INTERNATIONAL
TRADE
ADMINISTRATION

2016 Top Markets Report Financial Technology
Country Case Study

China

China is the second largest economy in the world with a large consumer base. China's population of over 1.35 billion owns over 500 million smartphones and forms a tremendously important market. Overall, the Chinese FinTech market is currently focused on payments, lending and bitcoin. Nearly 1 in 10 of all Chinese payments is done through Alipay, and 80 percent of Bitcoin volume is exchanged through the Yuan currency. China contains many financial centers, including Shanghai, Shenzhen and Dalian, which are mainly focused on the domestic financial market. Hong Kong, however, is China's leading global financial center that rivals both London and New York and acts as a conduit between the domestic Chinese markets and global investors.

Payments Rank
1

Overall Rank
2

Role of Government in the Development of Financial Technology

The regulatory regime for FinTech, as in most other markets, is still in development. Toward the end of 2015, Chinese regulators were seeking to put tighter regulations on the online finance sectors and develop various standards for usage in the financial system industry.[1]

Beijing-based China International Payment System (CIPS) will enable cross-border trade settlement, direct investment and transactions in Yuan. CIPS will eventually replace the existing system of multiple clearing houses that process Yuan payments and may rival Visa's and MasterCard's settlement and clearing systems.[2] If fully realized, CIPS will affect Fintech firms that are transacting in Yuan and should reduce transaction costs and processing times in the back-end.

In August 2015, the Chinese State Council closed its comment period for regulations that would open the domestic electronic payment system to foreign competitors such as Visa, MasterCard and other FinTech companies. As of the beginning of 2016, these regulations have not been finalized or implemented, and the licensing process remains closed.

Shanghai – Global Financial Center

In 2013, Shanghai was designated a free-trade zone to serve as a testing ground for innovative and experimental policies. In 2015, the Shanghai government announced that technological innovation would be a top priority and that Shanghai would seek

Figure 1: China at a Glance Source: See methodology, 2017

GDP	Population	Consumption	Fin. Assets	Smartphone	Broadband
$12,404bill.	1,371 mill	40.2 % of GDP	814 % of GDP	49.0 %	18.2 %

to ultimately become a "globally influential technological innovation hub." The Shanghai government has launched the so-called "Entrepreneurship in Pujiang Action Plan" to attract FinTech companies to the free-trade zone. The development of the free-trade zone, however, has failed to live up to expectations.[3] Shanghai is currently ranked #21 on the GFCI, ahead of Shenzhen (#23) and Beijing (#29).

Subsector: Payments

China's payments market offers tremendous opportunities for U.S. FinTech firms but also presents many different challenges as well as competition from other Chinese payment providers. Findex's research shows that approximately 19 percent of China uses mobile phones to make payments. Although China's per capita GDP is lower than many countries, its digital payment system is ahead of some high-income OECD markets, such as Germany, where only 15 percent of adult account holders make mobile banking transactions. The Chinese payment system also experienced a 37 percent growth rate from 2012 to 2013, the highest among the main non-cash markets economies.[4] This rapid growth in payments is also due to the large number of mobile phones usage with over 600 million users in 2014. Over 80 percent of the Chinese population also access the web via their mobile device, providing a great opportunity for mobile payments providers.

Payments made on mobile devices in China could approach half a trillion dollars by 2017, more than double the $200 billion mark in 2015.[5] In 2014, China recorded a total of 15.9 billion non-cash transactions, fueled by the rising penetration of mobile phones in smaller cities and more mobile payments equipment in businesses. The central government's push to open the domestic payments card market to competition has also increased volumes for mobile non-cash transactions. Chinese transaction volumes of mobile payments grew by 170 percent in 2014 to reach a total of 4.5 billion.

In general, payments services are more developed in economies more mature than China's. There are also cultural differences, such as user habits, that differentiate the Chinese market. For instance, in the United States, users are more comfortable with credit whereas Chinese consumers focus more on savings and traditional transactions via cash or debit cards. In addition to increased merchant sales, the ability to track customer behavior and use this behavior data to drive sales is making the payment space in China very attractive, especially to e-commerce giants.

Subsector: Crowd-lending

As of the end of 2015, P2P lending has now topped $150 billion or 982.3 billion Yuan, four times more than the amount in 2014.[6] China's P2P lending platforms have cumulatively brokered a total of 1.37 trillion Yuan transactions as of the end of December 2015. There are currently 2,595 P2P platforms in China, an increase of 1,020 since 2014.

Due to low returns in traditional bank deposits and limits on the movement of money, P2P lending has grown quickly in China in the past few years as Chinese investors are seeking higher returns than those provided by bank deposits. SMEs also are finding it easier to obtain funds through these platforms. The historical lack of consumer protection supervision in the FinTech sector, however, has made the industry risky for investors as some P2P platforms have been implicated in questionable fund raising activities. For instance, Ezubao was implicated in a fraud case involving over 1 million investors and $7.6 billion in funds.

Tighter regulation could slow the growth in the number of P2P platforms. A draft regulation released in December 2015 would impose restrictions on P2P platforms, including the prohibition of platforms from accepting public deposits, pooling investors' money to fund their own projects or providing any kind of lender guarantee.

There are currently three main players in the peer-to-peer lending market in China with Dianrong leading the segment. Monthly online lending volume reached 120 billion Yuan ($19 billion) in October 2015, four times the level of October 2014, according to a report jointly published by online lender Wangdaizhijia and consulting firm Yingcan. Dianrong.com has set up 26 offices within the country, has 300,000 active lenders and originates about one billion Yuan in new loans monthly, according to the company.[7]

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[1] "China Moves to Cool Off Web Finance". *Wall Street Journal*. (December 29, 2015)
[2] "Global Payments 2015" Capgemini Consulting and Royal Bank of Scotland. (October 6, 2015)
[3] "Too Ambitious? Shanghai aims to be both top financial hub and "China's Silicon Valley" *South China Morning Post* (April 1, 2015)
[4] Global Payments 2015" Capgemini Consulting and Royal Bank of Scotland. . (October 6, 2015)
[5] "China Moves to Cool Off Web Finance". *Wall Street Journal.* (December 29, 2015)
[6] "China's online P2P lending almost quadrupled in 2015" Xinhua (January 2, 2016)
[7] P2P Lender Rides a Wave, *Wall Street Journal* (November, 24 2015)