



Big Tech and China's Fintech Revolution

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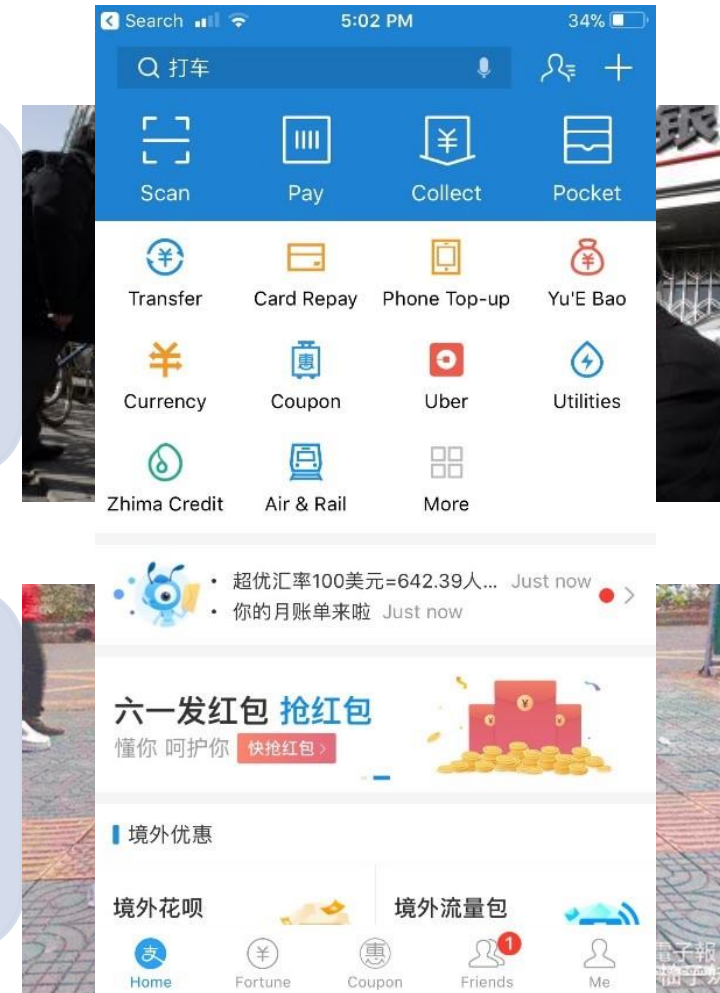
Revolutionary Change

90's-2000's:
backward
financial system

- Insolvent banks need repeated bailouts
- Strict government controls
- Undersupply of financial services to private sector and households
- Lack of basic financial infrastructure

Today: world's
fintech leader

- Powerful “super-app” model fuses finance and commerce, online/offline for unparalleled convenience
- Cash now rare in major cities, wallets left at home
- Easy, quick loans from tech giants, frictionless payments, multitude of investment options



Why? Tech Companies Become Financial Giants



Payments as Foundation (starts ~2002)

- WeChat Pay & Alipay have >700m CN users
- 208t RMB (30t USD) nonbank online payments in CN in 2018

Money Market Funds and Digital Wallets (2013)

- Alipay's Yu'E Bao at 1 trillion RMB (150b USD), Tencent at RMB 600b
- Own asset management companies
- QR Codes take online payments offline

Bank Ownership and Credit (2015)

- Credit Scores for hundreds of millions
- 100s of billions in lending to small business on platforms
- Virtual credit cards for consumers

Government Permission, then Encouragement



PBOC guidance for period of “innovation and development,” rather than strict regulation for big tech entering payments

Traditional financial institutions remain constrained and controlled, leaving large unaddressed market



“If businesses that did not have a financial license use new Internet technology to do business that required a financial license, we need to think of ways to research these ...to give them some type of license and a certain amount of space.”

-Then-PBOC Governor Zhou Xiaochuan, 2013

Smart Use of Existing Tech and Political Influence



Tech Foundation is Prosaic

- Widespread, reliable Internet access
- Cheap smartphones able to generate and read QR codes
- QR lowers cost at POS, but some disadvantages in security

Core innovation is business model

- Paypal tried MMF, but product failed
- Japanese pioneered QR codes for supply chains
- Alipay started as a fax machine and a notebook for suspicious transactions

Political Economy

- Protection from foreign competition
- Political clout of big tech preserved ability to disrupt incumbents
- Devoted user base also gives political power



Regulatory Issues

"Data Islands" problem:
how to get big tech to share
data for underwriting
credit?

How to overcome political
opposition to effective
regulation? Ex: neutered
payment regulations in
2014

Competition: short-term
increase leads to long-term
dominance in finance and
core business? Distortions
in multiple markets?

How to regulate such
complex conglomerates,
with countless related-party
transactions?

Geopolitical questions:
fintech giants as national
champions to compete with
American-led Libra?