

-RESEARCH ARTICLE-

CROSS-BORDER CAPITAL FLOWS AND FINANCIAL STABILITY: CRYPTOCURRENCIES AS SAFE HAVENS AND RISK CONTAGION MECHANISMS IN ASIAN MARKETS

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—Abstract—

This study aims to examine the potential of cryptocurrencies as safe-haven assets and their impact on financial stability, focusing on the Shanghai, Shenzhen, and Hong Kong stock exchanges. The research employs cross-sectional expert interviews to analyse attitudes towards cryptocurrencies compared to traditional safe-haven assets, such as gold, and investigates the mechanisms through which cryptocurrency price fluctuations influence regional stock markets. The findings present a nuanced perspective: while

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cryptocurrencies—particularly Bitcoin—are regarded by some as viable instruments for portfolio diversification, their extreme volatility and regulatory uncertainties render them unsuitable as reliable hedging tools. The study identifies cross-sectional risks, wherein cryptocurrency movements disproportionately affect high-growth sectors in traditional markets, notably technology and finance. The policy implications underscore the necessity for robust reforms to mitigate potential risks and advocate for multilateral cooperation to maintain financial stability. The recommendations also emphasise the importance of diversified investment strategies, increased investor awareness, and the adoption of stable coins or, in the future, central bank digital currencies (CBDCs), as more stable digital investment alternatives. This research contributes to the growing body of literature on cryptocurrencies in financial markets, highlighting the importance of integrating qualitative assessments with quantitative methods to achieve effective risk management.

Keywords: Cryptocurrencies, Safe Haven Assets, Financial Stability, Volatility, Risk Management

INTRODUCTION

International capital mobilisation, the cross-border transfer of financial capital for investment, trade, or production activities, plays a pivotal role in connecting global markets, fostering economic development, and advancing financial integration. These flows enable the efficient reallocation of resources from capital-abundant regions to those in need of investment, thereby potentially driving economic growth. However, rapid and substantial foreign direct investment (FDI) can introduce volatility and risks, particularly when abrupt capital movements trigger market shocks and contagion effects, whereby disturbances in one market propagate to others (Forbes & Warnock, 2012). The stability of a financial system—its capacity to sustain operations and support economic activity in the face of economic shocks—is increasingly challenged by the volatility of capital flows, especially in highly integrated markets such as Shanghai, Shenzhen, and Hong Kong (Nakamoto, 2008). As China's economy expands and its financial markets undergo gradual liberalisation, the implications of international capital mobility emerge as a critical area of concern, demanding attention to its potential impacts on both domestic and global financial stability.

Cryptocurrencies have emerged as a distinct asset class, increasingly influencing cross-border capital movements and financial stability in recent years. Assets such as Bitcoin and Ethereum, characterised by their high decentralisation, exhibit significant volatility compared to traditional financial assets like stocks and bonds (Gandal & Halaburda, 2014). Despite their frequent price fluctuations, cryptocurrencies have garnered growing interest from investors as potential "safe-haven" assets, akin to gold, which historically served as a hedge against market uncertainty (Baur & Lucey, 2010).

However, the extent to which digital currencies can function as effective safe-haven assets remains contested. Unlike traditional hedges, cryptocurrencies lack centralised control and are subject to rapid and extreme price changes. These attributes make them attractive to specific classes of investors during bear markets while simultaneously acting as risk drivers. This phenomenon is particularly pronounced in the Asia-Pacific region, where interest in digital assets is notably strong, amplifying both their potential benefits and associated risks in regional markets.

The stock markets in Shanghai, Shenzhen, and Hong Kong offer a valuable context to examine the "safe-haven" role of cryptocurrencies and their impact on financial systems. Hong Kong serves as a crucial link between China's markets and the global economy, making the region increasingly integrated and susceptible to investment fluctuations (Song & Kutsuna, 2024). A defining feature of cryptocurrencies is their operation outside the control of central banks, which may appeal to investors in countries with heavily regulated financial markets (Chen, Xu, & Zhang, 2017). However, this raises questions regarding the potential and extent of cross-country contagion. Cryptocurrency price fluctuations can influence traditional trading markets, often through interconnected and complex pathways. This phenomenon, known as the "risk contagion mechanism," suggests that cryptocurrencies are both susceptible to risk spillovers from other markets and capable of transmitting shocks to them, depending on investor behaviour (Corbet et al., 2018).

This research paper aims to investigate the Chinese stock markets of Shanghai, Shenzhen, and Hong Kong to evaluate how cryptocurrencies function as both a source of risk contagion and a safe-haven asset. Specifically, the study will analyse the role of digital currencies in financial stability by examining their capacity to act as hedges or to transmit disruptions under stressed conditions. This analysis will explore the impact of cryptocurrencies on capital flows and the financial stability of these pivotal Asian markets, providing insights for policymakers, investors, and financial sector stakeholders. The findings are expected to illuminate the evolving role of cryptocurrencies in global finance, particularly in markets integral to China's strategic objectives and highly exposed to external shocks in global capital markets. To address the primary research questions, the study will employ qualitative interviews and thematic analysis.

Research Questions

To what extent do cryptocurrencies, such as Bitcoin, serve as effective safe-haven assets in the Shanghai, Shenzhen, and Hong Kong stock markets during periods of financial instability?

What mechanisms underlie the transmission of risk and volatility from cryptocurrency markets to the Shanghai, Shenzhen, and Hong Kong stock markets?

How do policy and regulatory frameworks influence cryptocurrency markets and their interactions with traditional financial markets in these regions?

Research Objectives

To analyse the potential of cryptocurrencies, particularly Bitcoin, as safe-haven assets in the Shanghai, Shenzhen, and Hong Kong stock markets during periods of heightened market volatility.

To investigate the mechanisms through which risk and volatility from cryptocurrency markets influence traditional financial markets in Shanghai, Shenzhen, and Hong Kong.

To examine the influence of policy and regulation on cryptocurrency markets and their interactions with stock markets in these regions, offering qualitative insights into governance and market dynamics.

LITERATURE REVIEW

Safe Haven Role of Cryptocurrencies

Gold and US Treasury bonds are traditionally regarded as safe-haven assets, valued for their ability to retain or strengthen value during periods of market turmoil. [Baur and Lucey \(2010\)](#) define a safe haven as an asset whose returns, at worst, move in the same direction as other assets during a crisis. For instance, gold has historically served as a hedge in adverse economic conditions, driven by its global demand ([Beckmann et al., 2015](#)). With the advent of alternatives like Bitcoin, questions emerged regarding the potential of digital assets to perform similar functions, despite their lack of institutional backing ([Kristoufek, 2015](#)). Some studies suggest that Bitcoin exhibits safe-haven characteristics during periods of heightened market volatility, while others argue against its classification as a safe-haven asset due to its high risk ([Conlon et al., 2020](#)). Nevertheless, Bitcoin's growing market capitalisation and its relatively low or negative correlation with various financial assets have spurred further debate about its potential as a safe haven ([Corbet et al., 2018](#); [Dyhrberg, 2016](#)). While earlier literature provides inconclusive findings—some studies identifying Bitcoin as a hedge and others highlighting its volatility—there remains a lack of research exploring how its safe-haven characteristics may differ across regional markets such as Shanghai, Shenzhen, and Hong Kong ([Conlon et al., 2020](#); [Corbet et al., 2018](#)). This study seeks to address this gap by examining the contextual applicability of cryptocurrencies as safe havens within these specific markets.

Mechanisms of Risk Contagion between Cryptocurrency and Traditional Markets

Risk contagion occurs when a financial shock in one asset or market spreads to others,

particularly affecting highly integrated markets. [Forbes and Rigobon \(2002\)](#) suggest that contagion effects may arise from factors such as investor sentiment, illiquidity, and market integration. No market is entirely immune to the effects of shifts in investor preferences, as sentiment can influence multiple markets simultaneously. In recent years, cryptocurrencies have added complexity to the contagion debate ([Engle, 2002](#)). Despite their largely unregulated status and significant price fluctuations, which contribute to greater risk transfer across financial markets, cryptocurrencies have been shown to both absorb and amplify market shocks under certain conditions ([Longstaff, 2010](#)). Research by [Corbet, Lucey, and Yarovaya](#) highlights that the speculative nature and high volatility of cryptocurrencies can intensify these contagion mechanisms. The existing literature predominantly employs cross-quantitative models, such as GARCH or VAR, to assess contagion effects ([Conlon et al., 2020](#)). However, there remains a lack of clarity regarding the qualitative perceptions of experts towards these contagion mechanisms, particularly in the context of new and closely integrated markets like Shanghai, Shenzhen, and Hong Kong ([Bouri et al., 2017](#)). To address this gap, this research aims to explore expert opinions on the transmission mechanisms through which Bitcoin fluctuations affect conventional markets.

The Role of Policy and Regulation in Cryptocurrency Markets

A key issue within cryptocurrency markets remains the question of regulation. Government and financial institution measures globally can be divided into two main approaches: outright bans on digital assets and efforts to incorporate them into the existing financial system ([Auer & Claessens, 2018](#)). The Asia-Pacific region, in particular, has seen an active regulatory landscape. While Chinese authorities maintain stringent regulations to limit domestic access to cryptocurrencies ([Eichengreen, 2019](#)). A curb capital outflows, Hong Kong has adopted a contrasting stance, positioning itself as a global financial hub and actively attracting cryptocurrencies ([Corbet et al., 2018](#)). However, the relationship between regulation, market stability, and cross-asset dynamics remains unclear. This paper aims to investigate how current and anticipated regulations influence the relationship between cryptocurrencies and traditional financial systems in these regions. Additionally, it examines how stakeholders, with a particular focus on industry experts, perceive the conflict between risk mitigation and innovation in the sector.

Research Gap

As noted earlier, extensive literature exists on cryptocurrencies, particularly in relation to their role as safe-haven assets, their volatility, and their correlation with traditional financial markets. These studies predominantly utilise quantitative methods, such as GARCH and VAR models, as well as factor analysis, to identify patterns of correlation and contagion effects. However, there is a notable gap in qualitative research exploring the nature and quality of these interactions, especially within the regional financial

markets of Shanghai, Shenzhen, and Hong Kong. Specifically, there is limited discussion on how the high volatility of cryptocurrencies affects traditional markets, the extent to which various sectors remain sensitive to these fluctuations, and how regulation evolves within this context. Furthermore, existing studies fail to offer a localized perspective, overlooking how these markets have developed in light of current regulations and the economic environment, thereby necessitating a qualitative research approach. This study seeks to fill these gaps by interviewing financial professionals, aiming to complement the existing quantitative data with valuable qualitative insights.

METHODOLOGY

This study employs a qualitative approach to explore the safe-haven effect and risk contagion associated with cryptocurrencies in the Shanghai, Shenzhen, and Hong Kong stock markets. Given the complex role of cryptocurrencies in cross-border capital flows and their impact on financial stability, qualitative research is particularly suited for capturing the insights of industry experts (Birks & Mills, 2015). Unlike quantitative research, which focuses on analysing relationships between variables, the chosen method enables a more detailed examination of expert opinions and contextual factors specific to each market (Creswell & Poth, 2016).

Data Source

The data for this research were gathered from primary sources, specifically through interviews with eight finance professionals specialising in the Shanghai, Shenzhen, and Hong Kong markets. Semi-structured interviews were chosen as the most appropriate method, particularly for research areas with limited prior investigation. This approach is especially valuable in exploratory studies, such as those involving cryptocurrencies, where expert perspectives provide deeper context beyond quantitative data (Patton, 2015). The semi-structured format allowed for a blend of standardised questions with tailored inquiries based on each respondent's level of expertise, ensuring that the insights gathered were both relevant to the study's aims and reflective of the broader sample's views.

Respondents Selection

To ensure the collection of meaningful and relevant data, respondents were carefully selected according to specific criteria. The study employed purposive sampling, a common technique in qualitative research, to identify individuals with expertise pertinent to the research questions (Guest et al., 2006). The selection criteria included relevant work experience in asset management, finance, or regulatory roles within the Shanghai, Shenzhen, and Hong Kong markets, as these individuals regularly engage with cryptocurrencies or their impact on these markets. Additionally, the respondents were chosen from diverse areas within the finance industry to provide a comprehensive

range of perspectives. The choice of eight respondents was deemed appropriate, as it allowed for broad representation while also capturing in-depth insights.

Interview Structure and Topics

The interviews were structured around a set of questions designed to address the primary objectives of the study, focusing on the safe-haven characteristics of cryptocurrencies, potential sources of risk transmission, and the market reactions within the Shanghai, Shenzhen, and Hong Kong stock exchanges. Key topics covered in the interviews included:

Professional opinions on cryptocurrencies (particularly Bitcoin and Ethereum) as safe havens, in comparison to traditional assets such as gold.³

The mechanisms through which cryptocurrency volatility might transmit risks to traditional stock markets.

The impact of regulatory policies and investor activities in each region on the relationship between cryptocurrencies and financial stability.

The interviews revealed insights into the broader market conditions that influence the role of cryptocurrencies in maintaining financial stability within these regions.

Data Analysis Method

The interviews were transcribed, and the data from the responses were coded and analysed thematically, a method well-suited for identifying patterns and meanings in qualitative data (Braun & Clarke, 2006). Data analysis involved coding the interview content and determining themes that best captured the most significant insights related to the research questions (Huberman, 2014). This approach was effective in breaking down complex expert opinions into interpretable findings, while allowing for a more flexible analysis that captured emerging themes. The coding process involved identifying and labelling relevant textual passages in the interview transcripts with corresponding codes (Nowell et al., 2017). Codes were applied to sections of text directly related to the study's focus, such as perspectives on cryptocurrencies as safe havens, the concept of risk spillover, and specific market reactions in the region. Following the initial coding, the data was categorised, grouping related codes that summarised respondents' perceptions (Saldaña, 2021). Once patterns emerged, themes were refined and discussed to reflect the true essence of the data.

Data Analysis

The respondent demographic Table 1 provides a summary of the eight experts

interviewed for this study, each with distinct experience in finance and cryptocurrencies. The participants include portfolio managers, analysts, consultants, and policy advisors, with professional backgrounds in asset management, investment banking, risk management, and blockchain technology. Their expertise is centred on the major financial markets of China—specifically Shanghai, Shenzhen, and Hong Kong—key regions for analysing the impact of cryptocurrencies on financial stability. The diversity in gender, age, experience, and sectoral focus enhances the breadth of the qualitative analysis, offering a range of perspectives on regional market responses to cryptocurrency trends and the associated risks.

Table 1: Demographic of Respondents

Respondent ID	Age	Gender	Years of Experience in Finance	Primary Sector of Expertise	Geographical Market Focus	Role/ Position
R1	45	Male	20	Asset Management	Shanghai	Senior Analyst
R2	38	Female	15	Risk Management	Hong Kong	Risk Consultant
R3	52	Male	25	Financial Regulation	Shenzhen	Policy Advisor
R4	30	Female	8	Cryptocurrency Trading	Shanghai	Crypto Analyst
R5	42	Male	18	Investment Banking	Hong Kong	Portfolio Manager
R6	35	Female	10	Market Research	Shenzhen	Research Analyst
R7	47	Male	22	Hedge Funds	Shanghai	Fund Manager
R8	33	Female	9	Block chain Technology	Shenzhen	Block chain Expert

Table 2 presents a thematic breakdown of key insights derived from the expert interviews, categorising the responses into seven major themes: cryptocurrency as a safe haven, regional markets, channels of risk contagion, and the regulatory role in cryptocurrency. Each theme explores specific aspects of cryptocurrencies in relation to financial stability within the Shanghai, Shenzhen, and Hong Kong markets, which are central to this study. For example, experts highlighted the ambiguous outlook for Bitcoin as a safe-haven asset, noting the contrasting views on its potential. Additionally, the influence of regulatory actions and the sensitivity of key sectors such as IT and finance to fluctuations in cryptocurrency prices were also discussed. This thematic structure provides an overview of the qualitative findings, shedding light on both the potential and risks associated with cryptocurrencies in the context of traditional financial markets.

Table 2: Theme based on Questionnaire

Theme	Description	Related Questions	Key Insights
Cryptocurrency as a Safe Haven	Examines whether cryptocurrencies are perceived as reliable assets during market volatility.	<i>Do cryptocurrencies function as safe haven assets in Shanghai, Shenzhen, or Hong Kong markets?</i>	Mixed views: Some respondents view Bitcoin as a diversification tool, while others cite its volatility as a limitation.
Influence on Regional Markets	Explores the direct and indirect impacts of cryptocurrency fluctuations on stock markets in Shanghai, Shenzhen, and Hong Kong.	<i>Do cryptocurrency price fluctuations impact the Shanghai, Shenzhen, and Hong Kong stock markets?</i>	Respondents noted indirect impacts, such as contagion through investor sentiment, especially in tech and finance sectors.
Channels of Risk Contagion	Describes the primary mechanisms through which risks from cryptocurrency markets may transfer to traditional stock markets.	<i>What are the main mechanisms through which risk might transfer from crypto to traditional stock markets?</i>	Channels include intermarket linkages, liquidity fluctuations, and cross-asset correlations in volatile periods.
Regulatory Role in Cryptocurrency	Discusses current and future regulatory approaches to manage the risks posed by cryptocurrencies to financial markets.	<i>What role should government regulations play in managing cryptocurrency risks to financial stability?</i>	Most respondents emphasized the need for consistent regulatory frameworks to mitigate volatility and integrate cryptocurrencies.

Cryptocurrency as a Safe Haven

Respondent 1

"In my experience, Bitcoin does not truly function as a safe haven asset, particularly compared to traditional options like gold. While it sometimes inversely correlates with stock market volatility, its own price swings can be extreme. This volatility makes it challenging for investors here in Shanghai to view Bitcoin as a reliable safety net."

Respondent 2

"Bitcoin does exhibit some qualities of a safe haven, especially in Hong Kong, where we have a relatively high exposure to global markets. However, I would still consider it a risky asset due to the regulatory uncertainties and lack of consistent performance as a counter-cyclical asset."

Respondent 3

"In Shenzhen, the view is that Bitcoin is more of a speculative asset than a safe haven. Even though it has high growth potential, it does not have the stability investors here typically seek during market downturns. Many still prefer assets like the U.S. dollar or gold in times of uncertainty."

The responses reveal a cautious and region-specific view on Bitcoin as a safe-haven asset in the Shanghai, Shenzhen, and Hong Kong markets. About 60% of respondents remain uncertain about Bitcoin's stability as a safe haven due to its high volatility and uncertain regulatory environment, especially compared to traditional assets like gold. While some Hong Kong respondents value Bitcoin as a hedge against geopolitical tensions and distrust in paper currencies, others dismiss its extreme volatility as incompatible with counter-cyclical behaviour. In Shenzhen, Bitcoin is seen as a speculative instrument, with investors relying on traditional safe havens for risk diversification. Respondents in Shanghai also express scepticism, noting that while Bitcoin sometimes moves inversely to markets, this pattern is inconsistent and unreliable as a hedge. Overall, while risk-tolerant investors may view Bitcoin as a potential store of value, its high price volatility and regulatory uncertainties limit its viability as a safe-haven asset in these regions.

Impact on Regional Markets

Respondent 1

"In Shanghai, I believe the impact is mostly indirect. While cryptocurrency price fluctuations may influence investor sentiment, particularly among younger, more speculative investors, the overall effect on the stock market is limited. The regulatory environment and market maturity of stocks play a larger role in driving market behaviour."

Respondent 2

"Fluctuations in cryptocurrency prices do have a direct impact, especially in Hong Kong. The growing trend of integrating blockchain technology and digital assets into the financial sector means that major shifts in cryptocurrency prices can influence investor confidence and spillover into traditional markets, especially in sectors related to tech and finance."

Respondent 3

"In Shenzhen, the impact is more indirect. While cryptocurrency volatility might drive some retail investors to shift their portfolios, the overall stock market remains largely unaffected. However, if a significant crypto crash were to occur, it could cause a broader loss of confidence in riskier assets, indirectly affecting market dynamics."

The responses indicate that while most participants believe cryptocurrency price fluctuations indirectly affect the Shanghai, Shenzhen, and Hong Kong stock markets, there are some exceptions. The majority argue that although cryptocurrencies do not directly influence stock market indices, they shape investor sentiment and risk appetite,

which in turn affects foreign exchange flows, mimicking stock market movements. In Hong Kong, where digital finance and blockchain companies are more integrated, cryptocurrency volatility is seen to have a more direct impact, particularly on technology and fintech stocks. In contrast, the Shanghai and Shenzhen markets are less susceptible to disruptions in the cryptocurrency market, as they are more focused on traditional assets; however, significant crypto market fluctuations could undermine investor confidence. In summary, the study shows that while cryptocurrencies do not directly affect stock prices, they influence overall market sentiment, which subsequently impacts investor behaviour and causes volatility in cryptocurrency-related sectors.

Channels of Risk Contagion

Respondent 1

"The primary mechanism is investor sentiment. When cryptocurrency prices experience sharp declines or volatility, it can lead to a shift in investor risk appetite, causing them to pull out of riskier assets, including stocks. This risk-off behaviour is particularly noticeable in Shanghai, where a large portion of the population has a relatively low risk tolerance."

Respondent 2

"One key channel is liquidity contagion. If a major crypto crash occurs, investors may need to liquidate other assets to cover their positions in the cryptocurrency market. This can lead to sell-offs in traditional stocks, particularly in Hong Kong, where there's a higher overlap between investors in both markets."

Respondent 3

"Risk can transfer through the interconnectedness of certain sectors, especially in Hong Kong. Companies in the fintech, blockchain, and tech industries that are heavily exposed to cryptocurrencies may see their stock prices affected by fluctuations in crypto markets. A downturn in crypto markets could lead to a loss of confidence in these companies, triggering broader stock market declines."

The research responses indicate that risk transmission from cryptocurrency markets to traditional stock markets is primarily driven by investor sentiment, liquidity, and cross-sectoral links. The majority of respondents highlighted changes in investor behaviour, particularly during significant crypto market fluctuations, which may lead to a risk-off strategy where investors sell off cryptocurrencies, equities, and other assets to mitigate losses. In markets like Hong Kong, where the stock and cryptocurrency markets are interconnected, cryptocurrency price changes have a direct impact on the stock market,

particularly in fintech and blockchain sectors. Some respondents also pointed to the behavioural influence of fear and panic, which can spread from the cryptocurrency market to other investors. Additionally, institutional investors and hedge funds were identified as key actors, with their responses to cryptocurrency price fluctuations contributing to risk transfer as they rebalance portfolios. Overall, these responses suggest that sentiment shifts, especially in interconnected markets like Hong Kong, are the primary conduits for risk transfer, with market risks spilling across asset classes due to investor behaviour and sectoral exposure.

Regulatory Role in Cryptocurrency

Respondent 1

"Government regulations are critical in ensuring the stability of the financial system. In my opinion, regulations should focus on transparency, anti-money laundering (AML) measures, and ensuring that crypto exchanges and digital asset platforms adhere to stringent reporting standards. By implementing clear and comprehensive regulations, governments can reduce systemic risks associated with market volatility and prevent illicit activities."

Respondent 2

"Regulation is absolutely necessary. Governments should aim to create a framework that balances innovation with protection. This means regulating the use of cryptocurrencies in a way that prevents excessive speculation and protects investors, while not stifling technological development. Clear regulatory frameworks can also reduce the uncertainty that currently surrounds cryptocurrencies, making them more predictable and integrated into traditional financial markets."

Respondent 3

"In my view, regulations should focus on investor protection, particularly in volatile markets like cryptocurrencies. Governments should set guidelines to ensure that retail investors have access to adequate information before they engage in crypto investments. This would help mitigate risks related to speculative bubbles and provide more stability to the market overall."

The results show varying levels of awareness among stakeholders regarding government regulations on cryptocurrency risks to financial stability, with a focus on balancing innovation and investor protection. Most respondents believe regulations should prioritise transparency, anti-money laundering measures, market integrity, and systemic risk prevention, including price manipulation and excessive volatility. A key debate centres on protecting investors and creating regulatory frameworks to prevent

market bubbles, particularly in emerging markets. Additionally, there is a call for cross-border regulatory cooperation to close gaps and standardise cryptocurrency exchange oversight. Some respondents advocate for flexible digital rules that can adapt to rapid sector changes while maintaining financial stability. Overall, the study highlights the importance of safeguarding financial integrity, consumer welfare, and the responsible development of cryptocurrency technologies.

DISCUSSION

The discussion of this study centres on the existence and application of cryptocurrencies as safe-haven assets, the risks related to financial contagion associated with cryptocurrencies, and policy and investment strategy decision-making within the context of the Shanghai, Shenzhen, and Hong Kong stock markets. Drawing on expert interviews, the study elaborates on the linkages and dynamics between digital currencies and financial stability, comparing them with other forms of investment, particularly traditional safe-haven assets such as gold.

Interpretation of Results

Safe Haven Role of Cryptocurrencies

Overall, the respondents agreed that digital assets like Bitcoin possess certain characteristics of safe-haven assets, particularly during region-specific volatility. This aligns with prior research that highlights the hedging effects of cryptocurrencies against traditional market fluctuations, although regional differences were noted (Conlon et al., 2020). However, respondents made a clear distinction between cryptocurrencies and gold, asserting that gold is universally recognised as a safe-haven or crisis currency (Baur & Lucey, 2010).

Qualitative Insights Revealed Regional Variations: Investors in Hong Kong view cryptocurrencies as high-risk and secondary to traditional investments, whereas in Shanghai and Shenzhen, there is a growing adoption of cryptocurrencies, mainly as hedging instruments among younger, tech-savvy investors. Therefore, these findings contribute to the field by offering a deeper understanding of how the economic and cultural conditions of East Asian markets influence the safe-haven behaviour of cryptocurrencies.

Mechanisms of Risk Contagion

Through thematic analysis, it became evident that investor sentiment, liquidity issues, and technological vulnerabilities are key drivers of risk transmission. Some responses indicated that fluctuations in cryptocurrency prices lead to bullish or bearish sentiments, which in turn influence the volatility of related sectors. Geographical liquidity

connections, particularly in Hong Kong, were highlighted due to the presence of global funds facilitating quick transitions between crypto and stock instruments (Diebold & Yilmaz, 2014). These findings extend existing research, which predominantly relies on quantitative models such as GARCH to assess contagion effects (Corbet et al., 2018). The qualitative approach, however, explores the psychological and market infrastructure dimensions of these mechanisms, offering deeper insights into how cryptocurrency risk transmission impacts traditional markets.

Role of Policy and Regulation

All respondents agreed that government regulation plays a central role in shaping cryptocurrency markets and their interactions with the traditional financial sector. Policies were identified as crucial for preventing speculation and market manipulation, while also fostering innovation through clear and coherent frameworks. Specifically, regional variations in regulatory approaches, such as China's restrictive stance versus Hong Kong's openness, were noted to have significant impacts on market dynamics and investor behaviour.

Comparison to Gold

When comparing cryptocurrencies to gold, a key difference lies in their risk and stability characteristics. Gold has long been regarded as a "safe haven" due to its lower volatility compared to most other tangible assets, along with its reputation as a hedge against inflation and currency risk (Baur & McDermott, 2010). In contrast, cryptocurrencies are far more volatile and lack the intrinsic value that gold holds. This volatility makes it challenging for cryptocurrencies, such as Bitcoin, to function as safe-haven assets, a sentiment echoed by several respondents. However, this could change as cryptocurrencies evolve and become more standardized, potentially mirroring gold's role if institutional demand for hedging increases (Dyhrberg, 2016). While gold's demand and price remain relatively constant and globally recognised, cryptocurrency prices are highly uncertain, dependent on technological developments and regulatory changes (Corbet et al., 2018). This added layer of speculation introduces significant risk, as even minor shifts in regulation or technology can cause dramatic changes in cryptocurrency values. Therefore, although cryptocurrencies may serve as hedges under certain market conditions, their role is more complex and ambiguous compared to gold's traditional function. The growing focus on stable coins, which aim to avoid extreme price fluctuations by linking to traditional currencies, may eventually offer a more stable hedge alongside or in place of Bitcoin and gold.

THEORETICAL IMPLICATIONS

This study contributes to several theoretical domains:

Safe Haven Theory

The findings challenge the conventional model of safe-haven assets by offering a regional perspective on cryptocurrencies. While prior research, such as [Conlon et al. \(2020\)](#), has conceptualised Bitcoin as a global hedge asset, this study identifies it as a conditional safe haven, whose effectiveness is influenced by local environmental factors and investor characteristics during Covid 19. This suggests the need to reconsider the safe-haven theory, advocating for a more nuanced approach that accounts for both the asset-specific and region-specific dynamics that shape its role in financial markets.

Risk Contagion Framework

The study enhances the understanding of contagion by incorporating qualitative aspects, such as sentiment-driven behaviour and technological interconnectedness, which are often overlooked in traditional quantitative frameworks. These insights suggest that contagion theories should integrate concepts from behavioural finance and digital market interactions to better reflect the complexities of contemporary market dynamics.

Regulatory Economics

In this regard, the study supports and expands upon existing regulatory strategies, emphasising the role of regulations as both stabilisers and enablers of innovation ([Auer & Claessens, 2018](#)). It advocates for the development of a flexible regulatory framework that can be periodically adjusted based on the outcomes of the cryptocurrency market, while simultaneously preventing the emergence of a high-risk environment.

POLICY IMPLICATIONS

Based on these findings, the study highlights the importance of adopting a forward-looking policy approach to cryptocurrency, as its opportunities can be maximised and risks mitigated, particularly in cross-border capital movements. Key themes raised by respondents include the need for specific regulatory regimes addressing areas such as market transparency, AML, and investor protection. These themes align with the views of [Auer and Claessens \(2018\)](#), who emphasise the importance of regulation for stabilising cryptocurrency markets and integrating them into conventional financial markets. Effective regulation would help curb speculation and market manipulation, creating a more reliable environment for both retail and institutional investors. Another significant policy consideration is the need for international regulatory coordination to prevent the emergence of jurisdictions that favour crypto business operations ([Gikay, 2018](#)). Some respondents expressed concern that uneven geographic regulations could

exacerbate financial stability risks, as uncontrolled crypto exchanges in one region may amplify market shocks in more highly regulated areas. These risks could be mitigated through a coordinated international regulatory framework that establishes consistent rules for cryptocurrency exchanges and stable digital currencies (Zohar, 2015).

For investors, the study's conclusions suggest that cryptocurrency investments should be approached with caution and allocated in small portions within a diversified portfolio. While cryptocurrencies can offer diversification benefits, their price volatility makes them riskier compared to traditional hedges like gold. Institutional investors may find it beneficial to hedge with a mix of traditional assets, such as gold, and digital ones, while acknowledging the inherent risks of the latter. The analysis of cryptocurrency diversification and its evolving role in financial openness and capital movement in Shanghai, Shenzhen, and Hong Kong calls for a tailored approach to investment strategies and regulatory frameworks. As cryptocurrencies become increasingly integrated into global economic and financial systems, it will be crucial to strike a balance between fostering innovation and maintaining stability. This balance is necessary for ensuring the long-term efficiency of cryptocurrencies in global markets and their compatibility with traditional assets for sustained financial stability.

CONCLUSION

In conclusion, this research provides valuable insights into the potential of cryptocurrencies as safe-haven assets, their impact on financial stability, and their influence on the stock exchanges in Shanghai, Shenzhen, and Hong Kong. Through in-depth interviews with finance professionals, the study explores both the opportunities and risks of cryptocurrencies within these markets. While respondents acknowledged that digital assets could serve as a portfolio diversification tool, particularly during periods of volatility, they also highlighted key challenges, such as the instability of coin prices and the lack of robust regulatory frameworks, which hinder their potential to function as reliable safe-haven assets when compared to traditional alternatives like gold. This study's qualitative approach highlights sector-specific risks and regulatory gaps often missed in quantitative analyses, offering a clearer view of cryptocurrencies' broader impact on financial markets. It shows how cryptocurrencies' risk transmission is linked to evolving regulations, with enhanced frameworks potentially stabilising their role in financial systems. As digital assets develop and their legal status solidifies, they may become more reliable hedge assets, increasing stability and investor confidence.

LIMITATIONS

This study has several limitations. The sample size of eight respondents, while providing valuable insights, limits generalizability. Expanding the sample to include institutional investors or policymakers could offer more diverse perspectives.

Additionally, the research focused on the Shanghai, Shenzhen, and Hong Kong markets, which do not represent the global or regional cryptocurrency landscape, so exploring other markets like Tokyo or Singapore could provide broader insights. While thematic analysis adds richness, quantitative methods would offer more precise measures of the relationship between cryptocurrencies and stock markets. The rapidly evolving cryptocurrency market, regulations, and technology may render some findings less relevant over time. Finally, although the study touches on regulatory perspectives, more in-depth analysis of the economic and legal aspects of cryptocurrency regulation could be beneficial.

FUTURE DIRECTIONS

Future research should consider integrating qualitative and quantitative data to provide a more comprehensive understanding of cryptocurrency market dynamics. Specifically, conducting expert interviews alongside the application of statistical models, such as VAR or GARCH, could help to quantify the findings presented in this study. Additionally, exploring the impact of stable coins or CBDCs would offer valuable insights into the role of cryptocurrencies with relatively stable prices in financial stability. Such investigations could enhance our understanding of how cryptocurrencies interact with other forms of capital flows and provide guidance to policymakers and investors on navigating the evolving landscape of digital currencies.

RECOMMENDATIONS

Based on the study's findings, the following recommendations are proposed to manage the risks and harness the potential of cryptocurrencies within the Shanghai, Shenzhen, and Hong Kong stock markets:

1. **Strengthen Regulatory Frameworks:** Policymakers and financial authorities should focus on transparent and effective legislation for cryptocurrencies. This should include establishing standards for AML, transparency, and investor protection to reduce volatility and enhance investor confidence. A clear regulatory framework would help integrate cryptocurrencies into conventional financial systems in a structured manner.
2. **Promote International Regulatory Cooperation:** Given the global nature of cryptocurrency markets, there is a need for harmonised regulations across jurisdictions (Houben & Snyers, 2018). Coordinating common rules will mitigate the risk of regulatory arbitrage, which could arise from the crypto market's high volatility, posing a threat to the financial stability of interconnected stock exchanges.
3. **Encourage Balanced Investment Strategies:** Cryptocurrencies should be viewed as highly speculative and not relied upon as the primary hedge for institutional or

retail investors. They can be considered for diversification, but should be used alongside traditional safe-haven assets, such as gold, to mitigate risk.

4. Support Research on Stablecoins and CBDCs: Stablecoins and CBDCs represent lower-volatility digital assets that may serve similar functions to safe-haven assets. Authorities and investors should explore these types of assets, which could offer more stability in capital flows and financial markets than traditional cryptocurrencies.
5. Increase Financial Literacy and Investor Education: As cryptocurrency adoption grows, educational programmes for both institutional and individual investors are crucial. These initiatives will ensure that investors understand the associated risks, fluctuations, and market conditions, reducing the likelihood of market crises driven by inexperienced speculation.
6. Implement Contingency Plans for Contagion Risks: Financial institutions should prepare for the potential impact of cryptocurrency-related losses on traditional financial markets. Measures to monitor and manage interconnected market risks will help contain the effects of cryptocurrency price fluctuations and protect the broader financial ecosystem.

These recommendations aim to ensure the responsible and balanced use of cryptocurrencies in traditional financial markets while safeguarding stability. A focus on regulation, education, and risk management can help create a fraud-free environment that supports global capital, including digital currencies.

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