



PRACTICAL FEASIBILITY STUDY OF KLEROS IN CHINA

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Abstract: This study delves into the potential applicability of Kleros, a decentralized arbitration system, within China's legal framework, exploring its use as an alternative means for dispute resolution. We commence our discussion by examining the underpinnings of China's traditional litigation culture, underlining its emphasis on mediation and reconciliation. Following this, we shed light on the existing state of the Chinese judicial system, pinpointing the critical need for efficient mechanisms of dispute resolution.

Our examination extends to the legal and developmental status of blockchain technology within China's borders, including potential criminal liabilities associated with blockchain projects, and the government's encouragement for innovation in the blockchain sector. Subsequently, we inspect the prospective benefits and challenges associated with integrating Kleros within the Chinese landscape, assessing its potential to address the inefficiencies inherent to traditional methods of dispute resolution, and the necessity of navigating the regulatory hurdles that lie ahead.

In conclusion, our paper underscores the imperative for additional research and collaborative exploration to determine the practicality of implementing Kleros in China. Our proposed strategies include piloting Kleros in Hong Kong and utilizing Kleros's Escrow services for international trade, especially transactions involving USDT.

Keywords: Kleros, China, traditional Chinese litigation culture, decentralized arbitration, blockchain technology, dispute resolution, regulatory obstacles, efficiency, decentralized justice, decentralized dispute resolution mechanism.



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Clara Lin

2023 in Netherlands



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Introduction

In recent years, the world economy has experienced a rapid transition towards globalization and digitization¹, leading to the emergence of a new breed of disputes arising in online communications and transactions involving parties hailing from different legal jurisdictions. As a result, traditional dispute resolution methods are becoming increasingly inadequate for resolving these disputes efficiently and effectively. The emergence and development of blockchain technology have provided new possibilities for dispute resolution methods. According to a recent study by Guillaume and Riva, blockchain technology can offer a decentralized and autonomous method for resolving disputes, which is more efficient and less costly than traditional methods². Similarly, Hewitt notes that blockchain-based dispute resolution can provide greater transparency, security, and efficiency.³

Decentralized dispute resolution mechanism is one such emerging framework that offers a fast, efficient, and transnational method for resolving disputes. The concept of decentralized dispute resolution mechanism has generated considerable interest in the legal and business communities, with many scholars and practitioners exploring its potential applications and benefits.⁴

The introduction of a decentralized dispute resolution mechanism in China would be a crucial milestone in the development of decentralized dispute resolution, because China, as an important global economic power with a population representing one-fifth of the world's total population⁵, holds significant significance in the adoption and dissemination of decentralized dispute resolution mechanisms.

Several studies have emphasized the importance of China's involvement in the adoption of blockchain technology and its applications. China has emerged as a leading player in the blockchain domain, with an increasing number of blockchain-based applications⁶. Additionally, China has "a robust blockchain ecosystem, which includes startups, established companies, and consortia."⁷

¹ Thomas L Friedman, *The world is flat [updated and expanded]: A brief history of the twenty-first century*, Macmillan, (2006)

² Guillaume, Florence and Sven Riva. "Blockchain Dispute Resolution for Decentralized Autonomous Organizations: The Rise of Decentralized Autonomous Justice." *Blockchain and Private International Law*, vol. 1, 2022.

³ Hewitt, Michael. "What Attorneys Should Know About Blockchain Disputes." *Law360*, 7 May 2021, www.law360.com/articles/1389198/what-attorneys-should-know-about-blockchain-disputes.

⁴ Harold Hongju Koh, "The 'Gants Principles' For Online Dispute Resolution: Realizing The Chief Justice's Vision For Courts In The Cloud," *Boston College Law Review* vol 7. Num Vol 62., (2021)

⁵ Banister, J. (1984). An analysis of recent data on the population of China. *Population and Development review*, 241-271.

⁶ Cai, L., Sun, Y., Zheng, Z., Xiao, J., & Qiu, W. (2021). Blockchain in China. *Communications of the ACM*, 64(11), 88-93.

⁷ Cai, L., Sun, Y., Zheng, Z., Xiao, J., & Qiu, W. (2021). Blockchain in China. *Communications of the ACM*, 64(11), 88-93.



The adoption of blockchain technology in China has been endorsed and encouraged by the government, as seen in the national blockchain strategy released by the People's Bank of China.⁸ The strategy aims to promote the integration of blockchain technology with the Chinese economy and society⁹.

Overall, this article aims to provide a comprehensive analysis of the practice of decentralized dispute resolution mechanisms, with a particular focus on its prospects in China.

To provide a thorough understanding of the context of decentralized dispute resolution in China, this paper will begin with an overview of the legal and cultural background, including the concept of litigation in Chinese culture and the current state of the Chinese judiciary. We will also examine the legal regulations and development status of blockchain in China, as it is relevant to the practice of decentralized dispute resolution mechanisms in the country.

This paper will then focus on exploring blockchain's potential as a dispute resolution mechanism in China. Specifically, we will unveil China's judicial system and highlight the need for efficient dispute resolution mechanisms. We will also analyze the prevalence of online courts and dispute resolution mechanisms, and discuss the calls for more effective dispute resolution solutions in China.

Next, this paper will introduce Kleros, a modern-day version of Athenian people's courts, and provide a comprehensive overview of its crypto-economic incentivization mechanism. We will examine the benefits of using Kleros for dispute resolution, such as transparency, fairness, efficiency, global access, and auto-enforceability. We will also analyze the legal basis for Kleros' practice in China, specifically looking at its dispute resolution model and its compliance with Chinese arbitration law. In addition, we will present the results of our empirical research on the topic, including data collection, questionnaire surveys, and workshops, which aims to shed light on the feasibility and potential challenges of implementing decentralized dispute resolution mechanisms in China.

Finally, this paper will provide concluding thoughts and suggestions for future research. It is hoped that this paper will contribute to the development of efficient and effective dispute resolution mechanisms in China, and advance the understanding of the potential benefits of decentralized dispute resolution mechanisms.

⁸ People's Bank of China. (2022). Development Plan for Financial Technology (2022-2025).

⁹ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.



Section 1: Exploring Blockchain's Potential as a Dispute Resolution Mechanism in China

1.1 Unveiling China's Judicial System: The Need for Efficient Dispute Resolution Mechanisms

China has a rich legal tradition that has been shaped by various factors, including Confucianism, communism, and modern Western legal systems. Additionally, Chinese culture has a profound influence on the way legal disputes are handled.

In this section, we will provide a brief overview of the Chinese legal system, the Chinese view on litigation, and the current state of the Chinese judiciary. This background will help us better understand the context of decentralized dispute resolution mechanisms in China.

1.1.1 The Concept of Litigation in Chinese Culture

In Chinese, the character for "litigation" is "讼" (song4) is comprised of two components: "言" (yan2) meaning "word," and "公" (gong1) meaning "public".¹⁰ This suggests that in ancient times, litigation was viewed as a process where individuals used words to bring their issues to the attention of the public.

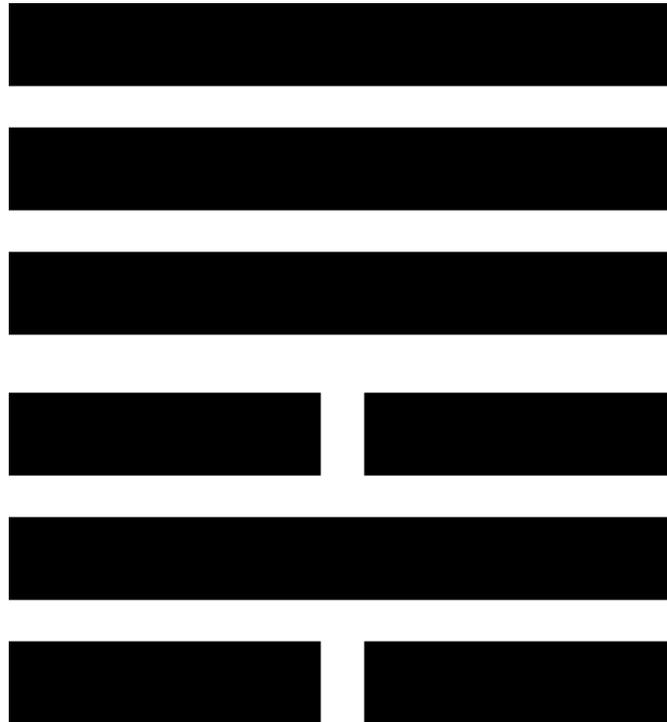
The Chinese approach to conflict resolution emphasizes "化解" (hua4jie3), which entails using soft methods to dissolve misunderstandings and obstacles. This stands in contrast to "解决" (jie3jie2), which refers to the direct resolution of issues through more straightforward and one-ended means.¹¹

The hexagram for "litigation" (讼卦, song4 gua4) features the phrase "有孚窒，惕" (you3 fu3 zhi4, xi1). "有" (you3) means "to exist," "孚" (fu3) means "trust," "窒" (zhi4) means "to suffocate," and "惕" (xi1) means "to be cautious." Taken together, this hexagram suggests that a lack of trust between parties will create a suffocating atmosphere that undermines the trust. When mutual trust is absent and doubts arise, parties may resort to litigation. At this point, caution is necessary, and "惕" (xi1) becomes the focus of the hexagram.¹²

¹⁰ New Hua Dictionary (11th Edition), Commercial Press, 2008, p. 1633.

¹¹ Fang, Xiao, and Duan, Shi-Xiong. "The Debate on the Meaning of 'Sòng' in the Sòng Guà." *Rule of Law and Social Development*, vol. 17, no. 5, 2011, pp. 131-142. doi:CNKI:SUN:SFAS.0.2011-05-008.

¹² Huang Zhen. "Social Ideology and Legal Reform during the Shang and Zhou Dynasties: A Legal and Cultural Interpretation of the 'Hexagram of Litigation' in the Book of Changes." *Rule of Law and Social Development*, no. 2 (2000): 91-96. doi: CNKI:SUN:SFAS.0.2000-02-014



The hexagram for "litigation"
(讼卦, song4 gua4)

Litigation often arises from disputes over benefits, which can occur among business partners, friends, or even family members. The fundamental reason behind the emergence of litigation is a lack of trust. When litigation becomes inevitable, parties must carefully consider if there are other options available. In situations where trust is eroding, caution is crucial because litigation often results in an endless cycle of appeals, with neither party gaining any benefits. Therefore, the principle underlying the hexagram for "litigation" (讼) is to avoid litigation whenever possible. The optimal solution is mutual understanding between the parties and the conflict is dissolved (化解, hua4jie3). If parties engage in a relentless pursuit of victory and defeat, both sides will accumulate resentment and animosity.¹³

Professor Zeng Shiqiang from Taipei National Taiwan Normal University emphasizes that a good judge is not only one who can render a just, fair, clear, and convincing decision, but also one who can help parties resolve their differences and help the parties reach mutual understanding. The Confucian saying "必也使无讼乎!" ("It is necessary to govern in such a way that litigation does not occur!") implies that to govern a country, it is necessary

¹³ Zeng Shiqiang. "Zeng Shiqiang: Chinese people need emotional management." Enterprise Research, no. 19 (2010): 34-46. doi: CNKI:SUN:QYYJ.0.2010-19-012.



to educate and cultivate individuals so that they can develop a better understanding and compassion towards each other. This can help prevent the occurrence of litigation and disputes. In fact, it is often the case that absolute judgment or a definitive determination of right and wrong is not the central issue. This is because in our world, there are few things that exist absolutely on one side of the Yin-Yang spectrum or the other – rather, they are often interchangeable and dependent on context¹⁴.

Absolutely right or absolutely wrong, there's no existence of such because everything is interchangeable, and right may include wrong inside, and wrong also includes right inside. Therefore, the most appropriate outcome of a ruling would be a judgment that is acceptable to the people involved and resolves the issue in a way that enlightens individuals to consider the whole situation from different perspectives, not just their own. By doing favors to others, individuals can enhance their own inner selves. With such social practices or habits, the entire society can foster a harmonious and positive atmosphere of mutual understanding and positivity.

In the context of governance, we explore the concept of "existence" and "nothingness." Everything in the world consists of "existence" and "nothingness," with "existence" being the tangible, concrete aspects that are easily understood and observed. On the other hand, "Nothingness" represents the rest that remains beyond existence, which requires higher wisdom to comprehend fully.¹⁵

From a legal perspective, specific judicial systems, procedures, and processes fall within the realm of "existence," providing tangible means to achieve fairness and justice. However, achieving justice from the perspective of "nothingness" requires even greater wisdom. It means that people adhere to fairness and morality not only because of the existence of laws but also due to their inherent conscience and sense of right and wrong, which falls into the realm of "nothingness".

The concept of "Tian Dao" (the way of heaven) comprises both "existence" and "nothingness."¹⁶ When disputes arise, resolving them merely from the perspective of "existence" involves going to court and following procedures to await the final judgment. However, absolute fairness and justice are often unattainable through such means. Each losing party perceives the judgment as unfair.

To achieve true justice, a judgment should strike a balance that is acceptable to both parties, resolving the conflict and dismiss the animosity between the parties. Winning a judgment does not necessarily mean winning the overall situation, as the losing party usually harbor resentment and seek revenge.

¹⁴ I Ching (Yijing). Translated by Richard Wilhelm, Penguin Books, 1977.

¹⁵ Liu Xiaogan. "Can Modern Terms Accommodate Ancient Thought?: A Case Study from the Lao Zi." Contemporary Chinese Thought, vol. 40(2008):7-22. doi: 10.2753/CSP1097-1467400201.2008.12.001

¹⁶ Liu Xiaogan. "Can Modern Terms Accommodate Ancient Thought?: A Case Study from the Lao Zi." Contemporary Chinese Thought, vol. 40(2008):7-22. doi: 10.2753/CSP1097-1467400201.2008.12.001



In Chinese litigation culture, the focus is not on absolute right or wrong, but on a Long-lasting and harmonious outcome. It is about understanding that everything is interchangeable, changing from enemy to friend, from close to far etc¹⁷. In ancient China, judges were referred to as "Da Ren" (the elder) and were often local officials overseeing a region. When people encountered injustice, they would seek the "Da Ren" to plead their case and seek justice. Therefore, the "Da Ren" served as a mediator advocating for fairness, wisdom, and the resolution of conflicts rather than merely rendering judgments.

In summary, a good and appropriate judgment in China is not one of absolute right or wrong but one that is acceptable and leads to positive social norms. It is a result that fosters a harmonious and positive society, guiding it towards positive outcomes. It considers the feelings and circumstances of all parties involved, making a fair and reasonable decision that is acceptable to all.¹⁸ which is the intangible driving force underlying people's behavior. Just as the hexagram for "litigation" (讼卦, song4 gua4) suggests, prior to engaging in litigation, individuals should exercise due diligence and consider not only their own interests but also the circumstances and actions of others, aiming for a mutually beneficial resolution.

1.1.2 The Current State of Chinese Judiciary

Since the establishment of the People's Republic of China in 1949, the country's legal system has undergone significant changes¹⁹. Before that, China's legal framework was fragmented, with different regions following different legal traditions²⁰. However, after the Communist Party took power, a new legal system was introduced based on socialist principles.²¹In recent decades, China has implemented various legal reforms²² aimed at improving the efficiency, transparency, and impartiality of its judicial system. These reforms have included the establishment of specialized courts, the introduction of new laws and regulations, and the promotion of judicial training and education.

Despite these efforts, some challenges and criticisms remain. One of the major issues is the unequal distribution of legal resources and services.²⁴²³ While major cities and economically developed regions have relatively well-equipped legal systems, rural areas

¹⁷ Here refers to the relationship between the people.

¹⁸ Lao Tzu. *Tao Te Ching*. Translated by Stephen Mitchell, HarperCollins Publishers, 1988.

¹⁹ Feng Guanglin and Liu Zhenyu. "Looking Back and Reflection on the Judicial Reform in the Early Period of New China." *Journal of Minzu University of China (Philosophy and Social Sciences Edition)* 39.03(2012):106-110. doi:10.15970/j.cnki.1005-8575.2012.03.021.

²⁰ Zheng, Zhihang. "The Judicial Path of the People's Court in the Early Days of New China: Starting with the Decentralization of State Power." *Legal System and Society*, vol. 18, no. 5, 2012, pp. 76-87. doi:CNKI:SUN:SFAS.0.2012-05-007.

²¹ Gu Peidong. "Macroscopic Thinking on China's Judicial Reform." *Law Research*.03(2000):3-16. doi:CNKI:SUN:LAWS.0.2000-03-000.

²² Chen Weidong. "Centering around Trials: The Foundation of Contemporary Criminal Justice Reform in China." *Legal Forum*.04(2016):1-15+175. doi:10.16094/j.cnki.1005-0221.2016.04.001.

²³ Xiao Yang. "China's Judiciary: Challenges and Reforms." *People's Justice*.01(2005):4-6. doi:10.19684/j.cnki.



and disadvantaged populations often lack access to legal aid and representation²⁴ This has led to a "justice gap" where many people, particularly those with low income or social status, struggle to protect their legal rights and interests.

Furthermore, the Chinese judiciary faces challenges in adapting to new social and technological developments. For instance, the emergence of e-commerce and online transactions has created new types of legal disputes that require specialized knowledge and skills.²⁵

The Chinese government has acknowledged these issues and has taken measures to address them²⁶. In 2014, a national judicial reform plan was introduced to strengthen judicial independence, improve legal aid, and promote public participation in the judicial process²⁷. The program included simplifying court procedures, increasing public access to court information, and establishing specialized courts for intellectual property, environmental, and other areas of law.

In conclusion, while the Chinese judiciary still faces challenges and criticisms, the government is actively working to improve the legal system²⁸. As China's economy and society continue to develop and evolve, it is crucial for the judiciary to keep pace with these changes and adapt to new legal challenges.

1.1.2.1 China's Judicial System Under Pressure: Calls for More Effective Dispute Resolution Solutions

Over the past two decades, the number of legal cases in China has been on a steady rise. From 2000 to 2023, the number of cases filed in Chinese courts has increased from 7.56 million to 34.44 million²⁹, with civil cases accounting for the majority of them. As the number of cases continues to grow, there is a pressing need for efficient legal solutions to address the challenges posed by the increasing workload on the legal system. Furthermore, the average time for case resolution is also a concern, as lengthy trials not only undermine the credibility of the legal system but also increase the financial burden on the parties involved.

²⁴ Liu Zuoxiang. "Criticism of Local Protectionism in Chinese Judiciary: On the Judicial Reform Strategy of Nationalizing Judiciary Power." *Legal Forum*.01(2003):83-98. doi:CNKI:SUN:LAWS.0.2003-01-005.

²⁵ He, Weifang. "China's Court Reform and Judicial Independence: An Observer's Observation and Reflection." *Zhejiang Social Sciences*, vol. 2, 2003, doi:10.14167/j.zjss.2003.02.015.

²⁶ Gu Peidong. "The Contemporary Judicial Ecology in China and Its Improvement." *Legal Studies* 38.02 (2016): 23-41. doi: CNKI:SUN:LAWS.0.2016-02-002.

²⁷ Yang Jianjun. "The Theoretical Debate on Judicial Reform and Its Enlightenment." *Legal and Business Research* 32.02 (2015): 13-23. doi: 10.16390/j.cnki.issn1672-0393.2015.02.002.

²⁸ Huang Wenyi. "On the Comprehensive Supporting Reform of Deepening Judicial System: Based on the Global Judicial Reform in the 21st Century." *China Law Review* .06 (2022): 1-17. doi: CNKI:SUN:FLPL.0.2022-06-001.

²⁹ Data statistics are sourced from the official websites of the following organizations in China: Ministry of Justice (<http://www.moj.gov.cn/>), China Court Network (<http://www.chinacourt.org/>), National Bureau of Statistics of China (<http://www.stats.gov.cn/>), China Government Network (<http://www.gov.cn/>), China Judgements Online (<http://wenshu.court.gov.cn/>), China Trial Process Information Disclosure Website (<http://splcgk.court.gov.cn/>), and China Judicial Big Data Website (<http://www.courtbigdata.org.cn/>) Last Accessed: 8 May,2023.



To address these challenges, the Chinese government has taken a series of measures to improve the efficiency and quality of the legal system³⁰. For example, the government has increased the number of judges and court staff to meet the growing demand for legal services. In addition, the government has implemented reforms to streamline court procedures and promote alternative dispute resolution mechanisms, such as mediation and arbitration, to reduce the burden on the courts and provide parties with more efficient and cost-effective solutions.

Despite these efforts, there is still a long way to go to meet the demand for efficient legal solutions in China. The increase in the number of judges and judicial personnel has failed to keep pace with the rapid increase in the number of cases³¹, particularly since the widespread adoption of the internet. With many transactions now occurring solely online rather than in-person, the efficiency of people's transactions has increased, leading to a corresponding surge in the number of disputed cases³². This has created a significant strain on the judicial system, as the resources and manpower needed to handle this increased caseload have not kept pace with the demand. As a result, there is a pressing need to reassess the current judicial system and explore innovative ways to address these challenges.

³⁰ China Supreme People's Court. Work Report of the Supreme People's Court. Supreme People's Court, 8 March 2023, https://www.court.gov.cn/zgcpwsw/zgrmfyjrmfyjbg/202303/t20230308_381505.htm. Last Accessed: 8 May,2023.

³¹ Data statistics are sourced from the official websites of the following organizations in China: Ministry of Justice (<http://www.moj.gov.cn/>), China Court Network (<http://www.chinacourt.org/>), National Bureau of Statistics of China (<http://www.stats.gov.cn/>), China Government Network (<http://www.gov.cn/>), China Judgements Online (<http://wenshu.court.gov.cn/>), China Trial Process Information Disclosure Website (<http://splcgk.court.gov.cn/>), and China Judicial Big Data Website (<http://www.courtbigdata.org.cn/>) Last Accessed: 8 May,2023.

³² Jing, Hanchao. "The Era of Internet Courts: Innovation and Contribution of China." Chinese Legal Science, vol. 04, 2022, pp. 49-73, doi:10.14111/j.cnki.zgfx.20220721.002



Detailed Data of Annual Case, Judge, and Judicial Staff Counts from 2000 to 2023

Year	Number of Cases	Number of Judges	Number of Judicial Staff
2000	7,560,000	110,000	288,000
2001	8,040,000	115,000	296,000
2002	8,620,000	125,000	318,000
2003	9,330,000	135,000	344,000
2004	10,010,000	150,000	379,000
2005	11,110,000	165,000	425,000
2006	12,310,000	180,000	468,000
2007	13,450,000	200,000	527,000
2008	14,860,000	220,000	594,000
2009	16,310,000	250,000	678,000
2010	18,240,000	280,000	766,000
2011	20,020,000	310,000	851,000
2012	22,740,000	340,000	953,000
2013	24,200,000	370,000	1,031,000
2014	25,940,000	400,000	1,123,000
2015	27,120,000	430,000	1,210,000
2016	28,590,000	460,000	1,305,000
2017	29,890,000	490,000	1,395,000
2018	30,540,000	520,000	1,481,000
2019	31,280,000	550,000	1,565,000
2020	32,040,000	580,000	1,647,000
2021	32,820,000	610,000	1,729,000
2022	33,620,000	640,000	1,810,000
2023	34,440,000	670,000	1,892,000

Table I Detailed Data of Annual Case, Judge, and Judicial Staff Counts from 2000 to 2023 (Spreadsheet)

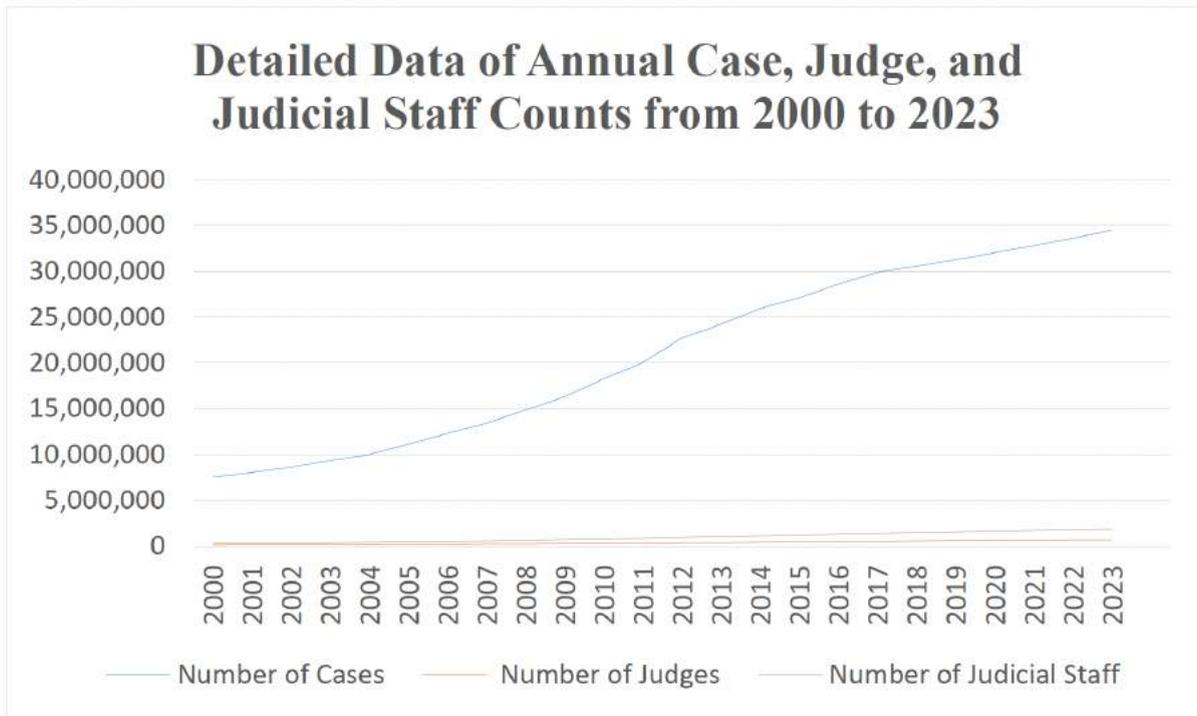


Table II Detailed Data of Annual Case, Judge, and Judicial Staff Counts from 2000 to 2023 (Line Chart)

In conclusion, the increasing number of cases and the need for efficient legal solutions in China require continued attention and reform efforts from the government and the legal profession. The development of a fair, efficient, and transparent legal system is not only essential for protecting the rights and interests of individuals and businesses but also critical for maintaining social stability and promoting economic development.

1.1.2.2 Prevalence of Online Courts and Dispute Resolution Mechanisms

Online dispute resolution (ODR) is a rapidly growing field globally, and the prevalence of online courts and dispute resolution mechanisms varies across countries.³³ In China, online dispute resolution has gained traction in recent years, but the mechanisms used are mostly dominated by public authorities such as internet courts and arbitration committees.³⁴

The first internet court in China was established in Hangzhou in 2017³⁵, and since then, two additional internet courts have been established in Beijing and Guangzhou³⁶. These

³³ Katsh, Ethan, and Leah Wing. "Ten years of online dispute resolution (ODR): Looking at the past and constructing the future." U. Tol. L. Rev. 38 (2006): 19.

³⁴ Lu, Sheng and Nie, Changzhen. "Development and Prospect of Online Dispute Resolution Mechanisms under the Background of the Belt and Road Initiative." Wuhan University International Law Review, vol. 2, no. 2, 2018, pp. 25-36. doi:10.13871/b.cnki.whuilr.2018.02.002.

³⁵ "Implanting the "Rule of Law Chip" for Internet Governance: The Fifth Anniversary of Hangzhou Internet Court." The People's Court Daily, 14 Oct. 2022, <https://www.court.gov.cn/zixun-xiangqing-375191.html>. Last Accessed:14 Feb, 2023.

³⁶ "Implanting the "Rule of Law Chip" for Internet Governance: The Fifth Anniversary of Hangzhou Internet Court." The People's Court Daily, 14 Oct. 2022, <https://www.court.gov.cn/zixun-xiangqing-375191.html>. Last Accessed:14 Feb, 2023.



internet courts have jurisdiction over disputes arising from e-commerce transactions, online copyright infringement, and online contracts, among other things. They use online platforms to process cases and offer parties the opportunity to participate in video hearings.³⁷

In addition to internet courts, arbitration committees are another important online dispute resolution mechanism in China. These committees are typically set up by trade associations and other organizations to resolve disputes within their industries. Some arbitration committees have developed online dispute resolution mechanisms, such as the China International Economic and Trade Arbitration Commission (CIETAC)³⁸, which has established an online arbitration platform to facilitate the resolution of cross-border disputes.

Moreover, there are some platforms in China that have introduced juror mechanisms for resolving disputes within their platforms.³⁹E-commerce platforms like JD.com⁴⁰⁴¹⁴²⁴³, Meituan⁴⁴⁴⁵⁴⁶⁴⁷, Taobao⁴⁸⁴⁹, and Douyin⁵⁰⁵¹ have implemented juror mechanisms to resolve

³⁷ Chen, Baoyun, and Yi Xin. "Using 'Internet Plus' to Improve the Quality and Efficiency of the Court System in the City." Hebei Daily, 28 Dec. 2022, p. 010, Local News, Chengde.

³⁸ Cha, Kyung-Ja, and Sung-Il Choi. "Practices and Legal Issues of Online Arbitration in China-Focused on Online Arbitration of CIETAC." *J. Arb. Stud.* 20 (2010): 131.

³⁹ 36kr, "Does the internet need a jury? Learn some economics every day." was published on June 1, 2022 at 16:56 and the article URL is <https://36kr.com/p/1766167536689927>. Last Accessed: 31 Mar, 2023.

⁴⁰ JD.com, Inc. (京东) is one of the largest e-commerce companies in China, offering a wide range of products and services through its online platform.

⁴¹ "Customer Service Experience Seat" Cloud Listening Platform + "General Jury" Mechanism JD Provides Double Protection for Users <http://news.cnfol.com/chanyejingji/20220715/29737964.shtml> Last Accessed: Mar. 29, 2023

⁴² JD Dispute Handling Rules (Buyer Edition) Nov. 20, 2017 <https://helpjd.com/user/issue/464-1501.html> Last Accessed: 26 Mar, 2023

⁴³ The General Jury Convention (Trial) May 31, 2021 <https://helpjd.com/user/issue/464-4200.html> Last Accessed: 25 Mar, 2023

⁴⁴ Meituan is a Chinese online platform that provides a wide range of services, including food delivery, hotel and travel booking, movie ticketing, and more.

⁴⁵ "Meituan establishes a public review system to explore a new path of social governance for technology companies" was published on July 7, 2021 at 19:53, and the article URL is <https://client.sina.com.cn/news/2021-07-07/doc-ikqcfnc5518710.shtml>. Last Accessed: 1 April, 2023.

⁴⁶ Meituan Adds "Meituan Xiaomei Jury Convention", Effective on December 17th <https://www.dsb.cn/169312.html> Last Accessed: 28 Mar, 2023

⁴⁷ Meituan Will Launch "Public Jury System" and Controversial Reviews and Transaction Disputes Will Be Decided by User and Expert Votes July 7, 2021 20:04 <https://finance.eastmoney.com/a/202107071988355059.html> Last Accessed: 27 Mar, 2023

⁴⁸ Taobao is a Chinese online shopping website, headquartered in Hangzhou, China, and is a subsidiary of the Alibaba Group. It is one of the world's largest e-commerce platforms, providing a variety of products to consumers both domestically and internationally.

⁴⁹ Taobao Introduces General Jury System, Buyers and Sellers Use Jury Mode to Judge Disputes <http://www.enorth.com.cn>, Dec. 31, 2013 11:27 <http://news.enorth.com.cn/system/2013/12/31/011573893.shtm>, Last Accessed: 30 Mar, 2023

⁵⁰ TikTok, also known as Douyin in China, is a short-form video app developed by Chinese tech company ByteDance. It allows users to create and share 15-second videos set to music, with a range of editing tools and filters available.

⁵¹ "Douyin Crowd Reviewer Application: Common Questions and Answers", published on January 2nd, 2023, available at <https://www.xiaohus.com/newsDetails/746279>, Last Accessed: 2 April, 2023.



disputes arising from their transactions. For example, Douyin uses juror mechanisms to judge low-quality video content⁵², while Meituan's platform allows jurors to review and settle disputes related to menu items for their food delivery services⁵³. Similarly, JD.com⁵⁴ and Taobao⁵⁵ use juror mechanisms to handle disputes related to consumer reviews and product listings. These platforms allow parties to submit disputes to be reviewed by a group of peer reviewers⁵⁶, who make decisions based on the evidence submitted. The goal of these juror mechanisms is to enhance public participation and engagement in the resolution process, allowing for a more transparent and fair outcome.

However, many people have criticized the qualifications of the jurors who participate in online review mechanisms. Some have even argued that these jurors are not qualified to make decisions and may not take their responsibilities seriously⁵⁷. In many cases, these jurors do not have the necessary expertise or training to evaluate the products or services they are reviewing. Many of the jurors are simply participating for the sake of participation and do not take responsibility for the outcome of the review. Ultimately, the limitations of jurors' intellectual capabilities and qualifications can undermine the credibility of online review mechanisms and the pursuit of truth and justice.⁵⁸

In conclusion, it can be stated that China's online dispute resolution mechanisms are still in the nascent stages of development, with internet courts and arbitration committees emerging as the dominant models. Despite the introduction of juror mechanisms by e-commerce platforms to resolve disputes, numerous challenges remain, including the absence of an economic incentive mechanism for reviewers to perform their juror duties adequately. Nevertheless, as technology evolves and people's confidence in online transactions increases, it is highly probable that online dispute resolution will become an increasingly important mechanism for resolving disputes in China. Furthermore, decentralized dispute resolution mechanisms may have a thriving future in China.

1.1.2.3 Summary: Efficient Dispute Resolution Mechanisms are Needed in China

In 1.1.2, we have discussed the current state of the Chinese judiciary and the increasing pressure it is facing to provide more effective dispute resolution solutions. We have

⁵² "Douyin Crowd Reviewer Application: Common Questions and Answers", published on January 2nd, 2023, available at <https://www.xiaohus.com/newsDetails/746279>, Last Accessed: 2 April, 2023.

⁵³ Meituan Will Launch "Public Jury System" and Controversial Reviews and Transaction Disputes Will Be Decided by User and Expert Votes July 7, 2021 20:04, Last Accessed: 2 April, 2023.

⁵⁴ JD Dispute Handling Rules (Buyer Edition).Nov. 20, 2017, <https://help.jd.com/user/issue/464-1501.html> Last accessed: Mar. 26, 2023, Last Accessed: April 2nd, 2023.

⁵⁵ Taobao Introduces General Jury System, Buyers and Sellers Use Jury Mode to Judge Disputes <http://www.enorth.com.cn>,Dec. 31, 2013 11:27, Last Accessed: 30 Mar , 2023.

⁵⁶ Meituan Will Launch "Public Jury System" and Controversial Reviews and Transaction Disputes Will Be Decided by User and Expert Votes July 7, 2021 20:04 <https://finance.eastmoney.com/a/202107071988355059.html> Last Accessed: Mar. 27, 2023

⁵⁷ "Does the internet need a jury? Learn some economics every day." was published on June 1, 2022 at 16:56 and the article URL is <https://36kr.com/p/1766167536689927>. Last Accessed: 31 Mar, 2023.

⁵⁸ "Meituan establishes a public review system to explore a new path of social governance for technology companies" <https://client.sina.com.cn/news/2021-07-07/doc-ikqcfnc5518710.shtml>. Last Accessed: April 1, 2023.



highlighted the prevalence of online courts and dispute resolution mechanisms in China, which have emerged as a response to the growing demand for efficient and accessible dispute resolution services.

We then focused on the implementation of juror mechanisms by various e-commerce platforms in China, such as JD.com, Meituan, Taobao, and Douyin, to resolve disputes arising from their transactions. These platforms have introduced innovative ways to engage users in the dispute resolution process and have empowered them to play an active role in resolving conflicts.

Overall, it is clear that there is a pressing need for efficient dispute resolution mechanisms in China, especially in light of the increasing volume of disputes and the limitations of the traditional judiciary system. The emergence of online courts and juror mechanisms is a promising development, but more work needs to be done to ensure that these systems are effective, accessible, and transparent for all parties involved. The establishment of online dispute resolution mechanisms on major platforms in China, such as JD.com, Meituan, Taobao, and Douyin, demonstrates a growing recognition of the importance of efficient and accessible dispute resolution systems. The introduction of juror mechanisms on these platforms has shown positive results, indicating that there is a willingness among stakeholders to explore innovative solutions to resolve disputes. These developments have laid a strong foundation for the introduction of decentralized dispute resolution mechanisms in China. The experiences gained from the development of online courts and juror mechanisms should be utilized to inform the design of decentralized systems to ensure their success in China.

1.2 Blockchain in China: Legal Regulations and Development Status

Many people think that undertaking blockchain projects in China is a risky endeavor, with potential legal consequences, including criminal prosecution⁵⁹. This impression stems from the Chinese government's strict regulations aimed at preventing fraudulent activities and financial risks associated with cryptocurrencies. In 2017, the government issued a statement banning initial coin offerings (ICOs) and tightening regulations on cryptocurrency trading. This led to many Chinese blockchain projects relocating to other countries to avoid regulatory scrutiny.⁶⁰

However, the reality is that China's government is actively supporting the development of blockchain technology, particularly in areas such as government data sharing, public

⁵⁹ Rapoza, Kenneth. "Chinese Founder Of OKEx Crypto Exchange 'Arrested' Again; Whales Bail." Forbes, 16 Oct. 2020, 01:39pm EDT, <https://www.forbes.com/sites/kenrapoza/2020/10/16/chinese-founder-of-okex-crypto-exchange-arrested-again-whales-bail/>. Last Accessed: 23 March, 2023.

⁶⁰ People's Bank of China, et al. "Notice on preventing the risks of token issuance financing." People's Bank of China website, 4 Sept. 2017, <https://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3374222/index.html>. Last Accessed: 24 Mar. 2023.



services, digital finance, healthcare, and digital culture (NFT)⁶¹. This support has been instrumental in driving growth and innovation in these fields. The Chinese government's commitment to supporting blockchain development is evident in its various policies, such as the "14th Five-Year Plan"⁶² and the "New Generation of Artificial Intelligence Development Plan."⁶³

For web3 projects looking to enter the Chinese market, it is crucial to be aware of the legal red lines and comply with regulations to avoid regulatory backlash. The Chinese government's support for blockchain technology and its potential benefits for various industries indicate that there is ample room for growth and development in the field⁶⁴. However, navigating the regulatory environment with caution is key to ensuring a successful and sustainable presence in the market.

In this section, we will unveil China's regulations and policies for governing the blockchain industry, aiming to provide a clear understanding of the regulatory environment for blockchain projects. We will also explore the regulatory boundaries for Kleros as a Web3 project implementing in China, laying a solid foundation for their long-term growth and success. By examining China's approach to blockchain regulation, we can gain valuable insights into the country's attitude towards the development and implementation of emerging technologies, and the potential impact on the global blockchain industry.

1.2.1 The Legal Landscape of Blockchain in China

To gain a comprehensive understanding of the legal landscape of blockchain in China, it is essential to take a bird's-eye view of the legal system and its hierarchical structure. The Chinese legal system comprises several layers of laws, each with a different level of authority. The hierarchy of Chinese laws is as follows⁶⁵:

1. Constitution (宪法): The Constitution is the supreme law of the land, and all other laws must be in accordance with it. It is adopted and amended by the National People's Congress (NPC), which is the highest organ of state power in China.
2. Laws (法律): Laws are passed by the NPC or its Standing Committee. They cover the fundamental laws for the functioning of the country, such as civil law, criminal law, and

⁶¹ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.

⁶² Xinhua News Agency. "The 14th Five-Year Plan and Long-Range Objectives Through the Year 2035 for National Economic and Social Development of the People's Republic of China." March 13, 2021.

⁶³ State Council. "Notice of the State Council on Issuing the New Generation of Artificial Intelligence Development Plan." Chinese Government Official Website, 20 July 2017, Document Number: Guo Fa [2017] No. 35, Index Number: 000014349/2017-00142.

⁶⁴ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.

⁶⁵ China National People's Congress. "我国的立法体制" (Legislative System in China). China National People's Congress, 8 Nov. 2017, http://www.gov.cn/guoqing/2017-11/08/content_5238056.htm. Last Accessed: 7 Jan, 2023.



administrative law.

3. Administrative Regulations (行政法規) : Administrative regulations are formulated by the State Council, which is the highest executive organ of the government. They are subordinate to laws and provide more detailed provisions on the implementation of laws.

4. Departmental Rules (部门规章): Departmental rules are issued by various ministries and commissions under the State Council. They are subordinate to both laws and administrative regulations and provide further details on how to implement them.

5. Local Regulations (地方法规) : Local regulations are passed by local people's congresses and their standing committees at the provincial level or below. They are subordinate to all higher-level laws and regulations and are used to regulate local affairs.

*Departmental rules (部门规章) and local regulations (行政法規) are on the same authority level.

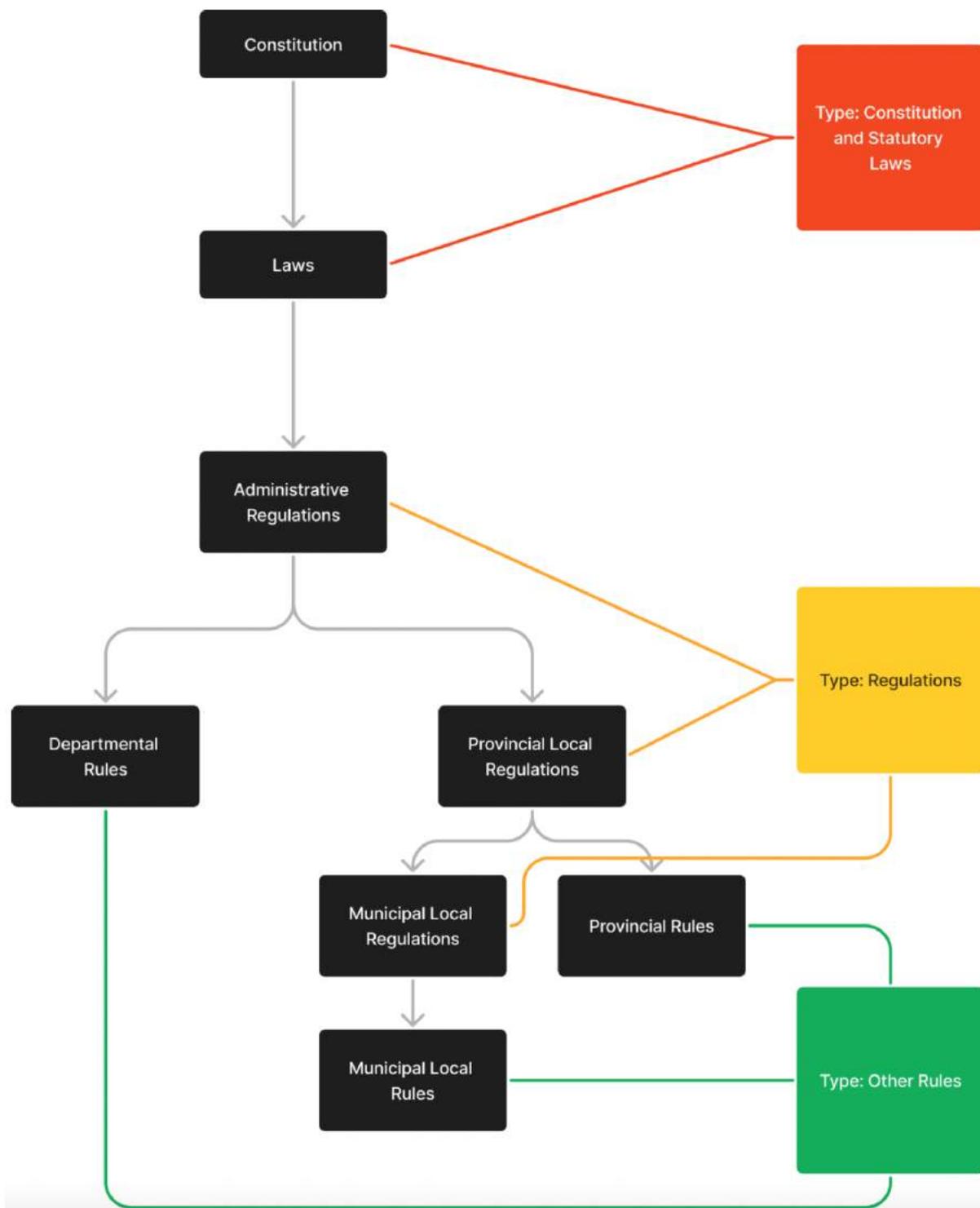


Figure 1 China legal system and its hierarchical structure



The effectiveness of legal documents decreases in a descending order. According to the Administrative Penalty Law⁶⁶, legal documents in China are ranked in the following order:

- Laws can set various types of administrative penalties.
- Administrative regulations can set administrative penalties other than restrictions on personal freedom.
- Local regulations can set administrative penalties other than restrictions on personal freedom, revocation of business licenses, and other types of penalties.
- Departmental rules can set warnings, criticism, and a certain amount of fines (the State Council sets the upper limit of fines).
- Local rules can set warnings, criticism, and a certain amount of fines (the provincial people's congress standing committee sets the upper limit of fines).

In summary, the Constitution is the highest law in China, followed by laws, administrative regulations, departmental rules, and local regulations. The principle of hierarchy of legal effect stipulates that the authority of superior laws is limited, with laws holding higher status than regulations, regulations holding higher status than rules, and administrative regulations holding higher status than local regulations. As the formal foundation of Chinese law, the laws can be classified into several tiers, including constitution and statutory laws, regulations, and other rules. The regulatory regulations consist of administrative regulations and local regulations, while other rules refer to departmental rules and rules issued by local governments.

In the following, we will enumerate all the regulated documents on blockchain and analyze their authority level respectively.

⁶⁶ "The Administrative Penalty Law of the People's Republic of China." NPC, 22 Jan. 2021, <http://www.npc.gov.cn/npc/c30834/202101/49b50d96743946bda545ef0c333830b4.shtml>. Last Accessed: 5 Mar. 2023.

In the table below, all the relevant laws and regulations governing the blockchain industry are listed:

Type	Legal Document	Legal Document in Chinese	Issuing Authority	Publish Time	Description
Law(法律)	The Electronic Signature Law of the People's Republic of China	《中华人民共和国电子签名法》	NPC's Standing Committee	2005/8/31	The Electronic Signature Law clarifies the legal effectiveness of electronic signatures, and stipulates preservation measures for electronic signatures, among other things.
	The Anti-Money Laundering Law of the People's Republic of China	《中华人民共和国反洗钱法》	NPC's Standing Committee	2007/12/25	The Anti-Money Laundering Law imposes requirements on financial institutions for anti-money laundering, and stipulates that non-cash payment instruments including virtual currency are also subject to the Anti-Money Laundering Law.
	The Cybersecurity Law of the People's Republic of China	《中华人民共和国网络安全法》	NPC's Standing Committee	2016/11/7	Network operators are required to adopt technical measures to protect network security, establish a system for authenticating the real identity information of users, and more.
	The Cryptography Law of the People's Republic of China		《中华人民共和国密码法》	NPC's Standing Committee	2019/10/26
	The Securities Law of the People's Republic of China	《证券法》	NPC's Standing Committee	2020/3/1	Regulations are included for the application of blockchain technology to the securities market.

	The Data Security Law of the People's Republic of China	《数据安全法》	NPC's Standing Committee	2021/6/10	Strict management systems are established for data processing and use, with data processors required to comply with national security requirements.
	The Personal Information Protection Law of the People's Republic of China	《中华人民共和国个人信息保护法》	NPC's Standing Committee	2021/11/1	The Personal Information Protection Law stipulates that the processing of personal information should follow the principles of legality, legitimacy, and necessity, protect personal information security, and prohibit the illegal collection, use, and processing of personal information.
Administrative regulations (行政法规)	Administrative Measures for Internet Information Services	《互联网信息服务管理办法》	State Council	2011/1/8	"The Internet Information Services Management Measures" is an important regulation in the field of internet information services issued by the Chinese government. It is of great significance for regulating the application of new technologies such as blockchain. The regulation sets out the standards that internet information service providers must comply with, including requirements to ensure information security and not to disseminate illegal information. Additionally, the regulation provides rules for the management of internet information service providers, such as the establishment of supervisory

					agencies and the development of service standards, providing a reference for the management of new technologies such as blockchain.
	China's Telecommunications Regulations	《中华人民共和国电信条例》	State Council	2016/2/6	The "Telecommunications Regulations of the People's Republic of China" stipulates that telecommunications business operators shall comply with national confidentiality regulations and ensure the security of user information. User information shall not be disclosed, tampered with, or damaged without user consent. Additionally, the regulation requires telecommunications business operators to establish user identity recognition and real-name registration system to prevent illegal and criminal activities such as network fraud, providing a legal basis for the application of new technologies such as blockchain.
Departmental rules (部门规章)	Regulations on the Administration of Internet News Information Services	互联网新闻信息服务管理规定	Cyberspace Administration of China	2017/5/2	Network information service providers are required to establish a user information management system and authenticate and verify the identity information of users.
	Provisional Regulations on the Administration of	《区块链信息服务管理暂行规定》	Ministry of Industry and Information	2019/1/10	Blockchain information service providers are required to be registered and managed.

	Blockchain Information Services		Technology of the People's Republic of China		
Departmental notices, proposals, and announcements (部门提醒、建议、通知)	Notice on the Prevention of Bitcoin Risks	《关于防范比特币风险的通知》	People's Bank of China, Ministry of Industry and Information Technology, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission	2013/12/5	People's Bank of China issued a notice to require financial institutions shall not be directly or indirectly involved in bitcoin transactions, while the requirements of a bitcoin trading platform should be the real name system to register the user information.
	Announcement by the People's Bank of China, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration for Market Regulation on the Prevention of Risks	《中国人民银行、工业和信息化部、公安部、市场监管总局关于防范代币发行融资风险的公告》	People's Bank of China, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration	2017/9/4	The requirement to prohibit tokens initiation activities

in Token Offering Financing		for Market Regulation		
Risk Warning on Preventing Illegal Fundraising in the Name of "Virtual Currency" and "Blockchain"	《关于防范以“虚拟货币”“区块链”名义进行非法集资的风险提示》	People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission	2018/8/24	This risk warning mainly targets illegal fundraising activities conducted under the guise of "virtual currency" and "blockchain". It reminds the public to enhance risk awareness, be vigilant about illegal fundraising risks, and avoid being deceived. The notice emphasizes relevant laws, regulations, and regulatory measures, and calls on the public to actively report illegal fundraising activities.
Continuously Preventing Risks from ICOs and Virtual Currency Trading	《常抓不懈持续防范 I C O 和虚拟货币交易风险》	People's Bank of China Shanghai Head Office, Shanghai Financial Services Office	2018/9/19	The article is intended to alert the public to strengthen the ICO and virtual currency trading risk alert, and called on the relevant agencies to strengthen their risk management and regulation. The notification also includes the Prevention of the virtual currency risk of the specific measures and requirements.
Risk Warning on Participating in Speculative Trading on Overseas Virtual Currency Trading Platforms	《关于参与境外虚拟货币交易平台投机炒作的风险提示》	China Internet Finance Association	2020/4/2	The risk warning highlighted the involvement of offshore virtual currency trading platform of the speculation of the presence of high-risk sexual, reminding the public should be treated with caution virtual currency investment, and to avoid

				involving illegal trading and illegal activities.
Guiding Opinions on Accelerating the Application and Industry Development of Blockchain Technology	《关于加快推动区块链技术应用和产业发展的指导意见》	Ministry of Industry and Information Technology, Office of the Central Cyberspace Affairs Commission for Cybersecurity and Informatization.	2021/6/7	The document calls for the cultivation of top-notch blockchain enterprises, parks, and open-source ecosystems, and emphasizes the importance of addressing both the shortfalls and strengths of the industry to build a complete blockchain industry chain. In addition, the Ministry of Science and Technology launched a three-year plan for key research and development projects on blockchain technology, focusing on cutting-edge technology directions.
Notice on the Regulation of Virtual Currency Mining Activities	《关于整治虚拟货币“挖矿”活动的通知》	National Development and Reform Commission	2021/9/24	It requires all regions to take strict measures to restrict virtual currency mining activities to ensure national energy security and environmental protection. This risk warning mainly targets illegal fundraising activities conducted under the guise of "virtual currency" and "blockchain". It reminds the public to enhance risk awareness, be vigilant about illegal fundraising risks, and avoid being deceived. The notice emphasizes relevant laws, regulations, and regulatory measures, and calls on the public to actively report illegal fundraising activities.

	<p>Notice on Further Preventing and Handling the Risk of Speculation in Virtual Currency Trading</p>	<p>《关于进一步防范和处置虚拟货币交易炒作风险的通知》</p>	<p>People's Bank of China, Cyberspace Administration, Supreme People's Court, Supreme People's Procuratorate, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, State Administration of Foreign Exchange</p>	<p>2021/9/24</p>	<p>It highlights the rising speculative activities in cryptocurrency trading and its associated risks, such as financial fraud and money laundering. It firmly states that cryptocurrencies are not recognized as legal tender and their trading activities are considered illegal financial activities. The notice also underscores the establishment of a comprehensive system to monitor, warn, and manage such risks, and holds provincial governments accountable for implementing these measures. It also bans financial institutions and non-banking payment institutions from offering services related to cryptocurrency transactions.</p>
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Above have listed most of the major official legal documents related to blockchain up to the date of writing this paper.⁶⁷

- ⁶⁷ Electronic Signature Law of the People's Republic of China. Standing Committee of the National People's Congress, 2005-8-31.
- Anti-Money Laundering Law of the People's Republic of China. Standing Committee of the National People's Congress, 2007-12-25.
- Cybersecurity Law of the People's Republic of China. National People's Congress, 7 Nov. 2016.
- Password Law of the People's Republic of China. Standing Committee of the National People's Congress, 2019-10-26.
- Securities Law of the People's Republic of China. Standing Committee of the National People's Congress, 2020-3-1.
- Data Security Law of the People's Republic of China. Standing Committee of the National People's Congress, 2021-1-10.
- Personal Information Protection Law of the People's Republic of China. Standing Committee of the National People's Congress, 2021-11-1.
- State Council. "Administrative Measures for Internet Information Services." 2011-1-80, http://www.gov.cn/gongbao/content/2011/content_1860864.htm, Last Accessed: March 4, 2023.
- China's Telecommunications Regulations, revised in 2016 according to the "State Council's Decision on Amending Some Administrative Regulations" on February 6, 2016, State Council, http://www.gov.cn/zhengce/2020-12/26/content_5574368.htm, Last Accessed: March 4, 2023.
- Provisions on the Administration of Internet News Information Services. Cyberspace Administration of China. 2 May 2017.
- Interim Measures for the Administration of Blockchain Information Services. Ministry of Industry and Information Technology of the People's Republic of China. 10 Jan. 2019.
- People's Bank of China, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation. "Notice on



Preventing Risks Associated with Bitcoin." December 5, 2013.

- People's Bank of China, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation. "Announcement on Preventing Risks Associated with Token Offerings and Financing." September 4, 2017.
- Joint Notice by the China Banking and Insurance Regulatory Commission, Cyberspace Administration of China, Ministry of Public Security, People's Bank of China, and State Administration for Market Regulation. "Risk Alert Regarding the Use of "Virtual Currency" and "Blockchain" to Conduct Illegal Fundraising". 24 Aug. 2018.
- Shanghai Headquarters of the People's Bank of China, Shanghai Financial Services Office. "Continuously Preventing Risks Associated with ICOs and Virtual Currency Trading." September 19, 2018.
- China Internet Finance Association. "Risk Warning on Participating in Speculative Trading on Overseas Virtual Currency Trading Platforms." April 2, 2020.
- Ministry of Industry and Information Technology, and Office of the Central Cyberspace Affairs Commission. "Guiding Opinions of the Ministry of Industry and Information Technology and the Office of the Central Cyberspace Affairs Commission on Accelerating the Application and Development of Blockchain Technology." Information Technology Development Department, 27 May 2021, https://www.miit.gov.cn/zwgk/zcwj/wjfb/rjy/art/2021/art_851f2059f13d41a8bba59c8dce9401a8.html. , Last Accessed: 8 Mar, 2023.
- National Development and Reform Commission. "Notice on Rectifying the 'Mining' of Virtual Currencies." September 24, 2021.
- People's Bank of China, Cyberspace Administration, Supreme People's Court, Supreme People's Procuratorate, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, State Administration of Foreign Exchange, "Notice on Further Preventing and Handling the Risk of Speculation in Virtual Currency Trading", published on 15 Sep 2021, https://www.gov.cn/zhengce/zhengceku/2021-10/08/content_5641404.htm. Last Accessed: 8 March 2023.



In regards to the law that govern, blockchain belongs to the electronic information and internet industries. Compliance with the corresponding Law under China's Electronic Signature Law, Cybersecurity Law, Password Law, Data Security Law, and Personal Information Protection Law is necessary. Since tokens in blockchain have financial attributes, they need to comply with China's Anti-Money Laundering Law and Securities Law regulations. However, due to the 2017 notice on preventing token risks, the issuance of tokens in China is prohibited. Due to the Chinese government's explicit prohibition of token issuance through departmental notices, token issuance is considered a prohibited activity and therefore not subject to regulation under securities laws.

Specifically for the blockchain field, the Ministry of Industry and Information Technology (MIIT), a subordinate department of the State Council, has issued the Provisional Regulations on Blockchain Information Services. Service providers must comply with these regulations, which require them to establish management systems for user registration, information verification, emergency response, and security protection. They must also possess the corresponding technical capabilities. In cases of illegal content that is prohibited by laws and regulations, service providers must have the ability to handle them in emergencies. Blockchain information service providers must also conduct real-name registration and certification.

Moreover, blockchain information service providers cannot engage in activities that harm national security, disrupt social order, or infringe on the legitimate rights and interests of others using blockchain. The service category, type, application area, and server address should be filed for record-keeping. In cases of violation of laws, administrative regulations, and service agreements, blockchain information service users must be disposed of lawfully through warnings, function restrictions, and account closures. Timely processing of illegal content and preventing its spread is also necessary. Relevant records should be preserved, and reports should be submitted to the relevant competent authorities.

The relevant prohibitive provisions concerning the blockchain industry in China are mainly issued in the form of departmental notices, recommendations, warnings, or advisories. They are⁶⁸ : Notice on the Prevention of Bitcoin Risks; Announcement by the People's Bank of China, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration for Market Regulation on the Prevention of Risks in Token Offering Financing; Risk Warning on Preventing Illegal Fundraising in the Name of "Virtual Currency" and "Blockchain"; Continuously Preventing Risks from ICOs and Virtual Currency Trading; Risk Warning on Participating in Speculative Trading on Overseas Virtual Currency Trading Platforms; Guiding Opinions on Accelerating the Application and Industry Development of Blockchain Technology; Notice on the Regulation of Virtual Currency Mining Activities. These documents are suggestions and

⁶⁸ Blockchain. Domestic Regulatory Attitude Toward Blockchain Is Strongly Supportive But Digital Currency Is Strongly Prohibited <https://www.qklw.com/specialcolumn/20191218/42705.html> , Last Accessed: March 4, 2023.



recommendations, rather than administrative regulations or rules. Legally speaking, they do not constitute an official source of Chinese Law. Moreover these documents primarily aim to prevent fraud and investment risks related to token issuance in the blockchain industry and to prevent environmentally damaging activities such as mining.

In light of what has been mentioned above, it is clear that China does not prohibit the development of the blockchain industry domestically. However, compliance with registration and filing obligations is necessary. Moreover, blockchain-related activities cannot engage in illegal conduct that violates national laws and regulations, harms national security, disrupts social order, or infringes on the legitimate rights and interests of others.

In order to comply with Chinese law, blockchain projects operating in China are subject to supervision by relevant authorities and must fulfill responsibilities related to user information collection and backup. In addition, prompt reporting of information and timely emergency measures, such as the deletion of inappropriate comments⁶⁹, should be taken. The "Provisional Regulations on the Management of Blockchain Information Services" provide a legal framework for blockchain service providers in China and specify the requirements for security management, user registration, and content supervision. By adhering to these regulations and fulfilling their responsibilities, blockchain projects can operate legally and responsibly in China.

1.2.2 Criminal Liability for Blockchain Projects

Operating a blockchain project in China comes with a significant concern: criminal liability. StepN serves as an instance of this concern, as the project removed all the Chinese mainland users and suspended GPS and IP address services. There are also rumors that the Hangzhou operations team was taken away by the police for investigation.⁷⁰⁷¹

To understand the criminal liability of blockchain projects under Chinese law, we must

⁶⁹ Interim Measures for the Administration of Blockchain Information Services. Ministry of Industry and Information Technology of the People's Republic of China. 10 Jan. 2019. Article 15

⁷⁰ Say, Nicholas. "Move-to-Earn Stepn Moves Out of China, Looks to Wider Market." Blockonomi, 30 May 2022, <https://blockonomi.com/move-to-earn-stepn-moves-out-of-china-looks-to-wider-market/#:~:text=May%2030%2C%202022-,Stepn%2C%20a%20recently%20hyped%20move%2Dto%2Dearn%20game%20built,to%20the%20game's%20official%20Twitter>. Last Accessed: 8 Mar, 2023.

⁷¹ According to Article 286 of the Criminal Law of PRC: If a network service provider fails to fulfill the obligations of information network security management stipulated by laws and administrative regulations, and refuses to rectify the situation after being ordered to do so by the regulatory authorities, resulting in a significant spread of illegal information, serious consequences from the disclosure of user information, the severe loss of criminal case evidence, or other serious circumstances, they shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention, or control, and may also be fined or solely fined.

Information technology services operating in China must adhere to a series of obligations, which encompass disclosure, compliance, coordination with the removal of inappropriate information, data storage within Chinese territory, and safeguarding privacy, among others. Failure to fulfill these obligations could result in potential criminal liability.



consider three levels: compliance, illegality, and culpability, as per Zhang Mingkai's⁷² theory of the constituent elements of a crime", which derives from views of the German and Japanese criminal law.

At the compliance level, we need to examine the perpetrator's behavior's objective and subjective elements. According to Chinese law, if the perpetrator engages in illegal fundraising, unauthorized issuance of securities, or violates others' intellectual property or privacy rights during the project, it may satisfy the objective constituent elements of the relevant crimes. With regards to subjective elements, if the perpetrator possesses the intent or negligence, it may satisfy the corresponding subjective constituent elements of the relevant crimes. For example, if a blockchain project exists for public welfare or scientific research purposes, then the subjective criminal intent of its participants does not exist.

At the illegality level, we need to examine whether the perpetrator's behavior violates relevant legal provisions. If the perpetrator engages in illegal financing or violates other legal provisions during the process of a blockchain project, it constitutes illegal conduct under Chinese law.

At the culpability level, we need to examine whether the perpetrator possesses responsibility, the possibility of illegal intent, and the possibility of anticipated outcomes. The prerequisite for criminal liability under Chinese law is that the perpetrator must reach the legally prescribed age and possess corresponding thinking and behavioral abilities. Additionally, if the perpetrator engages in behavior they know is illegal, they may bear corresponding criminal responsibility.

Several blockchain-related criminal cases in China demonstrate the risks involved, including theft⁷³, fraud⁷⁴, illegal access to computer information system data⁷⁵, illegal

⁷² Mingkai Zhang. Criminal Constituent System and Constituent Elements: Criminal Law Theory and Practice Series. Beijing University Press, 2010. ASIN: B00825VB5A.

Mingkai Zhang, professor and doctoral supervisor of Tsinghua University School of Law, one of the most prominent scholars on the study of criminal law in China. The constituent elements of a crime are composed of a series of subjective and objective elements, including the object of the crime, the objective elements, the subjective elements, and the subject elements. Among the "elements" are the necessary conditions for the constitution of a crime (the elements of a crime); Each element also includes several factors (criminal constitutive factors). In short, several factors form one element, and several elements form a criminal constitution.

⁷³ In April 2019, the police in Nantong, Jiangsu Province, China, cracked a case of theft using Bitcoin as bait. During the theft, the suspect illegally hacked into the victim's mobile app through computer technology and transferred virtual currency such as Bitcoin from the victim's Alipay account to their own account.

⁷⁴ In August 2018, the Shanghai police cracked a network fraud case that used virtual currency as bait. The suspects used false propaganda to lure victims to invest funds in virtual currency trading platforms, resulting in significant economic losses.

⁷⁵ In July 2019, the police in Yuhang District, Hangzhou City, Zhejiang Province, China, cracked a case of illegally obtaining computer information system data. The suspect illegally obtained the source code and database information of a blockchain company, attempting to steal the company's trade secrets.



absorption of public deposits⁷⁶, and illegal business operations⁷⁷. However, a transparent and dignified blockchain project with good intentions and honest purposes can operate in China without the risk of criminal liability. As long as the blockchain project is not established with the purpose of fraud or illegal activities, there is no need to worry about potential criminal risks.

1.2.3 Current State of Blockchain Application in China: Legality, Government Support, and Future Prospects

China has shown a strong commitment to promoting the development and application of blockchain technology. In its 19th National Congress report, the Communist Party of China emphasized the importance of building a digital China, promoting the integration of digital economy and real economy, and developing a world-class digital industry cluster.⁷⁸ Blockchain technology was recognized as a strategic technology that could support the development of the digital economy, promote data sharing, optimize business processes, reduce operating costs, enhance collaborative efficiency, and establish a trusted system.⁷⁹

To further accelerate the development and application of blockchain technology, the Ministry of Industry and Information Technology and the Cyberspace Administration of China jointly issued the "Guiding Opinions on Accelerating the Development and Application of Blockchain Technology and Industry" in May 2021. The document calls for the cultivation of top-notch blockchain enterprises, parks, and open-source ecosystems, and emphasizes the importance of addressing both the shortfalls and strengths of the industry to build a complete blockchain industry chain. In addition, the Ministry of Science and Technology launched a three-year plan for key research and development projects on blockchain technology, focusing on cutting-edge technology directions.⁸⁰

In January 2022, the Cyberspace Administration of China and 15 other departments

⁷⁶ In December 2018, the Public Security Bureau in Chengdu City, Sichuan Province, China, cracked an illegal absorption of public deposits case that used virtual currency as bait. The suspects used false propaganda to absorb funds from the public and promised high returns, causing significant economic losses to the victims.

⁷⁷ In October 2019, the police in Zaozhuang City, Shandong Province, China, cracked an illegal business operation case that used virtual currency as a medium. The suspects illegally sold virtual currency to the public through an online platform and obtained huge profits.

⁷⁸ Xi Jinping. "Uphold the Great Banner of Socialism with Chinese Characteristics and Strive for Unity in the Comprehensive Construction of a Modern Socialist Country—Report at the 20th National Congress of the Communist Party of China (October 16, 2022)." Xinhua News Agency, 25 Oct. 2022. http://www.xinhuanet.com/politics/2022-10/25/c_1129061463.htm. Last Accessed: 7 Feb. 2023.

⁷⁹ Xi Jinping. "Uphold the Great Banner of Socialism with Chinese Characteristics and Strive for Unity in the Comprehensive Construction of a Modern Socialist Country—Report at the 20th National Congress of the Communist Party of China (October 16, 2022)." Xinhua News Agency, 25 Oct. 2022. http://www.xinhuanet.com/politics/2022-10/25/c_1129061463.htm. Last Accessed: 7 Feb. 2023.

⁸⁰ Ministry of Industry and Information Technology, and Office of the Central Cyberspace Affairs Commission. "Guiding Opinions of the Ministry of Industry and Information Technology and the Office of the Central Cyberspace Affairs Commission on Accelerating the Application and Development of Blockchain Technology." Information Technology Development Department, 27 May 2021. https://www.miit.gov.cn/zwgk/zcwj/wjfb/rjy/art/2021/art_851f2059f13d41a8bba59c8dce9401a8.html. Last Accessed: 8 March 2023.



released a list of 179 national-level blockchain innovation application pilots⁸¹, covering 16 industries and special areas such as manufacturing, energy, governance services/data sharing, law, taxation, judiciary, copyright, civil affairs, human resources, education, healthcare, trade finance, risk management, equity market, and cross-border finance.

At the local level, as of September 2022, 29 provinces and cities in China have included the development of blockchain technology in their "14th Five-Year Plan," with a total of 319 policy documents related to the blockchain industry. Local governments have actively responded to support and encourage the development of the blockchain industry and sought to integrate the industry with local conditions in areas such as government data sharing, finance, supply chain and logistics, healthcare, and agriculture.⁸²

In addition, China Academy of Information and Communications Technology released the "Blockchain White Paper" in 2022⁸³, which provides an in-depth analysis of the blockchain industry in China. The People's Bank of China also issued the "FinTech Development Plan (2022-2025)" to promote the healthy and sustainable development of the FinTech industry, which includes blockchain technology.⁸⁴

Overall, the Chinese government has recognized the potential of blockchain technology and is actively promoting its development and application in various industries. The comprehensive policies and initiatives at both the national and local levels demonstrate the government's strong commitment to supporting the growth of the blockchain industry in China.

It is worth noting that in the recent blockchain white paper, the China Academy of Information and Communications Technology mentioned public blockchains such as Ethereum, Polkadot, and Cosmos, as well as other open consortium chains such as AntChain, ChanganChain, SuperChain, and the Yellow River integrated blockchain platform for sub-regional node SparkLink. This implies that the Chinese government is beginning to recognize the importance of international public blockchains in infrastructure development, rather than being limited to domestic alliance or open consortium chains. It indicates a greater openness and integration with the global blockchain technology development trend.⁸⁵

⁸¹ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.

⁸² Li, Wei. "The Dilemma and Solution of Decentralization in Judicial Blockchain: Taking the Decentralized Dispute Resolution Mechanism as the Research Object." *Journal of Southwest University of Political Science and Law* 23.03 (2021): 87-99. doi:CNKI:SUN:XNZF.0.2021-03-009.

⁸³ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.

⁸⁴ People's Bank of China. "Development Plan for Financial Technology (2022-2025)." 5 Jan. 2022. http://www.gov.cn/xinwen/2022-01/05/content_5666525.htm. Last Accessed: 2 Feb. 2023.

⁸⁵ China Academy of Information and Communications Technology. (2022). Blockchain Whitepaper.



1.2.4 Summary

This section provides an in-depth analysis of the legal landscape surrounding blockchain technology in China, including relevant regulations and policies that guide the industry's development. We've explained the Chinese legal hierarchy to give a clear picture of the level of authority of these documents. It's worth noting that prohibited documents⁸⁶ in the blockchain industry primarily target fraudulent and scamming activities and are of a low legal hierarchy level, as they're not an official source of Chinese law.

To operate a blockchain project in compliance with regulations in China, it's necessary to accept supervision, fulfill user information registration obligations, and report information to relevant departments when held accountable. Emergency measures such as warnings, content deletion, and account suspension must be in place for malicious users that could potentially harm national security or public interests.

Furthermore, we've delved into the topic of criminal liability for blockchain projects and analyzed the elements required for a crime to be committed. Our analysis indicates that blockchain projects with legitimate and positive intentions, as opposed to those involved in fraudulent or deceptive activities, are not at risk of criminal prosecution. It's essential to ensure that blockchain projects comply with relevant laws and regulations and operate transparently to avoid any potential legal consequences.

We also examine the current state of blockchain application in China, including the government's support for the technology and its future prospects. It's important to note that public chains such as Ethereum, Cosmos, and Polkadot are included in the recognized infrastructure, which signals official acceptance of public chains. The regulatory environment for blockchain technology in China is complex and dynamic, with various laws and regulations governing different aspects of the industry. While the Chinese government has expressed support for blockchain technology and its potential to drive economic growth, it has also enacted strict measures to ensure the industry's stability and security. These measures include filing requirements for blockchain-related businesses and the prohibition of initial coin offerings (ICOs) and cryptocurrency trading.

In conclusion, ensuring compliance with Chinese laws and regulations is essential for operating a blockchain project in the country, and the technology's potential to drive

⁸⁶ People's Bank of China, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation. "Announcement on Preventing Risks Associated with Token Offerings and Financing." September 4, 2017.

Joint Notice by the China Banking and Insurance Regulatory Commission, Cyberspace Administration of China, Ministry of Public Security, People's Bank of China, and State Administration for Market Regulation. "Risk Alert Regarding the Use of "Virtual Currency" and "Blockchain" to Conduct Illegal Fundraising". 24 Aug. 2018.

Shanghai Headquarters of the People's Bank of China, Shanghai Financial Services Office. "Continuously Preventing Risks Associated with ICOs and Virtual Currency Trading." September 19, 2018.

China Internet Finance Association. "Risk Warning on Participating in Speculative Trading on Overseas Virtual Currency Trading Platforms." April 2, 2020.



economic development is substantial. The government's favorable stance towards the industry and its recognition of public chains as a legitimate infrastructure suggests a promising future for blockchain in China.



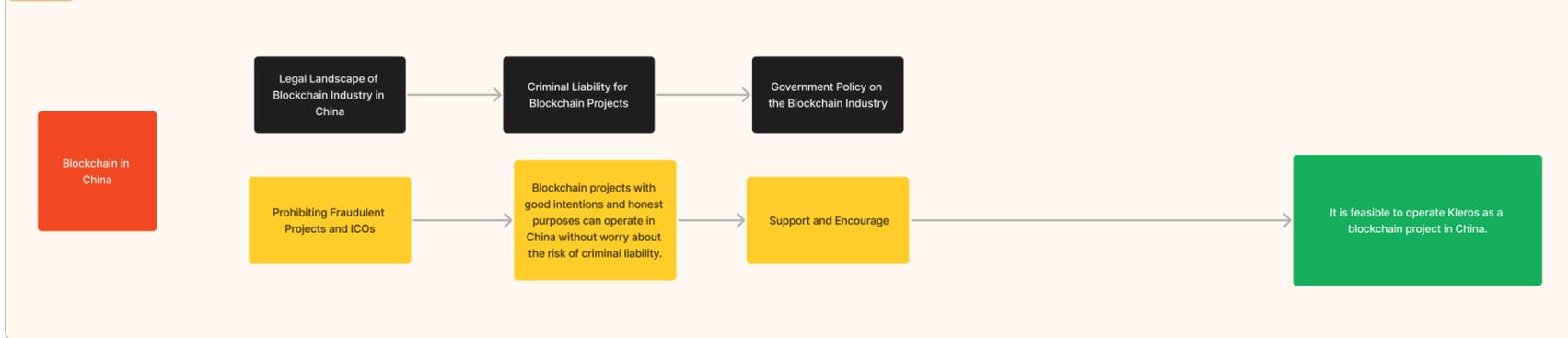
Section 2: Kleros' Practice in China

In the previous section, we provided a detailed overview of the cultural background of dispute resolution in Chinese culture, the status of existing legal organs, and the prototype of similar juror dispute resolution mechanisms in China. This highlights the need for an effective dispute resolution mechanism and gives rise to the potential for introducing decentralized dispute resolution to China. Additionally, we analyzed the legal and policy environment of blockchain technology in China, which supports the practicability of running a blockchain project in the country.

Section 1



Section 2





In this section, we will focus on the feasibility analysis of Kleros⁸⁷, a blockchain project, and its operation in China. Firstly, we will introduce KLEROS and explain its legal basis for operation in China. Furthermore, our research includes an empirical study where we gathered insights from Chinese audiences through workshops and surveys on their thoughts and acceptance of decentralized arbitration mechanisms. Finally, we will provide recommendations and visions for KLEROS to operate successfully in China.

2.1 Introducing Kleros: The Modern-Day Version of Athenian People's Courts

In this section, we aim to provide a comprehensive introduction to Kleros, encompassing a detailed overview of its token economics that underlie its operations, the mechanism by which Kleros operates, and the distinctive approach it adopts in resolving disputes. Subsequently, the succeeding section will delve into the advantages and benefits offered by Kleros.

2.1.1 Kleros' Crypto-Economic Incentivization Mechanism: A Comprehensive Overview

In 2019, with the seminal article "When Online Dispute Resolution Meets Blockchain: The Birth of Decentralized Justice," published in the *Stanford Journal of Blockchain Law & Policy*, Federico Ast and Bruno Deffains put forward the first comprehensive definition of decentralized justice. They identified three key features: a) a decentralized autonomous organization (DAO) structure, b) a mechanism design based on cryptoeconomics, and c) the generation of a perception of fairness.⁸⁸

Kleros is a decentralized dispute resolution mechanism governed by a DAO community that draws inspiration from the Athenian People's Courts. In ancient Athens, eligible citizens could insert a token called pinakion into a machine called the kleroterion, which would eject pinakia at random to select jurors for legal proceedings⁸⁹. Kleros modernizes this concept by using blockchain technology and cryptoeconomics to create a transparent and fair system for resolving disputes.

The idea of Kleros was initially proposed by Ast and Lesaege in 2018⁹⁰, and was further

⁸⁷ Kleros, www.Kleros.io. Last Accessed: 9 Jun, 2023.

⁸⁸ The paper itself was based on the presentation Ast and Deffains did at the "Blockchain and Procedural Law: Law and Justice in the Age of Disintermediation Automating Legal Instruments" seminar in 2019.; See, Max Planck Institute Luxembourg: *Blockchain and Procedural Law: Law and Justice in the Age of Disintermediation*, Mpi.lu (2019).; <https://www.mpi.lu/news-and-events/2019/december/6/blockchain-and-procedural-law-law-and-justice-in-the-age-of-disintermediation/> Last Accessed: 27 May, 2023.

⁸⁹ Christopher W. Blackwell, "Athenian Democracy: a brief overview," in Adriaan Lanni, ed., "Athenian Law in its Democratic Context" (Center for Hellenic Studies On-line Discussion Series). Republished in C.W. Blackwell, ed., *Dēmos: Classical Athenian Democracy* (A. Mahoney and R. Scaife, ed., The Stoa: a consortium for electronic publication in the humanities) edition of February 28, 2003

⁹⁰ Clement Lesaege & Federico Ast, *Kleros Short Paper v1.0.5*, (2018). (The original white paper was published in 2017). <https://static.coinprika.com/storage/cdn/whitepapers/448339.pdf>. Last Accessed: 15 May, 2023.



developed by Ast and Nappert in 2020⁹¹. These early concepts drew on previous research on Schelling Point-based incentives in blockchain oracles, which were proposed by Vitalik Buterin⁹² and other scholars.

The Kleros protocol was the first to apply this logic of subjective oracles to the field of dispute resolution, revolutionizing the way disputes are resolved in a decentralized and transparent manner.

It is designed to provide a fast, transparent, and decentralized alternative to traditional legal systems, handling a wide range of disputes, including e-commerce disputes, freelance disputes, insurance claims, and more. Its mechanism, "crowdsourced arbitration," involves a group of jurors who are selected at random from a pool of staked token holders. These jurors review evidence and vote on the outcome of the dispute, with a majority decision being binding.⁹³

Kleros features a economic model that incentivizes users to act in the best interests of the platform. Kleros token (PNK) holders can stake their tokens to become jurors and earn rewards for participating in dispute resolution. The economic model is structured to promote honesty and fairness during the dispute resolution process. Jurors who align with the majority ruling are rewarded with tokens, while those who go against the majority face a penalty in the form of a reduction in their staked tokens. This design is believed to foster fairness by incentivizing jurors to align their decisions with the prevailing consensus.⁹⁴

⁹¹ Sophie Nappert & Federico Ast, Decentralised justice: reinventing arbitration for the digital age?, Global Arbitration Review, (2020)

⁹² Vitalik Buterin, SchellingCoin: A Minimal-Trust Universal Data Feed, Ethereum Foundation Blog, (2014). <https://blog.ethereum.org/2014/03/28/schellingcoin-a-minimal-trust-universal-data-feed>. Last Accessed: 13 Sep, 2022.

⁹³ Kleros. Kleros Handbook: A Comprehensive Guide to the Protocol and Ecosystem, Kleros, 2020, <https://kleros.io/book.pdf>. Last Accessed: 27 May, 2023.

⁹⁴ Clement Lesaege & Federico Ast, Kleros Short Paper v1.0.5, (2018). (The original white paper was published in 2017). <https://static.coinprika.com/storage/cdn/whitepapers/448339.pdf> Last Accessed: 15 May, 2023

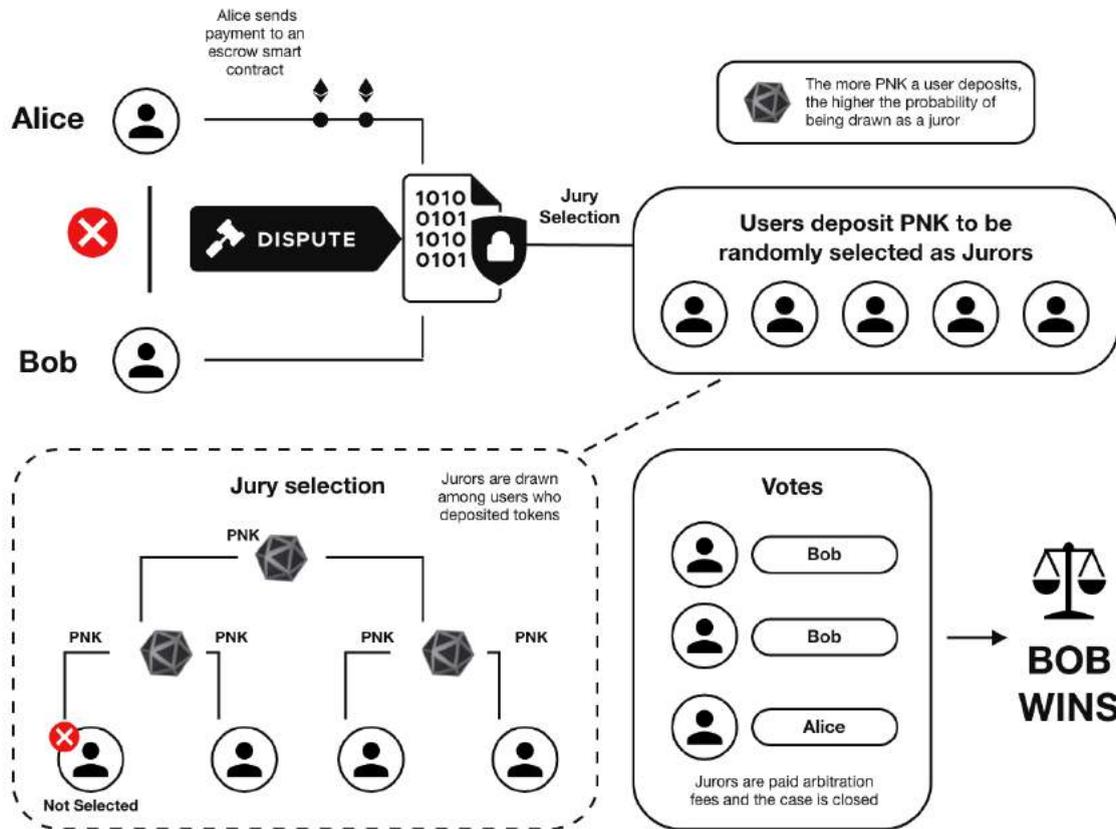


Figure 2 A summary of the dispute resolution flow at Kleros⁹⁵

Kleros includes a built-in appeals system that enables disputing parties to challenge an initial ruling deemed unjust. A higher instance, composed of a new set of jurors with a progressively increasing panel size and higher staking requirements, reviews the appeal. The economic incentive structure of Kleros encourages jurors to vote with the majority, as doing so earn them tokens from the staked pool. Should a party possess compelling evidence, they may challenge the decision at any stage of the appeal process to potentially win the entire pool. As the appeal process progresses, the associated costs increase, which serves to deter malicious or frivolous appeals.⁹⁶

Furthermore, Kleros takes into consideration all possible attacks, such as Juror Panel size

⁹⁵ Ast, Federico and George, William and Kamalova, Jamilya and Sharma, Abeer and Aouidef, Yann, Decentralized Justice: State of the Art, Recurring Criticisms and Next Generation Research Topics (April 10, 2023). Available at SSRN: <https://ssrn.com/abstract=4414291> or <http://dx.doi.org/10.2139/ssrn.4414291> Last Accessed: 8 Apr, 2023

⁹⁶ Vergne, Antoine. Kleros & Demos: La théorie du tirage au sort en politique au banc d'essai de la pratique de la Planungszelle et du jury citoyen. Diss. 2013.



attacks,⁹⁷ lazy strategies,⁹⁸ bribe attacks,⁹⁹ 51% attacks¹⁰⁰, and p+epsilon attacks.¹⁰¹ These measures ensure the integrity of the decision-making process and protect against malicious behavior. Kleros also allows for a fork in the event of any governance failure, ensuring the community can maintain control over the platform's direction.¹⁰²

Kleros' award was implemented in authoritarian judicial institution. In 2020, a dispute arose in Mexico and the disputing parties agreed to appoint an arbitrator, who would refer resolution of the dispute, together with all relevant evidence and arguments, to the Kleros Protocol. After the dispute was resolved in accordance with this procedure, the winning party filed a motion to enforce the award in a Mexican civil court. The party that did not prevail did not contest the award, resulting in the enforcement of Kleros' decision.

¹⁰³

2.1.2 The Benefits of Using Kleros for Dispute Resolution: Transparency, Fairness, Efficiency, Global Access and Auto Enforceability

1. Transparency

One significant advantage of using Kleros for dispute resolution is transparency. Kleros relies on blockchain technology, which is a distributed ledger that is publicly accessible

⁹⁷ Juror Panel size attacks refer to criticism, objections or challenges related to the number of jurors chosen to participate in a trial. See e.g. S. G. Isaacs. "Jury Selection: Discovering the Hidden Agenda" Florida Bar Journal Dated: (December 1986) Pages: 21-23

⁹⁸ There are two completely hands-off tactics. One is to find someone you trust, and let them do all your crypto investing for you. If your contact is good, this could be your highest ROI strategy in terms of energy input. Another strategy is to load up on a batch of crypto, and literally forget all about it for a few years. In many cases, people would have made much more money if they could keep their hands off their crypto. See e.g. Gerrit Van Sittert. "What Are the Best Strategies for 'Lazy' Crypto Investors?"

⁹⁹ "Bribe attacks" generally refer to situations where a bribe is offered or accepted in order to influence or manipulate a particular outcome or decision. In legal contexts, bribe attacks can undermine the integrity of the judicial system by attempting to influence judges, jurors, or other individuals involved in the administration of justice. Such attacks can compromise the fairness and impartiality of legal proceedings and can have serious consequences for the rule of law. See e.g. Hanyi Sun, Na Ruan & Chunhua Su. "How to Model the Bribery Attack: A Practical Quantification Method in Blockchain", Computer Security – ESORICS 2020 pp 569–589

¹⁰⁰ A "51% attack" is a term commonly used in the context of blockchain technology and cryptocurrencies. It refers to a hypothetical scenario where a single entity or group of entities gains control over more than 50% of the total computing power (hashrate) of a blockchain network. A 51% attack occurs when a group has majority control of the network's hashrate, allowing them to potentially manipulate the blockchain's operations. See e.g. Lesaege, Clément, Federico Ast, and W. George. "Kleros." Whitepaper available at <https://kleros.io/assets/whitepaper.pdf> (2018)

¹⁰¹ Suppose that an attacker credibly commits to pay out X to voters who voted 1 after the game is over, where $X = P + \epsilon$ if the majority votes 0, and $X = 0$ if the majority votes 1. P+epsilon attacks is a dominant strategy for anyone to vote 1 no matter what you think the majority will do. Hence, assuming the system is not dominated by altruists, the majority will vote 1, and so the attacker will not need to pay anything at all. The attack has successfully managed to take over the mechanism at zero cost. See e.g. Hunter Gebron. "Do P+epsilon Attacks Pose a Threat to Token-Curated Registries?"

¹⁰² Ast, Federico, et al. "Decentralized Justice: State of the Art, Recurring Criticisms and Next Generation Research Topics." Recurring Criticisms and Next Generation Research Topics (April 10, 2023) (2023).

¹⁰³ Kleros, Kleros accepted as valid arbitration in a Mexican courtroom, YouTube (Oct 25, 2021), <https://www.youtube.com/watch?v=JDu8SgzLhHM> Last Accessed: 27 Sep, 2022.



and immutable¹⁰⁴. As a result, all information regarding the dispute and its resolution is recorded on the blockchain and available to all parties involved. In contrast to traditional dispute resolution methods such as litigation and arbitration, which may involve negotiation and undisclosed dealings, as only the final verdict is published. Moreover, the use of smart contracts in Kleros ensures that no central authority controls or manipulates the data, and all parties involved have access to the same information. Additionally, the dispute resolution process is predetermined, leaving no room for manipulation or corruption.

2. Fairness

The utilization of Kleros for dispute resolution presents a further advantage in terms of fairness. Kleros' decision-making process is decentralized, relying on the wisdom of the crowd¹⁰⁵. The selection of jurors is randomized, and their determinations are grounded solely on the evidentiary material put forth by the disputants. Moreover, any party can submit persuasive evidence and appeal the decision, with the potential to receive economic incentivization from the pool. This impartial adjudication method serves to mitigate the influence of personal biases or agendas. Significantly, Kleros facilitates a greater number of appeal rounds and incorporates a larger pool of jurors.¹⁰⁶

3. Efficiency

Compared to conventional methods of dispute resolution such as litigation and arbitration, Kleros presents a notably more efficient process. According to a member of Kleros team, a typical duration of a case resolution by Kleros is between 5 to 7 days, which is merely a fraction of the time required by conventional dispute resolution methods, which can take several months or even years to reach a verdict.

In China, despite improvements in recent years, the average waiting time for civil cases in the first and second instance remains substantial. According to data from the Chinese courts and arbitration institutions, the average waiting time varies between 38.4 to 97.6 working days, depending on the year and case type¹⁰⁷. For example, in 2021, the mean waiting time for civil cases in the first instance was 38.4 working days, while the mean waiting time for civil cases in the second instance was 52.4 working days. Regarding arbitration, the average waiting time for an arbitration award is 5 to 6 months. This waiting period is notably longer than the time necessary for Kleros to conclude a dispute, establishing Kleros as a considerably more efficient option for resolving conflicts.

¹⁰⁴ Nofer, Michael, et al. "Blockchain." *Business & Information Systems Engineering* 59 (2017): 183-187.

¹⁰⁵ James Surowiecki, *The wisdom of crowds*, Anchor Books (2005), Alvin Goldman, Dennis Whitcomb, *Social epistemology: essential readings*, Oxford University Press (2011)

¹⁰⁶ Delgado, Richard, et al. "Fairness and formality: Minimizing the risk of prejudice in alternative dispute resolution." *Wis. L. Rev.* (1985): 1359.

¹⁰⁷ Supreme People's Court. "Report on the Work of the People's Courts (Full Text)." 8 Mar. 2022. <https://www.court.gov.cn/zixun-xiangqing-349601.html>. Last Accessed: 3 Feb. 2023.



4. Global Access

Global access is an important benefit of using Kleros for dispute resolution. With traditional dispute resolution methods, parties are often limited to the jurisdiction in which the dispute occurred. This can make it difficult for parties located in different countries to access the system, and may even result in legal proceedings being brought in multiple jurisdictions.

However, Kleros is a decentralized system that is accessible from anywhere in the world, and its use is not limited by geographic boundaries. This makes it possible for parties located in different countries to participate in the dispute resolution process without the need for physical travel or lengthy legal proceedings.

5. Auto Enforceability

One of the biggest advantages of using Kleros for dispute resolution is the enforceability of the decision. Kleros uses smart contracts, which are self-executing contracts with the terms of the agreement between the parties being directly written into code¹⁰⁸. This means that once a decision is made by the decentralized jury, it is automatically enforced by the smart contract, provided that the parties have consented to an escrow integration for dispute resolution. In contrast, traditional dispute resolution methods such as litigation and arbitration often rely on the parties to voluntarily comply with the decision, which can lead to difficulties in enforcement.

The auto-enforceability of Kleros decisions provides a number of benefits. First, it reduces the need for further legal action to enforce the decision, saving time and costs. Second, it ensures that the decision is final and binding, providing greater certainty for the parties involved. Finally, it eliminates the potential for non-compliance, as the decision is automatically enforced by the smart contract.

Comparison	Kleros	Traditional Dispute Resolution
Transparency	All information regarding the dispute and its resolution is recorded on the blockchain and available to all parties involved. The use of smart contracts ensures	May involve negotiation and undisclosed dealings, as only the final verdict is published.

¹⁰⁸ Kleros. Kleros Handbook: A Comprehensive Guide to the Protocol and Ecosystem, Kleros, 2020, <https://kleros.io/book.pdf>. Last Accessed: 27 May,2023.



	that no central authority controls or manipulates the data, and the dispute resolution process is predetermined.	
Fairness	Decision-making process is decentralized, relying on the wisdom of the crowd. Selection of jurors is randomized, and their determinations are grounded solely on the evidentiary material put forth by the disputants. Any party can submit persuasive evidence and appeal the decision, with the potential to receive economic incentivization from the pool. This impartial adjudication method serves to mitigate the influence of personal biases or agendas.	Limited by the number of available judges and have a restricted number of appeal opportunities, may be subject to personal biases and probabilities, potentially resulting in inequitable outcomes.
Efficiency	The typical duration of a case resolution by Kleros is between 5 to 7 days, which is merely a fraction of the time required by conventional dispute resolution methods, which can take several months or even years to reach a verdict.	Conventional dispute resolution methods can take several months or even years to reach a verdict.
Global Access	A decentralized system that is accessible from anywhere in the world, as	Parties are often limited to the jurisdiction in which the dispute occurred. This



	long as there is Internet, and its use is not limited by geographic boundaries. ¹⁰⁹	can make it difficult for parties located in different countries to access the system, and may even result in legal proceedings being brought in multiple jurisdictions.
Auto Enforceability	Kleros uses smart contracts, which are self-executing contracts with the terms of the agreement between the parties being directly written into code. Once a decision is made by the decentralized jury, it is automatically enforced by the smart contract.	Often rely on the parties to voluntarily comply with the decision, which can lead to difficulties in enforcement.

Figure 3 Comparison of Kleros with Traditional Dispute Resolution Methods 1

Comparison	Kleros	Traditional Dispute Resolution Methods
Transparency	Transparent and immutable blockchain-based system	Private and confidential process with room for undisclosed negotiations
Central Authority	No central authority or single decision maker	Central authority or decision maker such as a judge or arbitrator

¹⁰⁹ However, at present, the use of Kleros might be constrained to online transaction disputes among parties with advanced understanding and comprehension of blockchain technology.



Speed	Fast and efficient resolution process	Potentially lengthy and costly legal process
Cost	Relatively low cost due to decentralized nature	Potentially high cost due to legal fees and expenses
Accessibility	Accessible to anyone with an internet connection	Requires access to legal system and representation
Verifiability	Verifiable and auditable decisions	Limited ability to verify or audit decisions

Figure 4 Comparison of Kleros with Traditional Dispute Resolution Methods 2

2.2 Legal Risks for Kleros' Practice in China

2.2.1 Kleros in China: Navigating Web3 Legal Challenges and Risks

Regarding the legal risks of Kleros operating in China, the criminal risks of blockchain projects operating in China have been discussed in the previous section 1.2.2. As Kleros operates as Web3 in China, the main legal red lines it touches upon are as follows:

Immutable and have undeniably crossed the legal red

- The issuance of tokens (PNK) is in contravention of the "Announcement on Preventing Risks Associated with Token Offerings and Financing" (2017), and can potentially be interpreted as the criminal act of illegally absorbing public deposits, unauthorized issuance of securities, corporate bonds, or engaging in unlawful business operations.¹¹⁰
- The data are not stored within the jurisdiction of China, instead, they are stored in a decentralized manner on the InterPlanetary File System (IPFS).¹¹¹
- In instances where inappropriate comments arise (that threaten national security

¹¹⁰ See the related law in the table below

¹¹¹ See the related law in the table below



or public order), there are no designated administrators with the capacity to delete these comments, or mute or remove the related accounts.¹¹²

Compliance Necessities:

- The obligation to comply with information management duties, a task that is realistically achievable.¹¹³

Potential Legal Charges¹¹⁴:

Potential engagement in the following offenses can be avoided through the implementation of proper disclaimers and adherence to compliance measures:

- Organizing and leading pyramid schemes¹¹⁵
- Committing fraudulent acts¹¹⁶
- Engaging in fundraising fraud¹¹⁷
- Money laundering¹¹⁸
- Currency smuggling¹¹⁹
- Concealment and disguise of criminal proceeds¹²⁰

¹¹² See the related law in the table below

¹¹³ See the related law in the table below

¹¹⁴ These are the crimes that Web 3 projects frequently be charged with.

¹¹⁵ Zeng, Xin, and Liu, Tao. "Regulation and Punishment: Criminal Crime Analysis of Blockchain Financial Transactions." Shanghai Law Society, Dongfa Jurisprudence, 10 June 2021, <https://mp.weixin.qq.com/s/l8zWOWXlxdDi5QXRtyi4SQ>. Last Accessed:9 May 2023.

¹¹⁶ Yang, Guangming, and Xu, Huiru. "High Incidence of Criminal Legal Risks in Blockchain Business—From the Perspective of Judicial Practice." Deheng Dispute Resolution, Deheng Commercial Dispute Resolution, 19 April 2021, <https://mp.weixin.qq.com/s/-xfZUWlnak6gGlwZXaEq8Q>. Last Accessed:8 May,2023.

¹¹⁷ Yang, Guangming, and Xu, Huiru. "High Incidence of Criminal Legal Risks in Blockchain Business—From the Perspective of Judicial Practice." Deheng Dispute Resolution, Deheng Commercial Dispute Resolution, 19 April 2021, <https://mp.weixin.qq.com/s/-xfZUWlnak6gGlwZXaEq8Q>. Last Accessed:8 May,2023.

¹¹⁸ Yang, Guangming, and Xu, Huiru. "High Incidence of Criminal Legal Risks in Blockchain Business—From the Perspective of Judicial Practice." Deheng Dispute Resolution, Deheng Commercial Dispute Resolution, 19 April 2021, <https://mp.weixin.qq.com/s/-xfZUWlnak6gGlwZXaEq8Q>. Last Accessed:8 May,2023.

¹¹⁹ Zeng, Xin, and Liu, Tao. "Regulation and Punishment: Criminal Crime Analysis of Blockchain Financial Transactions." Shanghai Law Society, Dongfa Jurisprudence, 10 June 2021, <https://mp.weixin.qq.com/s/l8zWOWXlxdDi5QXRtyi4SQ>. Last Accessed: 9 May 2023.

¹²⁰ Liu, Yang. "Coin Circle Criminal Case 3.0: How to Deduct Illegal Gains? How to Deduct Reasonable Expenses?" 中本律. 26 July 2023, 12:56, Beijing, <https://mp.weixin.qq.com/s/eZq7xLjeNX-TNMoaJXbkDA>. Last Accessed: 8 May 2023.



The subsequent table delineates the associated legal risks along with their corresponding laws and provisions:

Legal Risk Point	Related Law	Specific Articles
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****Unchangeable:****

<p>Issuing Tokens (PNK): Crimes of Illegal Absorption of Public Deposits, Unauthorized Issuance of Stocks, Corporate Bonds, Illegal Business</p>	<p>"People's Bank of China, Ministry of Industry and Information Technology, Ministry of Public Security, State Administration for Market Regulation on Preventing Risks of Token Issuance Financing", "Criminal Law"</p> <hr/> <p>"Criminal Law of the People's Republic of China"</p>	<p>II. No organization or individual may illegally engage in token issuance financing activities. From the date of this announcement, all kinds of token issuance financing activities should stop immediately. Organizations and individuals who have completed token issuance financing should make arrangements such as clearing, reasonably protecting investors' rights and interests, and properly handling risks. Relevant departments will severely investigate and deal with the refusal to stop token issuance financing activities and illegal activities in completed token issuance financing projects.</p> <hr/> <p>Article 176: Crime of illegally absorbing public deposits: Those who illegally absorb public deposits or disguise themselves to absorb public deposits and disturb financial</p>
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		<p>order shall be sentenced to fixed-term imprisonment of not more than three years or detention, and a fine of not less than 20,000 yuan but not more than 200,000 yuan; if the amount is huge</p> <hr/> <p>Article 179: Crime of unauthorized issuance of stocks, company and corporate bonds: Those who issue stocks or company or corporate bonds without the approval of the relevant state authorities, and the amount is huge, the consequences are serious or there are other serious circumstances, shall be sentenced to fixed-term imprisonment of not more than five years or detention, and a fine of not less than one percent but not more than five percent of the illegally raised funds.</p>
<p>Data not stored in China (Decentralized storage in IPFS)</p>	<p>"Data Security Law", "Personal Information Protection Law"</p>	<p>Article 40: Key information infrastructure operators and personal information processors who reach the number of personal information processors stipulated by the state cyberspace department shall store the personal information</p>



		<p>collected and generated within the territory of the People's Republic of China. If it is necessary to provide it abroad, it should pass the security assessment organized by the national cyberspace department; if the law, administrative regulations and the national cyberspace department stipulate that a security assessment is not required, it should be provided according to its regulations.</p> <hr/> <p>The provision of Article 4 of the 'Data Export Security Assessment Measures (Draft for Comment)', the personal information processor that handles personal information of more than one million people provides personal information abroad; it provides more than 100,000 people's personal information or more than 10,000 people's sensitive personal information abroad.</p>
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<p>When improper comments occur (endangering national security, public order), no administrator can delete the improper comments, or even ban or delete the related account</p>	<p>"Regulations on Blockchain Information Service Management"</p>	<p>Article 15: Blockchain information service providers should make corrections if there are information security risks in the blockchain information services they provide. Information services can only be provided after complying with relevant regulations and national standards.</p> <hr/> <p>Article 6: Blockchain information service providers should have technical conditions compatible with their services. They should have instant and emergency handling capabilities for information content prohibited by laws and administrative regulations. The technical plan should comply with relevant national standards.</p> <hr/> <p>Article 5: Blockchain information service providers should implement responsibilities for managing the safety of information content and establish sound management systems for user registration, information review, emergency response, and security protection.</p>
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		<p>Article 10: Blockchain information service providers and users must not use blockchain information services to engage in activities prohibited by laws and administrative regulations that harm national security, disrupt social order, and infringe on the legitimate rights and interests of others. They must not use blockchain information services to produce, reproduce, publish, or disseminate information content prohibited by laws and administrative regulations.</p>
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****Need to cooperate and adjust:****

<p>Fulfilling information management obligations (this should be achievable)</p>	<p>"Criminal Law of the People's Republic of China"</p>	<p>Article 286: Crime of refusal to perform information network security management obligations: network service providers do not perform information network security management obligations stipulated by laws and administrative regulations, refuse to make corrections after being ordered to take corrective measures by regulatory authorities, and have one of the</p>
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		following circumstances: sentenced to fixed-term imprisonment of not more than three years, detention or control, and a fine or a single fine.
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****Can be avoided through disclaimers and compliance measures:****

Organizing and leading pyramid schemes	"Criminal Law of the People's Republic of China"	Article 224: Crime of organizing and leading pyramid schemes: Those who organize and lead pyramid schemes under the name of selling goods, providing services and other business activities, require participants to gain membership by paying fees or buying goods and services, and form levels in a certain order, directly or indirectly, use the number of people developed as a basis for remuneration or rebate, and lure or coerce participants to continue to develop others to participate, defraud property, and disturb economic and social order, are sentenced to fixed-term imprisonment of not more than five years or detention, and a fine;
Fraud	"Criminal Law of the People's Republic of China"	Article 266 - Fraud: For fraudulent public and private property, if the amount is large, punishment can be less



		<p>than three years imprisonment, detention or surveillance, and fines may apply; for particularly large amounts or other severe circumstances, punishments range from three to ten years imprisonment and a fine; for exceptionally large amounts or other extremely severe circumstances, punishment is more than ten years imprisonment or life imprisonment, and fines or confiscation of property may be applied. Other stipulations in this law are applied as specified.</p>
<p>Fundraising Fraud</p>	<p>"Criminal Law of the People's Republic of China"</p>	<p>Article 192 - Fundraising Fraud: With the intention of illegal possession, using fraudulent methods to raise funds illegally, if the amount is large, punishment can be less than five years imprisonment, detention, and a fine from 20,000 to 200,000 yuan; for particularly large amounts or other severe circumstances, punishment is from five to ten years imprisonment and a fine from 50,000 to 500,000 yuan; for exceptionally large amounts or other extremely severe circumstances, punishment is more than ten years imprisonment</p>



		or life imprisonment, and a fine from 50,000 to 500,000 yuan or confiscation of property.
Money Laundering	"Criminal Law of the People's Republic of China"	Article 191 - Money Laundering: For those knowingly committing crimes such as drug offenses, organized crimes of a gangster nature, terrorism crimes, smuggling, corruption and bribery, destruction of financial management order, financial fraud, to disguise, conceal its source and nature, if one of the following behaviors occurs, the proceeds of the above crimes and their profits are confiscated, punishable by less than five years imprisonment or detention, and a fine of more than five to less than twenty percent of the money laundering amount; for severe cases, punishment is from five to ten years imprisonment, and a fine of more than five to less than twenty percent of the money laundering amount.
Currency Smuggling	"Criminal Law of the People's Republic of China"	Article 190 - Currency Smuggling: Companies, enterprises, or other units, in violation of state regulations, unauthorizedly storing foreign exchange abroad,



		<p>or illegally transferring foreign exchange from within the country to abroad, if the amount is large, the unit is fined five to thirty percent of the amount of foreign exchange smuggled, and the directly responsible supervisors and other directly responsible personnel are punishable by less than five years of imprisonment or detention; if the amount is huge or there are other serious circumstances, the unit is fined five to thirty percent of the amount of foreign exchange smuggled, and the directly responsible supervisors and other directly responsible personnel are punishable by more than five years of imprisonment.</p>
<p>Illegal Operation</p>	<p>"Criminal Law of the People's Republic of China"</p>	<p>Article 225 - Crime of Illegal Operation: In violation of state regulations, one of the following acts of illegal operation disrupts market order, if the circumstances are serious, punishment is up to five years imprisonment or detention, and a fine of one to five times the illegal income or a separate fine; if the circumstances are particularly serious, punishment is more than</p>



		five years of imprisonment, and a fine of one to five times the illegal income or confiscation of property.
Concealing and Disguising Proceeds of Crime	"Criminal Law of the People's Republic of China"	Article 312 - Concealing and Disguising Proceeds of Crime: Those who knowingly harbor, transfer, purchase, sell on behalf of others, or conceal or disguise in other ways the proceeds of crime and the profits generated therefrom, are punishable by up to three years imprisonment, detention or surveillance, and may be fined; if the circumstances are serious, the punishment is three to seven years imprisonment, and a fine.

The mentioned above are common legal charges encountered by domestic Web3 projects in China, and are the focus of discussions among mainstream scholars and lawyers.

From a practical perspective, charges such as organizing and leading pyramid schemes, committing fraudulent acts, and engaging in fundraising fraud, including illegal absorption of public deposits, are seen quite frequently for Web3 projects.

On the other hand, while topics such as money laundering, currency smuggling, and concealment and disguise of criminal proceeds receive a lot of attention in academic discussions, they are less commonly encountered charges in practice.

Therefore, it's critical for any project venturing into the Web3 space in China to have a robust understanding of the legal landscape and to build compliance mechanisms that address these challenges head-on.

2.2.2 Understanding the Legal Redlines of Web3 Operation in China: Lessons from Nai



Xue's Tea and StepN

In the dynamic world of Web3, the operational realities and legal boundaries can often vary dramatically between different jurisdictions. This is particularly evident in China, where a number of stringent regulations and 'red lines' have been instituted. Operating Web3 or Web3-associated projects in this context demands a delicate balance of innovation and compliance, a challenge many businesses have grappled with. A prime illustration of this delicate situation can be seen in the case of Nayuki's Tea and StepN. Despite their potential, these projects had to withdraw from the Chinese market, illustrating the complex environment in which Web3 projects are situated within China. This article seeks to explore the intricate landscape of running Web3 projects in China, identifying the necessary caution and understanding of the legal 'red lines' that these entities must navigate.

Naixue's Tea

"Naixue's Tea", a popular milk tea company in China, had recently introduced a new feature - "Naixue Coin". For every 1 RMB spent, customers would receive one Naixue Coin, which could be used to "purchase" virtual stocks linked to the real stock price of Naixue's Tea or be used within a specific marketplace for rewards. Despite its innovative approach, the scheme was taken down within just two weeks.¹²¹

The Naixue Coin event highlights the precarious position of Web3 projects involving digital currency in China. Despite Naixue's clear stipulation that these coins could not be exchanged for cash, it still provoked controversy due to its resemblances to real-world financial mechanisms such as virtual stocks and leveraging.

Prominent lawyers¹²² commented that although the Naixue Coin is essentially similar to consumer points, the virtual stock trading game poses significant legal risks. They warned that it may potentially fall into the category of online gambling, which is strictly regulated in China. This example serves as a reminder for other businesses to tread carefully in implementing similar strategies, as any misstep can lead to serious legal consequences.

StepN

On May 27th 2022, the StepN project, which has always been quietly making profits and user mining, for unknown reasons, published an announcement titled "About the Inspection of Chinese mainland Accounts" through social media. The announcement made it clear: StepN will concentrate on cleaning up mainland Chinese users at 24:00 on July 15, 2022, and stop providing GPS and IP address services. For mainland Chinese users, StepN hopes that everyone will "make decisions on their own to handle assets in

¹²¹ He, Xige. "Does Nayuki's 'Issuance' Violate the Law?" Guanwang Finance, 6 July 2022, Published in Shanghai. <https://mp.weixin.qq.com/s/A2BWtjz6uEsXz3VGMB0jZQ>. Last Accessed: 5 Apr. 2023.

¹²² Xiao Sa Legal Team. "Behind the Compliance Mystery of 'Milk Tea Coin' and 'Virtual Stock' Game Play". Xiao Sa Lawyer, 1 July 2022, Published in Beijing. <https://mp.weixin.qq.com/s/7wqW7-LTERVjmuk8lEIIIRQ>. Last Accessed: 4 June 2023.



the application."

At the same time, the social platform was filled with many unverified news saying "The StepN Hangzhou operation and development team was taken away for investigation by the police," causing public panic. In fact, according to an interview with one of the founders of the StepN project, Mr. Y, later on May 27, the biggest reason for StepN's decision to clean up Chinese users is still legal compliance issues, specifically, the issue of data outflow.¹²³

This data collection is subject to strict regulation under China's Cybersecurity Law¹²⁴, Data Security Law¹²⁵, and Personal Information Protection Law¹²⁶. Their data collection practices are particularly closely related to the Data Security Law and Personal Information Protection Law. Especially, the Personal Information Protection Law has explicit provisions regarding the cross-border transfer of personal information.¹²⁷

If StepN processes personal information exceeding a certain amount, according to the provisions of Article 4 of the "Data Export Security Assessment Measures (Draft for Comments)", it will be required to store this data within China, and to pass a security

¹²³ Xiao Sa Legal Team. "Expulsion? Criminal Detention? Top Flow StepN Deep in Legal Quagmire." Xiao Sa Lawyer, 28 May 2022. Published in Beijing. Last Accessed: 5 Apr. 2023. <https://mp.weixin.qq.com/s/t2Dd-8V4nfH37IMwLeoLew>.

¹²⁴ Cybersecurity Law of the People's Republic of China. National People's Congress, 7 Nov. 2016. Article 37, Network operators shall store personal information and important data within the country in accordance with the requirements of laws and regulations. They shall not be made available outside the country; if they are made available outside the country for business purposes, they shall be agreed to by the relevant State authorities and shall comply with laws and regulations. Offshore recipients shall specify their security measures for handling personal information and important data and submit security assessment reports to the competent authorities in the territory.

¹²⁵ Data Security Law of the People's Republic of China. Standing Committee of the National People's Congress, 10 Jun. 2021.

Article 31, The outbound security management of important data collected and generated by operators of critical information infrastructures operating within the territory of the People's Republic of China shall be governed by the provisions of the Cybersecurity Law of the People's Republic of China; and the measures for the outbound security management of important data collected and generated by other data processors operating within the territory of the People's Republic of China shall be formulated by the State Net Information Department in conjunction with the relevant departments of the State Council.

¹²⁶ Personal Information Protection Law of the People's Republic of China. Standing Committee of the National People's Congress, 2021-11-1.

¹²⁷ Personal Information Protection Law of the People's Republic of China Article 38, Where personal information processors truly need to provide personal information to any party outside the territory of the People's Republic of China for business needs, among others, they shall meet one of the following conditions: 1) security assessment organized by the national cyberspace administration has been passed in accordance with Article 40 of this Law. 2) personal information protection certification has been conducted by a specialized institution according to provisions issued by the national cyberspace administration. 3) a contract has been concluded with the overseas recipient in accordance with the standard contract formulated by the national cyberspace administration, agreeing on both parties' rights and obligations. 4) other conditions provided in laws or administrative regulations or by the national cyberspace administration. Where the international treaties and agreements that the People's Republic of China has concluded or acceded to have provisions on the conditions for providing personal information outside of the People's Republic of China, they may be implemented in accordance with those provisions. Personal information processors shall take necessary measures to ensure that the processing activities of personal information by overseas recipients meet the personal information protection standards stipulated in this Law.



assessment by the national cyberspace department when providing data overseas. This applies if the information processed pertains to a million individuals, or when providing information of over a hundred thousand individuals or sensitive personal information of over ten thousand individuals overseas.

The KYC information and GPS data collected by StepN may both be classified as sensitive personal information. If such data is not stored within China, or if appropriate security assessments and declarations are not carried out during data export, this could result in a significant risk of administrative violations and may even lead to criminal liability.

2.2.3 Unveiling the Unseen: A Deep Dive into the Underlying Logic

Given the inherent financial aspects of blockchain, it carries substantial risks. Once unregulated, it becomes a breeding ground for those with ulterior motives. Speculators, opportunists, and ill-intentioned individuals can easily repackage projects as lucrative investment products promising high returns. Innocent citizens, unaware of the underlying complexities, may risk their life savings, often resulting in disastrous consequences. Past incidents bear testament to this – the P2P projects that were the rage before 2014¹²⁸, an innovation of internet finance, ended in abrupt failure, leaving countless people bankrupt overnight.

In response to the frenzy around blockchain in 2014, which led to the emergence of numerous worthless tokens and scams, the Chinese government issued "Announcement on Preventing Risks Associated with Token Offerings and Financing" (2017)¹²⁹, outright banning ICOs. This was also the time when many blockchain schemes such as Plus Token caused significant financial losses, thus drawing heightened scrutiny from public security agencies – all in the interest of public safety and wellbeing.

In the past couple of years, NFTs (Non-Fungible Tokens) as digital collectibles have also created a wave of enthusiasm¹³⁰. However, due to the recent laws limiting digital collectibles trading and the insistence on centralized control – with the added restriction of prohibiting any sale within six months of purchase – the market has cooled down considerably. The predominant players in the Chinese cryptocurrency scene are speculators, and financial trends lean towards them.

Experience shows that domestic crypto enthusiasts can participate in various foreign

¹²⁸ "Boom and bust 5 years P2P to complete a cycle from boom to bust" Sina Finance, 21 October, 2019 08:44 <https://baijiahao.baidu.com/s?id=1647961724508883663&wfr=spider&for=pc> Last accessed: 10 May, 2023

¹²⁹ Announcement on Preventing the Risks of Token Offering and Financing, People's Bank of China (PBOC), Office of Internet Information Office (OIIO), Ministry of Industry and Information Technology (MIIT), State Administration for Industry and Commerce (SAIC), China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC). 4 September, 2017.

¹³⁰ Metaverse Insider. "The hottest nft in the country.". 8 Feb, 2023 <https://www.yuanyuzhouneican.com/article-524400.html> Last accessed: 12 May, 2023



Web3 projects through numerous ways. Yet, it's worth noting that speculation is the main driver for most. The recent popularity surge of POH, reflected in the increase in the number of users in the Chinese POH sector, suggests that these projects are accessible to Chinese users. Nevertheless, the truth remains that a significant portion of the domestic crypto community is primarily focused on trading, showing little interest in the underlying technology or vision of these projects.

Hence, considering the specific national conditions of China, the financial nature of tokens can easily incite investment and speculation, eventually morphing into scams or pyramid schemes. This is why any blockchain project involving token issuance draws the immediate attention of public security departments.

2.2.4 Cautious Expansion: Strategies to Minimize Legal Risks for Kleros' Expansion in China

In terms of mitigating criminal risks, it is crucial to demonstrate the absence of malice or criminal intent, effectively ruling out any culpability from a subjective standpoint under criminal law. Therefore, in compliance work within China, it is essential that the project's objectives are clearly stated in the white paper, ensuring its purity and legitimacy. Of utmost importance is avoiding public deposit intake, which plays a critical role in risk prevention. The case of Wu Ying¹³¹, where she was sentenced to death in a first-instance judgment, despite the majority of borrowed funds being used for business operations and lacking subjective intent to defraud, serves as a stark reminder. Even if there is no subjective intention of illegal possession, raising funds from more than 200 unspecified subjects can constitute the crime of illegal absorption of public deposits.¹³²

In the initial stages, if the existing Kleros's model shall be operate, tokens (PNK) should not be freely exchanged with fiat within China (as exemplified by Tesla's acceptance of Bitcoin payments, it is does not allowed free exchange to fiat and it is seen as a swap). For future large-scale compliance, PNKs should be strictly limited to specific platform functions (akin to Q-coins¹³³).

Moreover, in the future, it will be necessary to store data in China, providing Chinese authorities with access for checks. They should also have the power to instruct data administrators to delete content or ban users' accounts.

¹³¹ Criminal Judgment of Jinhua Municipal Intermediate Court of Zhejiang Province (2009) No. 1 of the Second Criminal Judgment of Jinhua Municipal Intermediate Court of Zhejiang Province.

¹³² Provisions of the Supreme People's Procuratorate and the Ministry of Public Security on the Criteria for Filing Criminal Cases under the Jurisdiction of the Public Security Organs (II) Article 23, Anyone who illegally absorbs public deposits or absorbs public deposits in disguised form, disrupting the financial order and suspected of any of the following circumstances shall be prosecuted: ... (2) Illegally absorbing or absorbing public deposits in disguised form for more than one hundred and fifty persons; ...

¹³³ Q-coins are a virtual currency (not crypto) introduced by Tencent that can be used to pay for QQ services such as QQ line numbers and QQ member services. It was first introduced in 2002.

Hou Tingting." On the Determination and Confiscation of "Proceeds of Crime" in Digital Currency Money Laundering Crimes." Modern Business Industry 44.05(2023):143-145. doi:10.19311/j.cnki.1672-3198.2023.05.051.



Developing underlines or attracting people for rewards (more than 2-tiers reward) based on the development of underlines is not permissible.

In terms of implementation, initial pilots can be conducted within circles of law students, lawyers, and legal workers. Implementing the Fellowship program in Chinese mainland is also a viable strategy as it allows for more participants in theoretical foundation building and serves as a good promotional channel.

Starting from step one, it's advisable to begin with related aspects as a starting point, the reasons for which will be expounded upon later. One of the very needed scenarios is international trade using USDT as an international trade payment means, utilizing escrow, and starting Kleros from HK. More details will be expanded upon in the following sections 2.4.1 and 2.4.2.

2.3 Analysis of Survey Results: Key Findings and Insights

To comprehensively research about the feasibility of Kleros' operation in China, an empirical analysis and collected data for this study was conducted. Two seminars were held on November 20, 2022, and January 17, 2023, respectively, to discuss the feasibility of introducing decentralized dispute resolution mechanisms to China. The audience was mostly young people, including students and recent graduates. The seminars were also attended by legal professionals, law firm partners, and individuals in the Web3 field, as well as participants from various industries.

The seminars received a very positive response, with many attendees expressing keen interest and actively participating in the discussions. The first seminar had approximately ten attendees who remained engaged until the end, and the second seminar had a similar number of active participants. Based on our observations during the seminars, we found that only about 10% of the attendees had prior experience with Web3 applications. The majority of participants had never used Web3 tools, including Web3 wallets, and a significant proportion had limited knowledge of the Web3 concept. As a result, we provided an introduction to the concept of Web3 at the beginning of the events.

2.3.1 Data Display

For the first seminar, a total of 253 viewed the survey, and there were 40 valid responses. The survey results revealed the following:

Regarding whether the participants have heard of decentralized dispute resolution organizations, 45% of the respondents have never heard of them, 17.5% have heard of them, 32.5% have some understanding, and 5% are very familiar with them. About whether they are willing to learn more about mobile homes and dispute resolution organizations, 77.78% of the respondents are willing to learn more, 16.67% may be willing



to learn, and 5.56% are not sure if they want to learn more. About whether they would use a decentralized dispute resolution mechanism, 38.89% are very willing to use it, 44.44% are willing to try it, and 16.67% are unsure. Regarding whether they have heard of Kleros before, 90.91% of the respondents have never heard of it. Regarding the application scenarios of decentralized mechanisms in China, 100% of the participants believe that there are certain application scenarios.

For the second seminar, there were a total of 181 survey views and 30 valid responses. Regarding whether the participants have attended the first seminar, 7.14% have attended the first seminar, and 92.86% have never attended any previous events. Regarding the level of understanding of decentralized dispute resolution mechanisms for the second batch of participants, 3.3% are very familiar, 16.67% have a general understanding, 20% have some understanding, and 60% have no understanding. About whether they are willing to learn more about decentralized dispute resolution mechanisms, 80% are willing to learn more, 16.67% may be willing to learn, and 3.33% are not sure. Regarding whether they are willing to use decentralized dispute resolution mechanisms, 36.67% are very willing, 43.33% are willing to try, and 16.67% are unsure. Regarding whether they have heard of Kleros before, 90% of the respondents have never heard of it. Regarding the application scenarios of decentralized mechanisms in China, 37.5% believe that there are very applicable scenarios, 37.5% believe that there are certain applicable scenarios, and 25% think that there may be applicable scenarios.



Kleros Exploration Session 1

Cumulative views **253** | Effective feedback **40**

Figure 5 Result of the Survey from the First Seminar-1

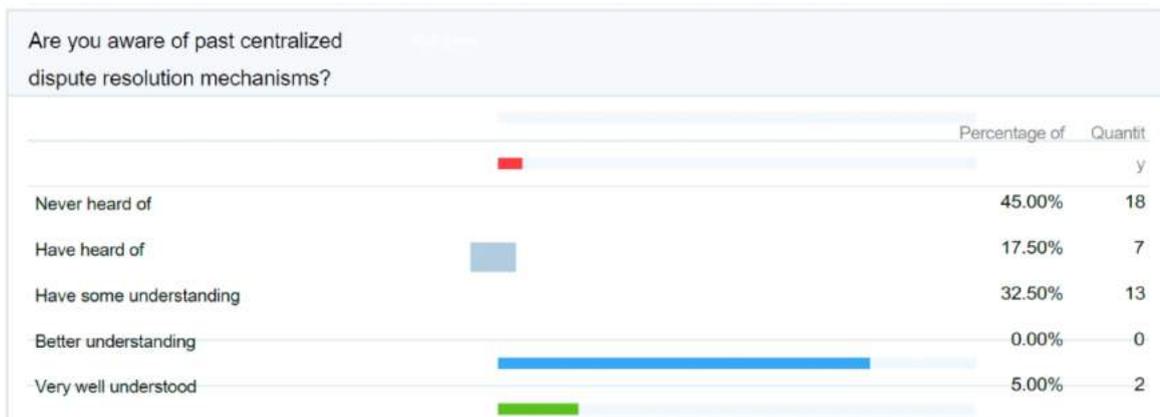


Figure 6 Result of the Survey from the First Seminar-2



Figure 7 Result of the Survey from the First Seminar-3

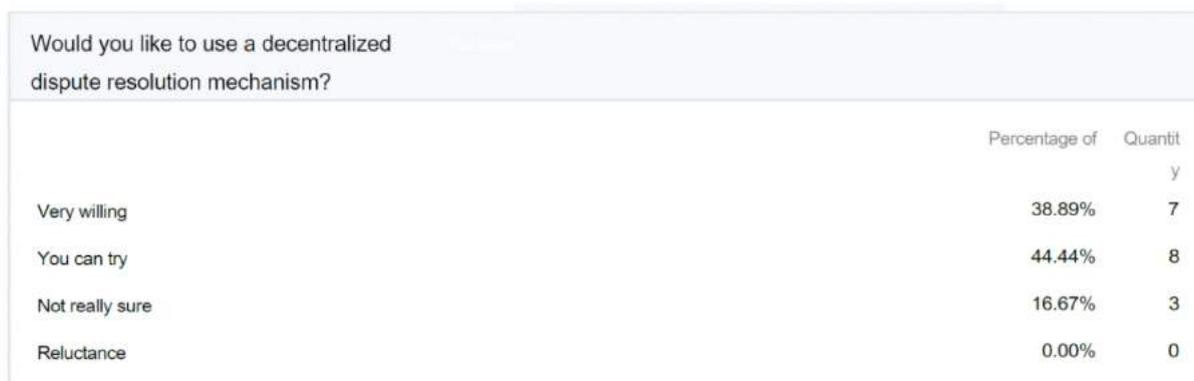


Figure 8 Result of the Survey from the First Seminar-4



Figure 9 Result of the Survey from the First Seminar-5

Kleros Exploration Session 2

Cumulative views **181** | Effective feedback **30**

Figure 10 Result of the Survey from the Second Seminar-1



Figure 11 Result of the Survey from the Second Seminar-2

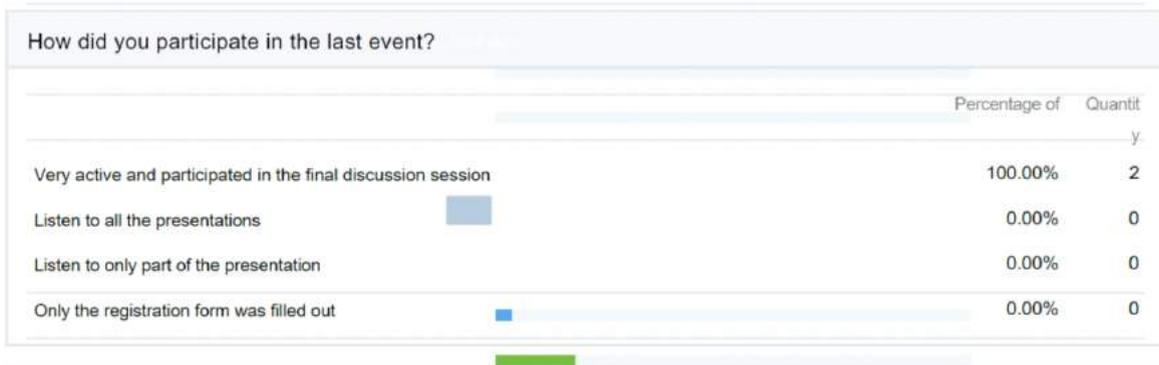


Figure 12 Result of the Survey from the Second Seminar-3



Figure 13 Result of the Survey from the Second Seminar-4



Figure 14 Result of the Survey from the Second Seminar-5

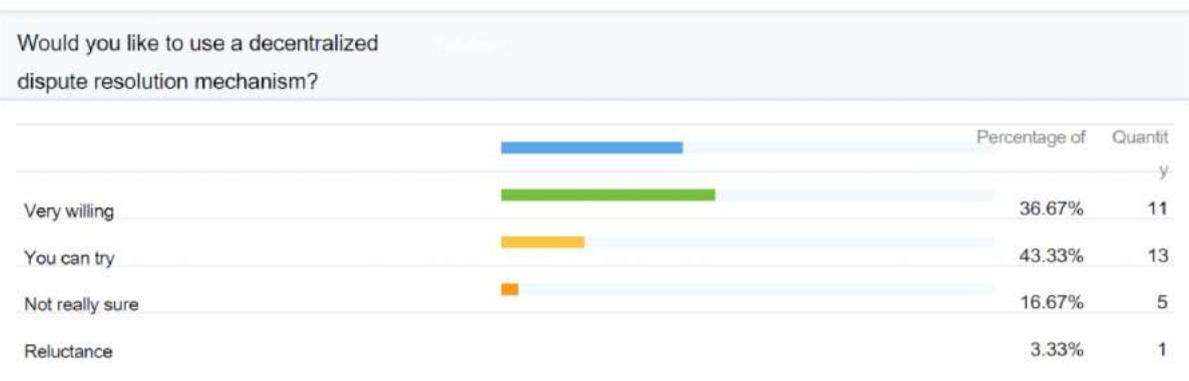


Figure 15 Result of the Survey from the Second Seminar-6



Figure 16 Result of the Survey from the Second Seminar-7

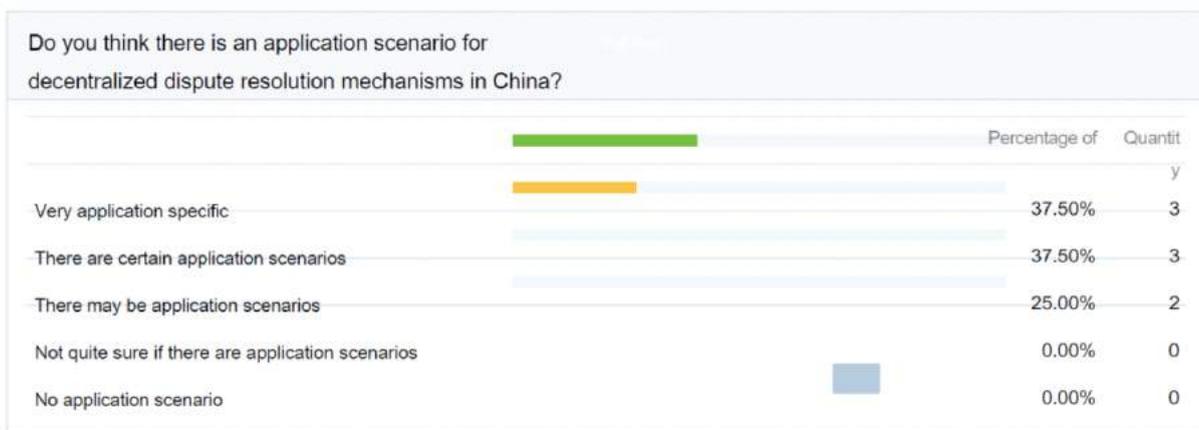


Figure 17 Result of the Survey from the Second Seminar-8



Figure 18 Result of the Survey from the Second Seminar-9

2.3.2 Insights from the Data

From the above data, we can draw the following conclusions. In both seminars, some data showed similar trends, while the participants were mostly different.

Regarding the first question about whether the participants had heard of decentralized dispute resolution mechanisms, some data from both surveys showed similar trends, but there were significant deviations in some data. For example, in the first seminar, about 50% of the participants had some knowledge of the mechanism, while in the second seminar, 60% of the participants had no understanding of it at all.



For those who were very familiar with decentralized dispute resolution mechanisms, the number of participants was similar in both seminars, and both were less than 5%. Regarding whether participants were willing to learn more about the decentralized dispute resolution mechanism, the number of participants who answered "yes" was almost the same in both surveys, at nearly 80%. Similarly, about 16.67% of the participants in both seminars indicated that they might be willing to learn more, and less than 5% of the participants were uncertain about whether they were willing to learn more. No one expressed a reluctance to learn more about the decentralized dispute resolution mechanism.

As for whether participants were willing to use the decentralized mechanism to solve problems, some data from the second seminar also showed similar trends to the first seminar. Most of the participants, about 43%-44%, indicated that they were willing to try. About 35%-38% of the participants indicated that they were very willing to try. About 16.7% of the participants were uncertain, and less than 5% of the participants were unwilling to use the mechanism.

Regarding whether the decentralized dispute resolution mechanism has application scenarios in China, the feedback from the two seminars showed significant differences due to differences in the number of respondents. Let's look at the feedback from the second seminar, where there were more respondents. 37.5% of the participants believed that there were significant application scenarios, while 37.5% believed that there were some application scenarios. 25% of the participants believed that there might be application scenarios. Therefore, participants had mixed attitudes toward whether the mechanism had significant application scenarios, some application scenarios, or possible application scenarios.

Based on the data above, we can conclude that Chinese audiences are still largely unaware of decentralized dispute resolution mechanisms, and at least a significant majority of people do not have a clear understanding of how they operate. Those who are aware of Kleros account for only about 10% of the participants in two seminars. However, a majority of these audiences are willing to learn more about decentralized dispute resolution mechanisms, with over two-thirds of people willing to try using such mechanisms to resolve disputes, and one-third expressing a strong willingness to use decentralized justice mechanisms to resolve disputes.

As for the application of decentralized dispute resolution mechanisms in the Chinese context, feedback attitudes are divergent. Some people are quite optimistic, believing that there are significant opportunities for application, while others are more conservative, considering that there may be some opportunities or potential opportunities, accounting for about one-third. However, some people remain cautious about the mechanism and are uncertain whether they would use it to resolve their own disputes. Nevertheless, no one expressed unwillingness to learn more about decentralized dispute resolution mechanisms.



During the two seminars, the participants showed great enthusiasm for understanding decentralized dispute resolution mechanisms, raising various questions about how Kleros operates. The prevailing view among the participants was that they are highly interested in this mechanism and can accept the fair judgment results supported by underlying economic principles. They believe that this mechanism can provide a novel approach to dispute resolution with cryptoeconomics design. It has the potential to become a new avenue for resolving disputes, increasing public participation, and enhancing democracy. However, some participants expressed concerns that the majority's opinion is not always correct, and that the truth often lies with a minority.

2.3.3 Summary

Based on the data collected from the two seminars, it can be concluded that there is a general lack of knowledge about decentralized dispute resolution mechanisms and Kleros among the participants. However, the majority of participants are willing to learn more about these mechanisms and are open to using them in resolving disputes. There is also a belief among the participants that decentralized dispute resolution mechanisms can provide a fair and impartial judgment based on economic principles, which can lead to rational decision-making. Furthermore, the participants think that these mechanisms can increase public participation and enhance democracy in resolving disputes.

It is important to note that some participants expressed concerns about the majority's opinion not always being correct and the truth often lying in the hands of a minority. This highlights the need for a deeper consideration of the underlying economic principles behind these mechanisms.

Overall, the data suggests that there is a strong interest in decentralized dispute resolution mechanisms in China and a need for more education and awareness about these mechanisms among the general public.

2.4 Succeeding with Kleros in China: A Proposed Roadmap

In recent years, China has worked as an active part in international transactions. Meanwhile, there comes international transaction conflicts. While settling disputes in traditional means, such as litigation, arbitration, difficulties of enforcement usually get into the way of settling disputes. Therefore, Kleros, as a decentralized dispute resolution, can suitably adapt to businessmen' need, who eager to quickly solve problems. Furthermore, Kleros' application in China is not an illusion, for the basic environment is gradually building up. First, virtual currency has actually played parts in Chinese market. Second, Chinese Honkong is now more tolerant to virtual currency. Third, in Chinese mainland, more positive signs are released.



2.4.1 Applying Kleros's Escrow in USDT-Based International Transaction Disputes

China's role in international trade has been rapidly expanding in recent years. As the world's largest exporter and second-largest importer, China has become a key player in global trade flows. Its accession to the World Trade Organization in 2001 has further opened up its economy and provided opportunities for foreign businesses to enter the Chinese market. China's low-cost manufacturing and abundant labor force have made it a popular destination for outsourcing and sourcing of goods. In addition, China's Belt and Road Initiative has brought about significant investments in infrastructure projects across Asia, Europe, and Africa, further enhancing its role in global trade. General Administration of Customs of the People's Republic of China reveals that in 2022, the total value of China's import and export of goods trade has exceeded 40 trillion yuan,¹³⁴ ranking first in the world for six consecutive years.

Virtual currency, such as Tether (hereinafter USDT), in practice has been widely used in Chinese international transactions, mainly unofficially. USDT is a collateralized stablecoin anchored to the US dollar. One USDT is roughly equivalent to one US dollar. It has many holders in China.¹³⁵ Chinese cryptocurrency exchanges facilitate 60% of all stablecoin USDT trading globally, according to an analysis by Diar.¹³⁶

USDT has gained remarkable traction in Sino-Russian cross-border trade.

In 2022, countries including the European Union, Japan, and Canada imposed sanctions on Russian banks, corporations, and oligarchs, as well as officials and other Putin allies, including banning several Russian banks from joining the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system,¹³⁷ which connects more than 11,000 financial institutions in more than 200 countries to facilitate the majority of global money transfers.¹³⁸ This has indirectly led Russians to look to USDT for trade.¹³⁹ Among various civil and commercial dispute resolution methods, litigation, as the most traditional method, often faces with difficulties in the application of laws, complicated and lengthy procedures, difficulties in the recognition and enforcement of judgments, and high time and economic costs. At first, the arbitration system was a product of

¹³⁴ Table of total value of imported and exported goods (in RMB) A: Annual table <http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302277/302276/4899376/index.html>, Last Accessed: 4 Jun, 2023

¹³⁵ Deng Jianpeng, and Zhang Xiaoming, "Risks of the Stabilized Coin USDT and Its Regulatory Countermeasures." *Comparison of Economic and Social Systems* .06(2021):52-62.

¹³⁶ "Research: China Leads World in Tether Trading Volumes in 2019" Jun 4, 2019, <https://cointelegraph.com/news/research-china-leads-world-in-tether-trading-volumes-in-2019>, Last accessed: Jun 4, 2023

¹³⁷ Amy Gunla, Sanctions on Russia Could Drive Moscow Closer to Beijing and Change the Global Financial System (Mar 4, 2022) Available at SSRN: <https://time.com/6154189/russia-swift-china-usd-rmb-finance-trade/>, c

¹³⁸ Amy Gunla, Sanctions on Russia Could Drive Moscow Closer to Beijing and Change the Global Financial System (Mar 4, 2022) Available at SSRN: <https://time.com/6154189/russia-swift-china-usd-rmb-finance-trade/>, Last accessed: May 7, 2023.

¹³⁹ Blockchain cross-border payments: billions of dollars crossing the Russian-Chinese border every day https://mp.weixin.qq.com/s/eikEcm0iFudSN_tMXfk7pw, Last accessed: Jun 22, 2023.



merchant autonomy, and it was indeed convenient, quick, flexible and efficient. However, with the development of time, the procedures of the arbitration system became more and more formal and complex, and gradually derived a tendency to be litigated, making it a less attractive commercial dispute resolution method gradually.¹⁴⁰ Besides, After a lengthy litigation or arbitration procedure, even if a judgment or an international arbitration award is obtained, it still faces the difficulty of transnational enforcement . International judicial assistance and mutual recognition of judgments need to be considered among countries. There is still a string of procedures, such as the certification of legal documents and the recognition of the arbitration award, asset investigation and application for enforcement before disputes finally settled.

Decentralized dispute resolution mechanisms have the potential to address the issue of enforcement difficulties in international trade disputes. As aforementioned in 2.1.2, Kleros could provide a more efficient and transparent means of resolving these disputes. By leveraging the power of decentralized technologies, these mechanisms could reduce the reliance on traditional legal systems and provide a more secure and reliable way to enforce trade agreements.

When using USDT for international trade settlement in China, by uploading contracts on the Kleros's Escrow during the course of a transaction, trading parties can ensure that funds (USDT) are locked in an Escrow account before agreeing on terms.¹⁴¹ This increases transparency and trust in the transaction and reduces the risk of non-performance and financial loss.

In international trade, one party can deposit funds into Kleros Escrow's smart contract if both parties agree. If there is no dispute throughout the trade, the funds will be transferred from the system to the other party's account. If there is a trade dispute, the smart contract will automatically bring up a decentralized dispute resolution mechanism, where a randomly selected adjudicators will rule on the dispute, and only if the dispute is not valid will the other party be able to access the funds deposited in advance.¹⁴²

Overall, Kleros can provide a new dispute resolution mechanism for cross-border trade such as settlement in USDT, especially in terms of **automatic enforcement**, which is in huge need of the practice.¹⁴³

¹⁴⁰ Zhi Yanjie. On the Transnational Enforcement of International Commercial Settlement Agreements.2018.Diplomatic Academy,MA thesis.

¹⁴¹ Stuart James, Kleros Escrow Explainer - Secure Your Blockchain Transactions Today (Apr 30, 2019). Available at SSRN: <https://blog.kleros.io/kleros-escrow-secure-your-blockchain-transactions-today/>, Last accessed: Jul 7, 2023.

¹⁴² Federico Ast, Secure Your Contract With Kleros Dispute Resolution (Sep 23, 2020) Available at SSRN: <https://blog.kleros.io/secure-your-contract-with-kleros/>, Last accessed: Jul 11, 2023.

¹⁴³ Stuart James, Kleros Escrow Explainer - Secure Your Blockchain Transactions Today (Apr 30, 2019). Available at SSRN: <https://blog.kleros.io/kleros-escrow-secure-your-blockchain-transactions-today/>, Last accessed: Jul 7, 2023.



2.4.2 Bridges and Prospects: Hong Kong as a springboard to promote Kleros in Mainland China

Under the principle of "one country, two systems", while Chinese mainland and Hong Kong belong to China and Hong Kong maintains a relatively independent legal system from that of Chinese mainland, the political, economic and social relations between the two places are very close. Hong Kong can be a great starting point for Kleros to enter the Chinese market. Through Hong Kong's bridging role, Kleros is able to better understand and adapt to the needs of Chinese mainland market.

Firstly, given its open regulatory climate and well-rounded provisions pertaining to blockchain, Hong Kong could effectively serve as a promising pilot zone for advancing blockchain projects within Mainland China.

To date, Hong Kong has issued a number of crypto-asset related guidelines, including the "Guidelines Applicable to Operators of Virtual Asset Trading Platforms",¹⁴⁴ "Guidelines on Combating Money Laundering and Terrorist Financing (Applicable to Licensed Corporations and SFC Licensed Virtual Asset Service Providers)",¹⁴⁵ "Guidelines on Prevention of Guidelines on Money Laundering and Terrorist Financing"¹⁴⁶ issued by the Securities and Futures Commission. It is a general trend in Hong Kong to bring all virtual asset trading platforms under the regulatory framework and licensing regime in the future. In addition, according to the regulatory documents of the Financial Services and the Treasury Bureau and the relevant legal norms for securities in Hong Kong, any person who engages in regulated virtual asset activities without a license may be suspected of committing a criminal offence and is liable to a maximum penalty of imprisonment for seven years and a fine of \$5 million.¹⁴⁷

The Hong Kong Securities Regulatory Commission issued the "Position Statement: Supervision of Virtual Asset Trading Platforms" in November 2019,¹⁴⁸ and launched a voluntary licensing system for virtual asset trading service platforms. According to the voluntary licensing system, companies operating virtual asset trading platforms in Hong Kong and intending to provide trading services for at least one "security token" on their platforms can apply to the Hong Kong Securities Regulatory Commission for Type 1 (Securities Trading) and Type 7 (provision of automated trading services) "regulated activities" licenses. Under the voluntary licensing system, if you do not apply for a license, you cannot engage in token transactions in securities firms. The service objects of

¹⁴⁴ Guidelines Applicable to Operators of Virtual Asset Trading Platforms. Hong Kong Securities and Futures Commission, 2023-2-20.

¹⁴⁵ Guidelines on Combating Money Laundering and Terrorist Financing (Applicable to Licensed Corporations and SFC Licensed Virtual Asset Service Providers) . Hong Kong Securities and Futures Commission, 2023-5-25.

¹⁴⁶ Guidelines on Prevention of Guidelines on Money Laundering and Terrorist Financing. Hong Kong Securities and Futures Commission, 2018-3.

¹⁴⁷ Xiao Sao,"A full analysis of Hong Kong's virtual asset regulatory norms " 1 Nov,2022 <https://www.weiyangx.com/414561.html>, Last accessed: Jun 15, 2023.

¹⁴⁸ "Position Paper and Appendix 1 to Position Paper, China Securities and Futures Commission.



licensed exchanges are limited to professional investors, and strict regulatory standards are put forward for licensed platforms, requiring them to keep assets safely, and do a good job of "knowing your customers" and combating "money laundering and terrorist financing", anti-"market manipulation", accounting and auditing, risk management, conflict of interest and other work.

So far, two companies have obtained virtual asset exchange qualifications in Hong Kong. At the end of 2020, OSL Digital Securities Limited was granted the first virtual asset trading platform license (that is, the above-mentioned Type 1 and Type 7 "regulated activities" licenses) issued by the Hong Kong Securities Regulatory Commission. In addition, Hash Blockchain Limited, a subsidiary of HashKey Group, an Asian digital asset financial services group, also officially obtained a virtual asset trading platform license in November 2022.

On December 7, 2022, the Legislative Council of the Hong Kong SAR passed the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 ("the Bill").¹⁴⁹ The Bill establishes a complete and balanced regulatory framework for virtual asset activities to protect investors, thereby strengthening Hong Kong's position as an international financial center. The Bill defines virtual assets, limits virtual asset services to the operation of virtual asset exchanges, introduces a Virtual Asset Services Provider ("VASP") license, and regulates its anti-money laundering and counter-terrorist financing obligations accordingly. The VAS licensing regime and other amendments to the anti-money laundering and terrorist financing requirements will come into effect on June 1.

The range of blockchain-related laws highlighted above demonstrates Hong Kong's open and progressive stance towards blockchain technology. This regulatory receptiveness, evident in its comprehensive legal framework, makes Hong Kong a fertile ground for blockchain projects, thereby positioning it as an ideal launching pad for Kleros's expansion into China.

Second, although mainland China still imposes a strict control over virtual currency, Hong Kong has made a vast step in commercializing it.

Since February 2019, China has initiated his strategy to build up Guangdong-Hong Kong-Macao Greater Bay Area (the Greater Bay Area), an area including Hong Kong Special Administrative Region, Macao, Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. It has about a fifth of China's land area, a third of its population and a third of its economic aggregate. Promoting the construction of the Guangdong-Hong Kong-Macao Greater Bay Area is a major decision made by the Party Central Committee with President Xi Jinping, and it is a national strategy personally planned, deployed and promoted by President Xi.¹⁵⁰

¹⁴⁹ Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022

¹⁵⁰ Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area". State Council, Feb



In 2023, the full resumption of customs clearance between Hong Kong and Chinese mainland will mark the relaunch of economic,¹⁵¹ trade and investment exchanges between the two places, injecting new impetus into the development of the entire Guangdong-Hong Kong-Macao Greater Bay Area. This significant event will take the development of the Greater Bay Area to a higher level, while also opening a new window of development for regional economic cooperation.

Establishing the Greater Bay Area speaks volumes about the intimate connection between Mainland China and Hong Kong. By leveraging the more lenient legal environment of Hong Kong as the launching point for Kleros' growth, we are well-positioned to adapt to the Greater Bay Area's gradual deepening and progression of information exchange, resource sharing, talent mobility, and economic interoperability between the Mainland China and Hong Kong. By securing a solid standing and fostering growth in Hong Kong, Kleros can build a robust foundation for its seamless entry into the Mainland Chinese market.

Third, China has actively promoted the development of blockchain.

The report, "Blockchain White Paper (2022)" issued by the China Academy of Information and Communications Technology,¹⁵² mentioned that "the public chain technology continues to iterate towards the next-generation Internet, and promotes more open, more efficient and green development." The report clarifies that China will promote the development of blockchain from the perspectives of national and regional.

At the national level, starting from 2021, the Ministry of Science and Technology has formulated and launched a three-year plan for key blockchain R&D projects, laying out the direction of cutting-edge technologies. On January 30, 2022, the Central Cyberspace Administration of China issued the "Sixteen Departments including the Central Cyberspace Administration of China Jointly Announced the List of National Blockchain Innovative Application Pilots", which includes 15 comprehensive pilot units, and covers blockchain & manufacturing, energy 164 characteristic fields in 16 industries, including government services/government data sharing, rule of law, taxation services, trial, prosecution, copyright, civil affairs, human resources and social security, education, health care, trade finance, risk control management, equity market, and cross-border finance pilot unit.

At the regional level, as of September 2022, 29 provinces and cities have incorporated the development of blockchain technology into the "14th Five-Year Plan" plan, and issued a total of 319 industrial policies involving blockchain, covering government data sharing,

2019.

¹⁵¹ Zheng Wei. Hong Kong and the mainland resumed full customs clearance, Guangdong, Hong Kong and Macao Bay Area economic and trade exchanges "speed run". 21st Century Business Herald, 2023-02-09(001). DOI:10.28723/n.cnki.nsjbd.2023.000417.

¹⁵² China Academy of Information and Communication Research, "Blockchain White Paper (2022)" Nov. 2022.



finance, and supply. Chain and logistics, medical and health, agriculture and other industries or fields. All provinces and cities have responded positively to support and encourage the development of blockchain-related industries, seeking the integration of industry and blockchain technology. Local policies are tailored to local conditions, focusing on supporting and encouraging industries.

Overall, the launch of Kleros in Hong Kong will provide a solid foundation of preparation for its entry into Chinese mainland market. Through deeper cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area and Chinese mainland's active promotion of blockchain, Kleros has the potential to significantly change the way disputes are resolved in the Guangdong-Hong Kong-Macao Greater Bay Area in the future as it continues to evolve and adapt to the needs of Chinese businesses. In the near future, we can optimistically expect that the open attitude to blockchain technology will be piloted in Hong Kong, and then spread to the Guangdong-Hong Kong-Macao Greater Bay Area, and finally to the entire Chinese market.



Section 3: Final Thoughts and Suggestions

Throughout this paper, we have explored the concept of litigation “讼” (song⁴) in Chinese culture, specifically within the framework of the Yi Jing. We then examined the current state of the Chinese legal system, highlighting the need for more effective and efficient dispute resolution mechanisms. Further on, we discussed the immense pressure faced by the judicial system and the importance of finding alternative solutions. Next, we explored the growing popularity of online courts and jury mechanisms for resolving disputes in China, with some platforms already operating within the country. This indicates a fertile ground for Kleros in China and suggests that similar mechanisms already exist and can be built upon.

In the second chapter, we delved into the current state of blockchain technology in China. We began by analyzing the legal environment for blockchain technology in the country, considering the laws that apply to the industry and their effectiveness and jurisdiction. In the second chapter, we discussed the criminal liability associated with blockchain technology and concluded that a healthy and well-intentioned blockchain project should not have to worry about criminal liability in China. In the third chapter, we examined the policies in place to support the development of the blockchain industry in China, indicating strong government support.

In the second section, we focused on Kleros' practical application in China. In the first chapter, we introduced Kleros and then we compared Kleros to traditional dispute resolution mechanisms. In the second chapter, we explored the legal risks for Kleros' operation in China taking example from StepN and Nai Xue's where we analyzed the rationale behind the rigid regulatory attitude and a proposal on how Kleros should carefully path its way to Chinese market.

In Section 2.3, we shared and evaluated empirical data from two workshops conducted in China to illustrate the receptiveness to decentralized dispute resolution mechanisms within the country. The Chinese participants showed a keen interest in these mechanisms, expressing hope for their further development in China.

In Section 2.4, we proposed a practical strategy for Kleros to penetrate the Chinese market: 1) Begin with international trade, leveraging the prominent use of USDT, 2) Initiate Kleros operations in Hong Kong, viewing it as a strategic gateway into the expansive Chinese market, and 3) Engage more Chinese scholars to contribute to the decentralized justice mechanism theory, cultivating a robust academic and theoretical foundation within the Chinese context.

Before conclusion, it is pertinent to offer some insights that may contribute to further



understanding and development of Kleros.

Kleros is a mechanism that is based entirely on an economic model, built on the assumption that people are rational and incentivized by economics to vote, with the voting results serving as the final judgment. The principle behind people's voting is to consider the options that the majority will vote for, rather than the right or wrong of the facts¹⁵³. In this context, there are a few considerations.

1. It is possible that an AI could predict the behavior of the majority more accurately than humans, based on how they vote. On the internet, it is difficult to identify whether a person is actually a human voting or if it is a robot. This may lead to people training robots specifically for this purpose. If a robot can predict the behavior of the majority like an AI model, it may lead to commercial market of selling these robots participating in the voting process to gain economic incentives, which is contrary to the original design and goal of Kleros.
2. How can one predict the behavior of others in order to determine one's own behavior? This creates a situation where one's actions are based not on one's own moral values but on one's anticipation of others' behavior. Therefore, behavior is influenced by social norms: if a society upholds good norms, one's anticipation of others' behavior will also be good, leading to good behavior on one's own part. Conversely, if a society upholds evil norms, one's anticipation of others' behavior will also be evil, leading to immoral behavior based on one's own economic incentives.

This problem is reminiscent of the prisoner's dilemma, where, under the anticipation of others' behavior, non-cooperation is often the best outcome for an individual, rather than the mutually beneficial cooperation that would be best for everyone. This is because economic behavior is often driven by individual gain, rather than collective welfare.

Karl Popper, Aristotle, and Plato have all grappled with the paradox of democracy, in which a system of majority rule may not necessarily result in a desirable outcome. One notable historical example of this is the Nazi era, during which many individuals supported the regime, resulting in the emergence of a "mob" mentality. This often resulted in a loss of moral basis for those in the minority who opposed the prevailing views. In addition, voting in economic models that rely solely on predictions of majority choices can also be problematic from a moral perspective.

3. Basing one's own behavior judgments on the majority's choices is problematic, where individuals are often being trapped in an information cave, unable to

¹⁵³ George, William. "Kleros and the Advantages and Limitations of Cryptoeconomics." William George, 2 Nov. 2021, <https://www.example.com/Kleros-cryptoeconomics>. Last Accessed: 5 Mar, 2023.



perceive truth and reality but instead entangled in a woven information system. Plato's allegory of the cave aptly illustrates this dilemma. Within the cave, most see only the flickering shadows, failing to recognize the true sunlight. When someone ventures outside the cave, discovers the truth, and endeavors to enlighten those within, they are frequently deemed insane.

In the story's conclusion, it is said that if someone tries to liberate and bring the prisoners to the surface, they will kill that person if possible. Socrates, an honest and kind man who illuminated the ignorance and darkness of his time, was persecuted and died abruptly on charges of corrupting the youth and impiety towards the gods. He was an exception among the majority.

Gustave Le Bon's "The Crowd: A Study of the Popular Mind" explains how the group effect can cause individuals to forfeit their rationality and sense of self in collective behavior.

Thus, relying solely on economic models for voting as majority has its paradoxes and drawbacks that have been well-documented throughout history. While it is a democratic practice to some extent, it also has limitations.

Cryptoeconomics prioritizes visible design and governance. However, to achieve the most comprehensive and refined system, we must pay more attention to the intangible aspects, the state of "nothing"¹⁵⁴.

Regarding the development of Kleros, several suggestions come to mind. Firstly, with respect to Kleros' arbitration system, as discussed previously, its reward cannot be recognized and enforced by Chinese Judicial institutions under the current legal system in China. However, its ability to make factual determinations and enforce decisions is not on par with that of a traditional court. Rather, it operates as an alternative dispute resolution mechanism that relies on voluntary participation from both parties. Nevertheless, Kleros' strong enforcement capabilities allow for innovative solutions in dispute resolution that may prove to be valuable.

Secondly, targeting universities, particularly within the blockchain community, presents an opportunity to promote Kleros effectively. These individuals are highly intelligent and already possess knowledge of Web3 applications. By engaging with their communities, Kleros can be more easily accepted and yield better results.

Lastly, increased academic discourse and programmatic initiatives, such as fellowship programs, can encourage individuals in China to explore the potential of economic models as a novel democratic solution for dispute resolution.

In conclusion, when it comes to public power, it is necessary to have explicit authorization

¹⁵⁴ Lao Tzu. Tao Te Ching. Translated by Stephen Mitchell, HarperCollins Publishers, 1988.



from the law. As for private rights, as long as there is no prohibition in the law, they are permissible. Therefore, in order for Kleros' rulings to obtain judicial recognition and enforceability, there must be clear legal provisions. However, as a blockchain project operating in China, Kleros can operate as long as it does not violate any prohibitive legal provisions. Kleros is a promising platform that has the potential to revolutionize the way disputes are resolved, and the feasibility of implementing Kleros in China as an alternative dispute resolution mechanism is promising based on the thorough discussion and arguments presented above. Overall, with joint efforts from all stakeholders, Kleros can expect a robust development in the Chinese market.



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