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

Image source: Quartz, China Times
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

“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

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