conveniences and can be accessed at any time without being monitored by state institutions.

According to Susan Strange, Financial Structure is The power to create credit, the power of purchasing power, the activity of influencing the market for production, the power to manage currency. Bitcoin has the power to influence a country's economic policies, policies to legalize bitcoin or prohibit Bitcoin. Because Bitcoin has a value where the state cannot control the circulation and increase or decrease in the value of bitcoin itself. The influence of bitcoin is affect around the world, there are several countries that look at the profit side because bitcoin is one form of the digital currency revolution. this has lead to new payment methods in the industrial economy that have both positive and negative impacts. ("Reviews" 1990)

ADVANTAGES OF USING BITCOIN	DISADVANTAGES OF USING BITCOIN
<ul style="list-style-type: none"> ✓ Bitcoin saves the time and physical space of those involved in transactions, using the virtual environment ✓ It is not controlled by any authority, being able to circulate freely, directly between people, without intermediaries imposing transaction costs similar to commissions charged by banks. However, there are charged some miners fees. ✓ It does not involve the payment of commissions that banks usually charge ✓ The price of Bitcoin results from the confrontation of demand with supply ✓ It does not involve bureaucracy in any of the stages of obtaining or using ✓ Because it exists in limited quantities, it does not generate inflation ✓ It meets the requirements of the "IT generation". ✓ Bitcoin illustrates the free market model that spontaneously self-orders ✓ It maintains the anonymity of economic operators that carry out transactions and are interested in this issue. ✓ It is compatible with the globalization of financial markets ✓ The number of traders accepting Bitcoin is growing ✓ It creates the impression of freedom, not implying the existence of a central authority 	<ul style="list-style-type: none"> - Increased volatility in all markets - Representatives of several banks around the world believe that investing in Bitcoin is risky - High environmental costs, generated by electricity consumption and CO₂ emissions - Increased vulnerability generated by the use of the online environment, in which security breaches can also occur - Lack of an institution/central bank to protect users in case of speculative attacks - Accessibility conditioned by a level of training compatible with new communication technologies - Limited trust, due to use in illegal activities - cryptocurrency in general can encourage gambling, tax evasion, terrorism, transactions with goods prohibited by law (drugs, weapons), money laundering, etc. - Lack of intrinsic value for correlation with the price of traded goods and services - Prohibition of the use of Bitcoin in certain countries

Source : (Badea & Mungiu-Pupazan 2021)

According to Susan Strange, Knowledge structure is a knowledge structure that determines what knowledge is found, how it is stored, and communicated in what way to whom and by what terms the person communicates. (May 1996) Technological developments create a variety of digital asset innovations, including cryptocurrencies or cryptocurrencies. (Fujiki 2020) Digitization and the industrial revolution have played a role in the increasing popularity of cryptocurrencies. (European Central Bank 2019) How bitcoin was introduced Bitcoin was first released by Satoshi Nakamoto to an internet community and claimed to be used to transact payments anonymously. (Nakamoto, 2018) Until it was known to the early community, cryptography lovers used it and introduced it to the public. Why are people interested? Because it is easy to transact and is one of the best performing digital assets in 2011 to 2021 with a profit of 230%, which makes many people interested in bitcoin. (Osterrieder 2017)

The decentralized nature of Bitcoin presents unique socioeconomic and political challenges. Operation and maintenance are distributed massively. a number of people called miners, there is no central government structure designed that anyone could contribute by devoting some computing, but over the last few years. Another advantage that Chinese Bitcoin miners enjoy is its proximity to the world's leading chip manufacturing facilities. Specifically, Integrated Custom Applications. Circuit (ICAC) The ones used for mining are mostly manufactured in China, with the best-known manufacturer, *BitMain*, claiming to have produced 70% of the chips used globally in 2017.(Kiayias et al. 2017) The Chinese government responded to Growth of Bitcoin and related to energy issues that are detrimental

to China, Global mining requires high energy Computing Power, used to use large amounts of electricity, and therefore contribute significantly to global emissions. (Eyal & Sirer 2014)

Concept of Realism Realism is a view of human nature and the international political system. Realism is a view of international politics which shows that in fact international relations are competitive and show more of a conflictual side (Wardhani 2015). Realists see the state as the main actor in international relations and global politics. realists argue that non-state actors, like Multinational Corporations and other International Organizations are not more important than countries. This Realist concept is used by China, China with the concept of the highest political power by a country is starting to worry, Bitcoin made quite complex problems in China, the Chinese Government Authorities cannot control its utilization and can interfere with Yuan as a legal instrument payment in China. to the international crime problem using Bitcoin and also the environmental problem caused by Bitcoin Mining. (Seetharaman et al. 2017). China, which applied to a system of supreme power held by the State, considers Bitcoin not in the same direction with their vision and mission. Bitcoin is considered not in accordance with the principles of the country's economy and difficult to regulate, in addition to endangering the environment. Bitcoin stability cannot be regulated by country, According to China, the financial system must serve the real economy, an economy that has value and has form such as Gold or Paper Money, whereas Bitcoin is "Intangible", according to China does not want to legalize the use of Bitcoin because it is driven by financial speculation. China thinks it can affect the financial stability of a country and threaten "Currency Sovereignty" they country. (Anisiuba et al. 2021) China's political policies which are the geopolitical foundation for expanding its territory make China sensitive to Bitcoin issue. China has prepared major changes to its economy. A high growth rate and an economy that continues to develop are the main attraction for the country or in several surrounding countries because it can advance the economy in their country. (Goodkind et al. 2020).

6. Conclusion

The Researchers found reasons why Bitcoin can threaten the sovereignty of the country's currency, besides its circulation cannot be regulated by the state. the use of Bitcoin resulting from mining Bitcoin which drains a lot of energy and is not environmentally friendly. China saw cryptocurrencies as a high financial risk and as a way for citizens to avoid strict government controls over capital. With Susan Strange Theory help The Researcher to found many possible excuse how Bitcoin can Threat Currency Sovereignty of China (Akyildirim et al. 2021)

The Researchers Analyze about the development of Bitcoin every year. in Susan Strange's Financial Structure Theory, Bitcoin can influence a country's economic policy. The massive development of bitcoin through a community that makes many people has interest to own this digital asset, The government is starting to worry about its development which cannot be controlled by the state resulting in security issues and inflation that the government cannot handle and made threat currency sovereignty of China (Brown 1999)

This research is also very important because it contributes practically to the topic of Bitcoin in China and contributes to the development of research that will be researched in the future.

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Biography

Muhammad Rifqi Fadhil joined Bina Nusantara University in 2018 as a student at the Faculty of International Relations. He interested with Technology issue, Since 2016 he served National Computer Science in Jakarta, in 2020 he was Internship in PT Pertamina as Analyst II Industrial Relations. Recently, he published several articles on Cryptocurrency Efficiency and its risks

Roseno Aji Affandi earned his Bachelor Degree Universitas Islam Indonesia in 1996 Economics management major, in 2017 he earned Doctor Degree of Faculty International Relations in Universitas Padjadjaran. As a Lecture in Bina Nusantara University his teach about Multinational Corporation and Social Responsibility, International Political Economy of Multinational Corporation and Multinational Corporation and Global Strategy. In 2020 he earned Binus Research about Paradiplomacy States Territory and Sovereignty Law comparative Regionalism ASEAN and EU. In

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