China's lead on fin-tech

BY STEFANIA TUCCI

Fin-tech is shaping China's ambition. The centralized control of digital transformation would connect state supervision, tech companies and real economy, improve the targeting of financial policies, lower financing costs and guarantee public efficiency. Any private success, even Jack Ma's has to adapt.

China's insatiable appetite for digital payments is driving rapid banking sector transformation and forging a new global FinTech landscape.

In the last decade, the advent of new technologies and the evolution of information systems has strongly shaken the banking and financial ecosystem. Financial operators have deeply transformed their services, through the so-called Fin-Tech phenomenon and, at the same time, our lives and our payment habits have radically changed, fully embracing the revolution brought about by digital innovations.

Google, Facebook, Amazon, Apple are the American players, Alibaba, Tencent, Huawei, Baidu are the Chinese ones. In addition to being innovators in their core business, they have also acquired data relating to millions of customers and users. Today, these groups are the largest database owners in the world. Every time we access a service or buy an item online, we leave a trail of personal data that awaits our status as consumers, as users, and some indicative elements of our psychological profile – whether we buy during the day or at night, what we buy, what we see online, with whom we exchange information, data, videos, etc. Everyone has realized that this huge amount of data, the so-called big data, can be exploited, in a more profitable way than even the original business.

Never in world economic history has there been such a concentration of information in private hands, and, thanks to the exponential growth of the computational capacity of computer systems, these data have become an inestimable asset. So much so that some of the big companies can offer their users free services in order to have access to their data in exchange.

For some time now, activity by various regulators has been underway all over the world to ensure some regulations protecting privacy and that data owners do not misuse them, such as using them to influence the outcome of electoral competitions. Today it is in fact possible for a candidate to personalize the message to be given to his potential voter based on the psychological profile of the same.

Much has been done for the protection of consumers, who are also citizens, even if there are often flaws in data storage systems, which can be attacked by hackers. Today the defences put in place, both by States and private companies, to defend against "cyber" attacks are important and require amounts of investments comparable to the budget for military defence. European law is among the most advanced in protecting individual freedoms.

This scenario of constant technological evolution


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also involves currency issuance and payment systems. Crypto-currencies have been created - the best known is bitcoin – and digital payment system platforms have been created, such as Ant, Tencent's We Bank, Lufax, Paypal.

For many decades, the creation of currency and payment systems have been among the prerogatives of national states as their functioning relates both to the underlying trust in the concept of money and its exchange systems, and to the effectiveness of monetary and fiscal policies.

The creation of the money supply, in fact, influences the performance of the economy, as an abundance of money translates into an acceleration - growth - of the economy, with the possible risks of inflation if not governed. In exceptional cases, such as the one we are experiencing with the Covid-19 pandemic, more money does not translate into development or inflation because there are obstacles to supply – activities that produce goods or provide services are closed by decree.

Inflation destroys the purchasing power of the currency, with heavy repercussions on private savings. So far, commercial banks lend money to their customers (individuals and companies) as a percentage of the mass of their deposits, and therefore feed the cycle of investments and consumption. This percentage is established by the supervisory authority of the banking system. A lower percentage leads to a reduction in the money supply, on the contrary an expansionary policy allows banks to lend higher shares. In a nutshell, the

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Good old days for Alibaba Group Holding Ltd founder Jack Ma and Chief Financial Officer Maggie Wu as the company's initial public offering, under the ticker "BABA", begins trading at the New York Stock Exchange in New York, Sept. 19, 2014.

so-called "Quantitative Easing" is the liquidity that central banks inject into the economic system allowing commercial banks to "discount" their assets and have more liquidity to finance families and businesses. The quantitative easing mechanism was used extensively during the 2008 crisis and in 2020 to deal with the financial effects of Covid-19.

If the deposits of individuals and companies no longer use the banking circuit, which is underlying the regulation of Central Banks, this will have an effect on monetary circulation, unless there are radical changes in the rules with which the entire world system works.

If, absurdly, all the money issued by central banks (dollars, euros, pounds, etc.) would no longer be used and would be replaced by crypto-currencies issued by individuals, with which goods, services and investments can be purchased, through private payment systems, states would lose the ability to regulate the economy by means of monetary leverage and, consequently, the tax leverage would also be greatly reduced.

This does not mean, however, that we will not have a fin-tech transaction, with digital currencies and online payment systems. It must be decided by the states, and therefore by the political power, if fin-tech must be subject to regulation by the monetary authorities currently in charge (Central Banks), because it cannot be left to private individuals. It should also be noted that states know who exchanges crypto money if they control exchanges, i.e. payment systems. Democratic regimes find it difficult to do so, due to the strong laws protecting privacy.

China is the world's largest Fin-Tech market. In 2015, the market size of Internet finance in China was greater than $1.8 trillion. It is the first country in the world where the Central Bank has completed the technical preparations for the crypto-renminbi, and has planned to set up a "digital central bank" which will be a fin-tech platform powered by big data to improve risk management and reduce crisis, at least financial ones.

China, for demographic reasons, is the single largest country for big data and is very advanced in its use, both for economic and political reasons.

In November 2020, China Construction Bank Corporation (one of the big four Chinese banks with central government shareholding) launched an offshore bond, for $3 billion, which can be subscribed in digital tokens and this bond is based on block-chain. The bond can be traded in both dollars and bitcoins.

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Bitcoin miners in China are seeing their bank accounts and credit cards frozen as the government tries to crack down on money laundering.

It is in this context, relating to the regulation of fin-tech, that the suspension of the IPO of Ant, Alibaba's financial platform, can be understood. Despite the worldwide notoriety of Jack Ma, seen as a winning champion of Chinese capitalism, and the size of the operation - it was announced as the world's largest IPO, $37 billion, surpassing even that of Saudi Arabia - the Stock exchanges in Hong Kong and Shanghai blocked the listing, requesting further clarifications on the payment regulation system and the algorithms that manage them. The logic that guides the Chinese government is very clear and it is that currencies and payment systems must be submitted to the authority of the state.

Among other things, fin-tech offers the advantage of allowing the monitoring of all transactions, preventing tax evasion, corruption, the creation of deposits resulting from and fuelled by clandestine activities, such as drug trafficking, terrorism, or other crimes.

To this end, it is enough to remember that the payment of the ransoms of the acts of global piracy, both computer and maritime, are requested, all over the world, mainly in bitcoin.

In the Chinese vision of an orderly and harmonious society, the function of creating money and regulating payment systems, both in physical and fin-tech form, falls to the state. Moreover, everyone has to go through this, even a successful businessperson such as Jack Ma. The balance of the entire system is much more important than the global success of the individual.

The Fed is taking the opposite course of action by not intervening in regulating fin-tech. However, the launch of Lybra, the cryptocurrency announced by Mark Zuckerberg has not yet taken place.

In the middle, amongst the large Central Banks, is the European Central Bank that has not yet expressed a line of conduct, perhaps because, anomalously, it does not respond to a state but was created with a treaty, to regulate a common currency, the Euro, adopted by the Member States which, however, have not yet pooled fiscal nor economic policy.

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