

The Impact of Cryptocurrencies on the United States and China's Economies

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Abstract. This paper will make an intensive study of the impact of cryptocurrencies on the United States and China's economies. In terms of popularity, policy, and investor attitudes, the US and China's current situation is compared. The emergence of cryptocurrency has changed the role of traditional Central Bank monetary policy, making it faces new challenges in controlling economic fluctuations and stabilizing financial markets. In addition, the volatility and uncertainty of cryptocurrencies also affect investors' attitudes and behaviors. In the United States, investment risks in cryptocurrencies are widely discussed, while in China, investors are cautious about cryptocurrencies due to the government's relatively conservative attitude towards cryptocurrencies. In summary, cryptocurrencies have different impacts on the economies of China and the United States. Due to government restrictions and regulations, China's development of cryptocurrencies in the country has been hindered to some extent, while the United States has become one of the leaders in the global cryptocurrency market. However, the potential impact and risks of cryptocurrencies cannot be ignored, and active guidance and supervision from governments and regulatory agencies are needed to ensure their positive role in the economy. On this basis, investors need to invest rationally based on their own risk tolerance and market trends to achieve long-term economic benefits.

Keywords: Cryptocurrency, comparison, economic impact.

1. Introduction

Digital currency is a currency that exists electronically rather than physically. One type of digital currency that is known is Bitcoin. It is more specifically known as a cryptocurrency. A cryptocurrency is a decentralized system, this means that there lacks a central authority, like a bank, managing the process of payments. Payments are also encrypted using this type of currency. To keep track of the payments, an innovative system known as blockchain is employed. A list of all the records created with digital currency is what a blockchain is at its most basic level. A digital ledger is what this is [1]. Bitcoin became the first decentralized cryptocurrency in 2008 [2], but it has no authoritative issuing institution or state power to maintain its authority and uniqueness. As the United States and China are the top and second-largest economies, their financial markets are also well-developed. The impact of cryptocurrencies on these major economies is an important issue to study as it can provide insight into how cryptocurrencies may affect global financial markets. This paper will talk about the impact of cryptocurrencies on the United States and China's economies. The objective is to compare the current situation in the United States and China in terms of cryptocurrency popularity, policy, and investors' attitudes. The purpose of the research is to highlight significant distinctions and similarities between the two nations. Popularity, policy, and investors' sentiments are used as the divisions for the comparison in the paper [3]. The comparisons' justification and supporting data are provided below. In terms of how they regulate cryptocurrencies, the United States and China exhibit clear discrepancies, according to the study. Despite regulatory uncertainty, investor interest is still high in both nations. The study comes to the conclusion that the policies and investor trends connected to cryptocurrencies in the US and China, two big powers, could have a considerable impact on how cryptocurrencies develop in the future. Cryptocurrencies are an innovative financial tool that has risen in recent years. It is based on encryption technology and can be traded globally. This paper aims to

explore the impact of cryptocurrencies on the economies of China and the United States and compare the situation of these two countries. First of all, this paper compares the acceptance of cryptocurrencies in China and the United States. Due to differences in the financial systems and regulatory agencies between the two countries, there are differences in the popularity of cryptocurrencies in both countries. In the United States, due to the birth of Bitcoin, cryptocurrency has become an independent asset category and attracted more and more attention from investors. While in China, due to strict government regulations on cryptocurrency, its acceptance is relatively low. Secondly, this paper will conduct in-depth research on the policies of cryptocurrencies in China and the United States as well as their impact on the economy. In China, the use of cryptocurrency is strictly restricted by the government, especially in monetary policy and financial regulation. However, China remains one of the world's largest Bitcoin miners and trading markets. Compared to it, the United States has relatively loose legislation and regulation of cryptocurrencies, making the United States an ideal choice for many cryptocurrency projects and startups. Finally, this paper will analyze the attitude of Chinese and United States investors toward cryptocurrencies. In China, investors generally hold a cautious attitude towards Bitcoin because of government regulatory measures and risk warnings. However, younger generation investors are more optimistic about cryptocurrencies and believe that they are an important part of the future digital economy. In contrast, United States investors are more open and actively participating in the cryptocurrency market and are willing to take on greater risks in pursuit of higher returns. In summary, cryptocurrencies have had a certain impact on the economies of China and the United States, but due to differences in financial systems and regulatory systems between the two countries, there are significant differences in the acceptance and popularity of cryptocurrencies in both countries. Therefore, China and the United States should strengthen cooperation to jointly respond to the challenges brought by cryptocurrencies, and formulate corresponding policies and measures to promote stable economic development.

2. China's Acceptance of Cryptocurrencies

2.1. Popularity

In recent years, the popularity of cryptocurrencies such as Bitcoin and Ethereum has been on the rise in China. A survey conducted by Statista in 2021 revealed that approximately 9% of Chinese citizens owned or used cryptocurrencies as of February 2021, displaying a significant increase from 5.3% in the previous year [4]. Moreover, the 2021 Global Crypto Adoption Index by Chainalysis indicates a remarkable surge in global cryptocurrency adoption, with a growth rate of over 2300% since 2019 and 881% in the past year [5]. These figures demonstrate the rising demand for and adoption of cryptocurrencies in emerging nations, which is being fueled by peer pressure and platform impact.

2.2. Policy

The Chinese government has maintained a complex relationship with cryptocurrencies, characterized by various regulatory measures. While cryptocurrency trading was permitted for a certain period, in 2021, China announced a comprehensive ban on all crypto transactions and mining activities, citing concerns related to financial stability [6]. It is significant that the government is now working on a digital yuan project, a sign of a strong interest in researching online payment options.

2.3. Investors' Attitudes

Despite the regulatory restrictions imposed by the Chinese government, surveys indicate that Chinese investors continue to express a high level of interest in cryptocurrencies. Investors perceive cryptocurrencies as a novel asset class that offers opportunities for portfolio diversification. They believe that by incorporating cryptocurrencies into their investment portfolios, they can mitigate risks associated with traditional financial instruments. Furthermore, Chinese investors view cryptocurrencies as having the potential to deliver higher returns compared to conventional financial

instruments and recognize them as a means to achieve greater portfolio diversification. This positive sentiment towards cryptocurrencies among Chinese investors is steadily growing.

2.4. Conclusion

The popularity of cryptocurrencies, particularly Bitcoin and Ethereum, has been steadily increasing in China. Although the Chinese government has implemented stringent regulations, including a blanket ban on crypto transactions and mining, interest in cryptocurrencies remains high among Chinese investors. Cryptocurrencies are perceived as an attractive asset class offering the potential for higher returns and portfolio diversification. The Chinese government's exploration of a digital yuan initiative further emphasizes their interest in digital payments. Understanding the dynamics of popularity, policy, and investor attitudes towards cryptocurrencies in China is crucial for both investors and policymakers as they navigate this evolving landscape.

3. Acceptance of Cryptocurrencies in the United States

3.1. Popularity

Gemini surveyed 3000 United States adults aged 18 to 65 with a family income of \$40000 or more in 2020. The survey results showed that about 14% of the population in the United States has cryptocurrency. It was about 21.2 million people and would continue to grow. Among them, 77% were under 45 years old, and 71% are whites. At least for now, cryptocurrency remains a niche market dominated by young male investors [1]. At present, not everyone will really buy cryptocurrency, and more people are just at the stage of interest in it. The survey found that there are many people in this group. The specific definition of this group in the investigation is: currently do not own cryptocurrencies, but they show the willingness to know more about it or people with purchase plans. The results showed that this group included 63% of United States adults. It can be imagined that once these people start buying cryptocurrencies, the average user profile people just described will change. The survey showed that about 13% of United States adults plan to purchase cryptocurrencies in the upcoming year. Compared to men, women are typically more risk-averse [7]. Although only 26% of cryptocurrency investors are currently female, this situation will likely change. The survey showed that among the respondents who expressed their willingness to invest in cryptocurrencies, 53% of women. While older people will also start investing in cryptocurrencies, raising the average age of the purchasing group to 44 years old. In addition, compared to current investors, new investors may have fewer investment funds and more are living in small towns or rural areas rather than cities. What's more, they are more likely to be white people. Through more in-depth research on female respondents, Gemini concluded that among the group investing in cryptocurrencies, 45% were under 35 years old, and only 4% were over 55 years old. It means that youth increase the possibility of having cryptocurrencies [8]. Among the groups interested in cryptocurrency, about 25% of females were under the age of 35, and 25% were over the age of 55. Therefore, females, especially those who are about to retire, are more likely to have new cryptocurrency investors. Although knowledge about cryptocurrencies is becoming more common, ownership is still limited to a small number of people [1]. However, through the analysis of changes in gender, age, average income, and location mentioned above, it is not difficult to find that cryptocurrency investors will gradually expand from previously professional and financially abundant groups to the general public in the future.

3.2. Policy

One of the largest economies in the world is that of the United States. In the United States, digital currency is seen as an asset rather than a real currency. Since investors' goals are the same as those of other asset classes, regulation should also be. Cryptocurrencies are sought after by specialized digital investors rather than as fiat money or a replacement for regulated finance. A clear regulatory framework for the cryptocurrency market may be beneficial to the industry [1]. Regulatory agencies face several key challenges. First of all, the majority of cryptocurrencies have a decentralized

structure that is not constrained by the law. Legislators can control consumers and businesses within particular geographic areas, but decentralized blockchains are more challenging to control. Legislation should therefore expressly state who is subject to policy restrictions. Second, laws should be neutral in terms of technology. Laws targeting specific cryptocurrencies could lead to the success or demise of specific cryptocurrencies. Third, market participants should be aware of and understand the legislative goals. The government can provide suggestive guidelines for consumers and businesses bound by new legislation [2]. In 2013, the United States - Department of The Treasury (TD) issued a statement on digital currency, believing that digital currencies can be seen as a "virtual currency" and should be regulated. Afterward, various states in the United States and the Federal Government have successively introduced a series of regulations related to digital currency. The United States Financial Crimes Enforcement Network (FinCEN), which oversees federal financial crime enforcement, has been particularly active in regulating virtual currencies. FinCEN has published several administrative decisions involving virtual currency cases online. The Bank Secrecy Act (BSA) is applicable to customers and organizations participating in the cryptocurrency ecosystems, according to a FinCEN announcement made on March 18, 2013. According to this judgment, cryptocurrency exchanges and managers must register with FinCEN as Money Services Businesses (MSBs), and any business that works with cryptocurrencies must abide by the Know Your Customer (KYC) and Anti-Money Laundering (AML) laws [2]. In January 2014, the Securities and Exchange Commission (SEC) started looking into cryptocurrencies and blockchain technologies [2]. The Commodity Futures Trading Commission (CFTC) declared that cryptocurrencies like Bitcoin were commodities in 2015 [2]. A legislative foundation for regulating businesses involved in "virtual currency business activities" is provided by the "Unified Regulation of Virtual Currency Business Act" (URVCBA), which was finished in 2017 [2].

The United States federal agency puts cryptocurrencies within its existing regulatory framework. The United States Constitution does not prohibit the creation of virtual currencies, and FinCEN regards cryptocurrency exchanges as monetary services. The International Revenue Service (IRS) characterizes virtual currency as property, and the CFTC describes virtual currency as a form [3]. In the United States, the main regulatory agencies for digital currencies are SEC, CFTC, and TD. The regulation of digital currencies by these institutions mainly includes the following aspects: KYC and AML are very important regulations for digital currency transactions. KYC stipulates that digital currency trading platforms must verify their identity with users to ensure their true identity. AML regulations require digital currency trading platforms to take measures to prevent money laundering. Tax regulates that digital currency is regarded as an asset in the United States, so digital currency transactions also require corresponding taxes. According to the regulations of the IRS, the trading income of digital currency is subject to Capital Gains Tax [9]. Initial Coin Offering (ICO) is a financing method in the field of digital currency. In ICO, digital currency issuers raise funds by selling tokens. The United States regulatory agency has regulated ICOs, requiring them to comply with the provisions of the Securities Act, otherwise, they will be considered illegal securities issuance. Overall, the United States government's policies and regulations on digital currencies are positive. United States' approach better balances investor protection and advances in technology [10]. These regulations protect the rights and interests of consumers and investors, maintain market order, and promote the development of the digital currency market. Nevertheless, with the continuous development and innovation of the digital currency market, they still need more flexible and adaptable policies and regulations to support the healthy development of this market.

3.3. Investors' Attitudes

The first decentralized cryptocurrency in the world was created in 2008 under the name Bitcoin [3], with still the most well-known and holding cryptocurrency. Currently, 87% of cryptocurrency holders have purchased or once purchased Bitcoin, while Ethereum only has 36%, Bitcoin Cash 22%, and Litecoin 21%. In addition, 84% of investors who hold Bitcoin are willing to continue investing in Bitcoin, while only 15% of investors who hold Litecoin are willing to continue holding.

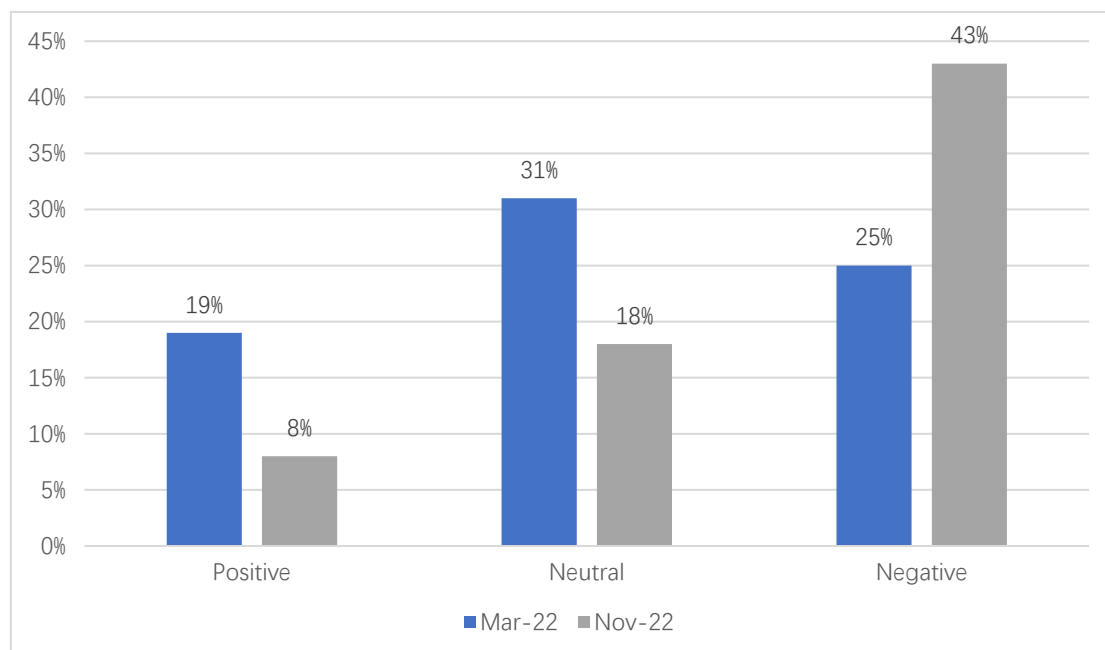


Figure 1. United States Sour on Cryptocurrency

United States' views on cryptocurrencies have sharply deteriorated. As shown in Figure 1, According to an economic survey on Consumer News and Business Channel (CNBC), most people support strengthened oversight. According to the survey, 43% of the general population has an adverse perception of cryptocurrencies, higher than that of 25% in March. The proportion of respondents with a positive attitude dropped sharply from 19% to 8%, and the proportion of respondents with a neutral attitude decreased from 31% to 18%, a decrease of nearly half. For an investment that is flattered as a category of its own assets, this is a dramatic decline. For cryptocurrency, restoring its credibility remains a problem because reputation seems to be at the core of its valuation. Whether respondents invest in cryptocurrencies or not, they may tend to strictly regulate cryptocurrencies like regulated securities or mortgages. Based on the survey, 53% of the nation's population stated that cryptocurrencies ought to be regulated and supervised to the same or greater degree as securities and mortgages, with 21% of grown-ups and 16% of cryptocurrency traders hoping for additional control [10].

4. Conclusion

In conclusion, this paper has undertaken a comprehensive examination of the impact of cryptocurrencies on the economies of the United States and China, considering factors such as popularity, policy approaches, and investor sentiments. The comparative analysis reveals contrasting dynamics in these two economic giants. In the United States, cryptocurrencies have experienced remarkable popularity, and the nation has emerged as a global leader in the cryptocurrency market. This is driven by a more permissive regulatory environment and a relatively open attitude toward digital currencies. However, this popularity has not come without concerns, as discussions surrounding investment risks are prevalent, reflecting the volatile nature of cryptocurrencies. This suggests that while the U.S. has embraced cryptocurrencies, there is a growing need for regulatory oversight to mitigate potential risks. Conversely, in China, cryptocurrencies have faced substantial regulatory restrictions, leading to a more cautious approach among investors. The government's conservative stance towards cryptocurrencies has hindered their development within the country. Despite this, it is important to note that China remains a key player in the global blockchain technology space, with substantial investments in research and development. In essence, the impact of cryptocurrencies on the economies of China and the United States is characterized by a stark contrast. While the U.S. has positioned itself as a cryptocurrency hub with a robust market, China's

cryptocurrency landscape has been shaped by stringent regulations, limiting its domestic growth. Nonetheless, the paper underscores the undeniable potential and risks associated with cryptocurrencies. Both nations must actively guide and regulate the cryptocurrency industry to harness its positive impact on their respective economies while safeguarding against potential pitfalls. This underscores the importance of government intervention and regulatory agencies to strike a balance between innovation and stability. In this environment, investors must exercise prudence, considering their own risk tolerance and market dynamics. Rational investment decisions, based on a thorough understanding of cryptocurrencies and their potential impacts, will be key to achieving long-term economic benefits while navigating the evolving landscape of digital finance. As cryptocurrencies continue to reshape the financial world, the United States and China will play pivotal roles in defining the future of this transformative technology.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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