

The University of Hong Kong

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In-depth study on cryptocurrency development in Hong Kong



Group Member	UID
Chung Yiu Yeung	3035786926
Cheng Tsz Chun	3035787255

Supervisor: Dr. Chow, KP

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1. Project Background

Cryptocurrency is a form of digital or virtual currency that relies on cryptography for security. It operates on distributed, decentralized ledger technology called blockchain, which makes it different from traditional currencies that are issued and regulated by governments. Using blockchain can also ensure transparency and immutability of transactions, making them difficult to manipulate. Another benefit of blockchain is it allows faster and cheaper cross-border transactions since it does not require middle parties like banks.

The emergence of cryptocurrency has heralded a new era in global finance, challenging traditional notions of currency, payment systems, and financial intermediaries. After the 2008 white paper by Satoshi Nakamoto (Bitcoin's mysterious creator) revealed the blockchain system of cryptocurrencies, (Pinkerton,2023) the rapid evolution of digital currencies has sparked a wave of innovation in the financial technology world.

As a decentralized digital payment system, cryptocurrencies have gained more acceptance and popularity in the past decade. Large tech companies like AT&T and Microsoft started accepting cryptocurrencies for products on their websites. (Kaspersky, 2023) Up to this date, there are also countries that allow the use of cryptocurrencies, such as the United States, the European Union, Japan, and many more. (Bajpai, 2023)

Recognized as an international financial center, Hong Kong has been consistently showing interest in cryptocurrency-related development like Web 3.0 projects, rules are proposed and launched to let retail trades trade certain types of cryptocurrency. (Liao, 2023) Although the Hong Kong government has a positive stance on the use of cryptocurrency, the scam crimes related to cryptocurrency in Hong Kong have seriously damaged the trust and interest of the public. According to studies, 70% of the online investment scams reported from January 2022 to October 2022 are cryptocurrency-related. (Zuo, 2023) Another famous example is the recent case of JPEX, an unregulated crypto trading platform that is suspected to have defrauded its users.

Even with its uncertainty and immaturity, it is projected that cryptocurrencies will be the future of the financial world. Therefore, if Hong Kong would like to become a crypto-hub and lead the world in this area, further regulation had to be proposed to ensure its safety and to protect the public from scams. As there is already comprehensive research about the fundamentals of cryptocurrencies, this research will not focus on the technical background of cryptocurrencies and blockchain technology.

2. Project Objective

This is an interdisciplinary research project, which will investigate different perspectives on the current cryptocurrency development in Hong Kong. Although programming-related products are not included, equally important in-depth research for Hong Kong cryptocurrency development will be conducted in this project. Our team believes that there is more than enough research made previously about the technology behind cryptocurrencies, and previous working experience and knowledge in conducting in-depth research in this field would also benefit this research. Therefore, it was decided that the team would work on a less investigated area, trying to fill up the research gap for the Hong Kong cryptocurrencies market.

The investigation scope would include but not be limited to the Hong Kong market's situation, the government's attitude toward cryptocurrency, regulations on cryptocurrency trading, and the public acceptance level of cryptocurrency. The current post-COVID financial market situation in Hong Kong will also be discussed, and a comparison with similar Asian countries will be used. Given that mainland China is lacking the development of cryptocurrencies (Rakesh, 2023) , the question of how the Hong Kong government would make good use of its competitive advantage will be discussed. The opinions of stakeholders will also be considered in the project as their support plays a huge part in the Hong Kong digital asset market. Last but not least, regulations on cryptocurrency trading platforms would be the main focus in response to the JPEX incident in 2023.

The findings of this research will contribute to the understanding of the complex dynamics shaping the cryptocurrency market in Hong Kong. This comprehensive analysis will serve as a valuable resource for policymakers, entrepreneurs, and investors in navigating the opportunities and challenges presented by this rapidly evolving landscape.

3. Project Methodology

Throughout this study, a mixed method of questionnaires, interviews and key stakeholders in the Hong Kong cryptocurrency ecosystem will be used. Using these methods can complement each other and give out a more comprehensive understanding of the topic. Since this is a research-based project, three different approaches will be taken to collect the data required, and the workflows will be divided into different parts and stages as below. No personal data unrelated to the topic will be collected. All data collected are stored on a password-protected computer and will be deleted when they are no longer needed.

- Questionnaire

The questionnaire form would be used to obtain opinions from the public, with the main target group of 18-40 years old (figure 1), since these are the people who would most likely invest in cryptocurrencies. The main focus of the questionnaire would be the public acceptance level of investing or using cryptocurrencies in daily life and opinions on cryptocurrency-related regulations.

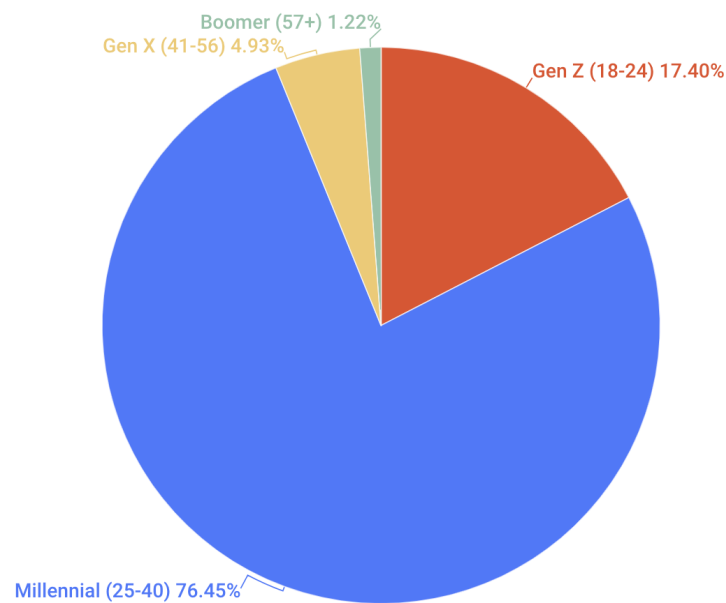


Figure 1: Age ranges of cryptocurrency buyers (Gogol, F.)

- Interview

The purpose of the interviews is to gain insights from different stakeholders in the cryptocurrency market, such as regulators, investors, or social influencers. Collecting opinions from different stakeholders could help understand the current challenges and opportunities of cryptocurrency in Hong Kong.

- Market research

As the regulations in Hong Kong are currently immature enough to support cryptocurrency to develop healthily, market research on the existing regulations is needed to identify their problem and insufficiency. It would also be useful to research other countries' regulations on cryptocurrency as a reference for future rules that can be implemented.

After collecting the data from both questionnaires and interviews, the data will be analyzed with the knowledge acquired from market research. For the data collected in questionnaires, data such as the public acceptance level of investing or using cryptocurrencies, will be processed such as finding out the population mean and variance. Combined with the content analysis gathered during interviews, a more convincing analysis can be developed. By using a mixed method of questionnaires and interviews, the research question can be answered more comprehensively, with a diverse perspective toward the topic.

4. Project Challenges and Opportunities

Cryptocurrency is a fast-developing industry and is full of possibilities as well as uncertainty. As a research project on cryptocurrency development, there are certain risks and challenges that should be identified and carefully handled. However, opportunities arise with risks, where our project can contribute by providing more insights in certain topics.

One possible risk of cryptocurrencies is the asset itself. There is no doubt that cryptocurrencies still have a huge room for improvement, in terms of their safety, volatility, and design. This new digital asset still has a wide scope to be developed and analyzed. It would be a huge challenge for the team to work on a broad research boundary. After narrowing down the research topic, it will be a valuable opportunity to provide a clearer direction on its development and how the government can regulate the market.

While the current regulations on cryptocurrency trading platforms are not mature enough, the Hong Kong government is acting quickly due to specific incidents, such as the recent JPEX investigation and the impact it caused (Securities and Futures Commission, 2023). Any updates to the current regulatory situation could force a change of direction for this project. In order to minimize the possible challenges led by this issue, the team would keep an eye on the updates about regulations and adjust accordingly to changes. In other words, the rapid change of the market allows the team to have a great opportunity to provide up-to-date information for users to take as references.

Another possible risk to the project is the stance taken by China against cryptocurrencies. Starting in late 2021, China has banned cryptocurrency for the reason of maintaining national security and social stability. Even though Hong Kong enjoys a certain level of independence in terms of financial markets and regulations, a part of the regulatory actions made by the Hong Kong government are influenced by policies in China. In recent years, the Hong Kong government has been promoting FinTech and Web 3.0 development, but the Chinese government has shown no interest in loosening the ban on cryptocurrency. (Shin, 2022) It would not be a surprise if Hong Kong followed China's stance on cryptocurrency. With these uncertainties, there is an opportunity for the team to further investigate on how the Hong Kong government can be better prepared to react to these changes.

5. Project Schedule and Milestones

Stage	Timeline (2023-2024)	Description
1 - Conceptual	Sep-Oct	Early research on cryptocurrencies
	Oct 1	Deliverables of Phase 1 <ul style="list-style-type: none"> • Detailed Project Plan • Project webpage initialized
2 - Design and planning	Oct-Nov	Design of questionnaire and interview
		Research on current cryptocurrency regulations
3 - Empirical	Nov-Jan	Distribution and collection of data from questionnaire and interview
		Continuation of research on current cryptocurrency regulations
	Jan 8-12	First presentation
	Jan 21	Deliverables of Phase 2 <ul style="list-style-type: none"> • Preliminary implementation • Detailed interim report
4 - Analytic	Jan-Feb	Analyzing the collected data from questionnaire form, interviews with stakeholders, and market research.
5 - Dissemination	Mar-Apr	Summarize of data into a presentable report
		Feedback and advice
	Apr 15-19	Final presentation
	Apr 23	Deliverables of Phase 3 <ul style="list-style-type: none"> • Finalized tested implementation • Final report
	Apr 26	Project exhibition

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