


Chapter 7

Blockchain Technology in China's Digital Economy: Balancing Regulation and Innovation

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ABSTRACT

Compared with the traditional industrial economy, the Chinese digital economy uses brand-new production factors and production organization methods to bring changes to human society and promote the transformation of the economy. This chapter aims to explore the practical problems of adopting blockchain technology in China's digital economy and study how different cities (managed by various local governments) enhance their unique financial technology ecosystem's economic performance and promote RegTech policy in order to improve the digital economy under the central government's institutional setting. This chapter in turn analyzes the recent cases of blockchain in China's financial industry, compares the application and development of the latest financial technology related policies in major cities, and demonstrates how these regulations can promote the development of blockchain technology in the transformation of China's digital economy.

INTRODUCTION

The Chinese financial technology (FinTech) industry is booming with the solid support of underlying technologies such as big data, artificial intelligence, cloud computing, blockchain, etc. Thanks to

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tremendous technological reforms, FinTech has transformed the dynamics of the traditional financial industry, which greatly enhances financial inclusiveness in China. Accordingly, the innovative regulatory technology (RegTech) mechanism should be adopted to coordinate with the FinTech market ecology. The diversity of blockchain applications leads to different regulatory attitudes towards specific branch application fields.

The comprehensive regulatory framework of blockchain in the Chinese FinTech industry has been gradually established in recent years. Blockchain, an increasingly applicable technology in the FinTech industry, has been tested with trial and error by numerous FinTech companies in China. Moderate regulation is required for the healthy and sustainable development of blockchain. Fundamentally, the regulatory framework of blockchain in China is made up of 1) rigid laws and regulations; 2) the flexible regulatory sandbox mechanism. The regulatory sandbox is also known as the FinTech innovative regulation pilot, acting to compensate for the lag associated with financial regulation and the costly process of legislation. Moreover, although the rigid laws and regulations can be applied to practical blockchain services and products in the FinTech industry, they are of little direct applicability. On the other hand, the normative documents can be used for regulating blockchain applications more directly. Thus, the effectiveness of laws and regulations on the blockchain is sometimes below regulators' expectations. This necessitates the operation of the regulatory sandbox as it provides experimental spaces for innovative blockchain with synchronized regulation. Through this combination of rigid and flexible regulation methods, the blockchain regulatory framework is gradually improving its overall efficiency and effectiveness.

The FinTech innovative regulation pilot (regulatory sandbox) is very important to balancing regulation and innovation. The pilot is implemented in 9 cities (areas) with various regional characteristics. Supply chain finance is emphasized in Beijing and Xiong'an New Area's piloting blockchain projects. In Shenzhen and Guangzhou, Greater Bay Area cross-border RMB payment and SME financial inclusiveness are highlighted. Three rural problems (agriculture, countryside, and farmers) and related intelligent banking services are the focus of the blockchain application in the pilot of Chengdu and Chongqing. While for Shanghai, Suzhou, and Hangzhou, the Yangtze River Delta credit chain establishment and e-commerce related blockchain services are strongly promoted in the FinTech innovative pilot. However, the highlights included can only represent partial characteristics of blockchain applications in the Chinese FinTech industry. Meanwhile, the effectiveness of the regulatory sandbox mechanism in China can hardly be assessed due to the limited implementation period. Further follow-up research should be undertaken to assess the feasibility of the nationwide promotion of innovative FinTech regulation.

THE REGULATORY FRAMEWORK OF BLOCKCHAIN IN CHINESE FINTECH INDUSTRY

The blockchain regulation framework in China consists of two parts. One is the rigid laws and regulations targeted at absolute prohibition in fields of blockchain, namely, peer-to-peer (P2P) lending, initial coin offering (ICO), and cryptocurrency. The other part is the flexible regulatory mechanism for blockchain-related FinTech enterprises, the FinTech innovative regulation pilots in selected cities (Chinese version of Regulatory Sandbox), which are implemented under the guidance of the "FinTech development plan" issued by the People's Bank of China.

According to the China financial stability report released by The People's Bank of China (2020), China's FinTech regulation is based on the following principles:

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