The Cashless Revolution: China's Reinvention of Money and the End of America's Domination of Finance and Technology

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In *The Cashless Revolution: China's Reinvention of Money and the End of America's Domination of Finance and Technology*, Martin Chorzempa masterfully chronicles China's transformation from a cash-centric, sclerotic, state-dominated financial backwater to a nation with a vibrant, cutting-edge electronic payment and financial system.

The title is a bit hyperbolic, as Chorzempa doesn't make a compelling case that America's domination of finance, technology, and payments is at risk. He does, however, make a powerful argument for the benefits of competition and light regulation, which can spur and enable innovation in payments and fintech — a lesson American and European policymakers would do well to heed.

China's fintech revolution was driven by a combination of galling need; great visionary and opportunistic entrepreneurs, like Jack Ma and Pony Ma; regulatory forbearance; political air cover for liberalizing regulators; and the advent of enabling platform technology, such as mobile smartphones.

In 1978, the People’s Bank of China was the Middle Kingdom’s only bank. By 2002, massive state banks dominated the financial sector. There was one state-protected monopoly card network: China UnionPay. The overwhelming majority of payments were cash. Financial repression reigned, with state banks offering de minimis interest for savers and meager investment alternatives.

While the Chinese Communist Party never ceded power, it did loosen the reins, creating space for private-sector enterprise. For a spell, laissez-faire regulators such as then–People’s Bank of China Gov. Zhou Xiaochuan permitted fintech innovation and competition, hoping it would force state banks to perform better. In some cases, laws weren’t enforced against favored companies viewed as critical to China’s payments and fintech revolution. For example, a ban against QR-based payments wasn’t enforced they were launched by e-commerce titan Alibaba’s payment system, Alipay.

In 2012, Premier Wen Jiabao invited private firms to take on state monopolies. In 2014, Premier Li Keqiang said fintech should be promoted. The great captains of Sino-fintech got the regulatory and legal forbearance they needed, for a spell.

The author observes approvingly that China's fintechs enjoyed "the world's largest regulatory pilot program, or sandbox." China's great fintech pioneers made hay while it rained.

The visionary entrepreneurs Alibaba founder Jack Ma and Tencent founder Pony Ma learned from what did and didn't work in the U.S., knew the Chinese market, and were acutely aware of and pushed the boundaries of their regulatory sandbox and political cover.

Tencent and Alibaba's fintech spinoff Ant Financial, now Ant Group, had a revolutionary impact on payments, the financial sector writ large, and how Chinese citizens managed their quotidian lives. Ma and Ma were the most prominent and consequential of the wave of fintech entrepreneurs who challenged China's stodgy, state-bank-dominated financial system. State banks and the card monopoly China UnionPay were terrific foils for Tencent and Ant Financial in developing electronic-payment systems and a rich constellation of complementary services, which ultimately evolved into "super apps."

Potentially powerful foreign competitors like Mastercard and Visa were kept out of the market. And better capitalized and established foreign competitors such as eBay were wrongfooted by the nimbler Alibaba, which enjoyed superior local-market knowledge.

Wishful thinking that a semi-liberal economic order would endure and was compatible with CCP rule has been shattered.
Online gaming and chat colossus Tencent and e-commerce giant Alibaba were pathbreakers in payments. Tencent launched first a digital currency, Q Coin, and later a digital wallet and payment system, which ultimately became WeChat Pay. And as Alibaba's Alipay expanded payments off the company's platforms online and at the physical point of sale, additional services were added, including Yu'e Bao, which became the world's biggest mutual fund and a major provider of insurance, credit, ride-hailing, bill payment, and credit scoring. Jockeying with Tencent, the two mobile-payment dragons relentlessly enhanced the scope and reach of their platforms, putting state banks and UnionPay on their backheels.

China's super apps have been held up as the future of fintech. Neither Alipay nor WeChat Pay, however, has gotten significant traction as a super app outside China.

In the mature U.S. market, Apple Pay, Google Pay, PayPal, and Square's Cash App aspire to become more super-appish. None, however, are anywhere close to becoming comprehensive dashboards with which consumers can manage their lives.

Chorzempa notes that China's initial hands-off approach to regulating developing fintech sectors permitted more experimentation with new models than did the U.S. He explains, "In some cases … it made sense to let an industry get on its feet before imposing regulation." If the risks aren't systemic, why not? Risks to the financial system are most likely to be systemic with government-controlled or protected systems, not with private-sector challengers.

Jack Ma rightly observed that "innovation is bound to make mistakes … [T]here is no risk-free innovation." With regulators holding back, there were excesses and failures. Chorzempa calls out the Middle Kingdom's peer-to-peer lending bubble, which was chock full of fraud, as exemplified by Ding Ning's Ezubao.

Allowing failure enables innovation.

Chorzempa is impressed by and worries about the People's Bank of China's digital currency. Its innovation model couldn't be more different than Alipay's and WeChat Pay's. It's state planned.

It's intended to make China's payment system more efficient, to displace anonymous physical cash, to enable surveilling Chinese citizens, and, longer-term, to make China less dependent on the global dollar-based financial system.

American and European Central Bank Digital Currency evangelists warn that the digital yuan is a threat and reason to develop Central Bank Digital Currencies. Thus far, however, the e-yuan hasn't been successful. Xie Ping, the former People's Bank of China director-general of research, described the e-yuan's results as disappointing. He explained, "The cumulative circulation of the digital yuan in the two years of the trial has been only 100 billion yuan ($14 billion)," saying that usage was "low" and "highly inactive." The digital yuan doesn't solve a burning problem, but Alipay and WeChat Pay provide ubiquitous convenient digital payments. And for those who want to make and receive anonymous payments, physical cash is preferable to the e-renminbi.

The U.S. dollar is the world's reserve currency. The yuan is a distant No. 5. A FEDS Note, "The International Role of the Dollar," reports an aggregate index of international currency usage over the last 20 years. King Dollar's index hovered around 75. The euro was a distant No. 2 at 25. While the yuan's index increased, it's still No. 3.

The dollar is a crushingly stronger global network than the yuan and e-yuan. The renminbi isn't freely convertible. Non-Chinese businesses won't use the digital yuan unless they're subject to U.S. financial sanctions and/or forced to by Beijing.

King Dollar and dominant Western payment systems such as Mastercard, SWIFT, and Visa aren't at near-term risk.

Chorzempa marvels at the power and risks of consumer data harvested by China's super apps.

Ant and Tencent hoover up enormous user data invaluable for marketing and credit and insurance underwriting. The Chinese government at the national and local levels during the COVID-19 pandemic used the super apps to track and manage individuals.

Chinese national and local governments use “social credit” systems to punish disapproved activity and restrict blacklisted individuals’ ability to get government benefits, find jobs, travel, and stay in hotels. Chorzempa observes that Chinese consumers have some data protections but that the CCP’s increased use of data to monitor citizens is chilling.

The liberalization window started to close in 2016, if not earlier. However, this was long after Tencent’s WeChat Pay and Ant’s Alipay had achieved network critical mass and become indispensable in most consumers’ quotidian lives.

Jack Ma’s ascent from English teacher to revered, pathbreaking entrepreneur and China’s richest man, and his humbling denouement, embody Chorzempa’s story.

Ma gave a speech on Oct. 24, 2020, at the Bund Finance Summit in Shanghai in which he derided China’s financial system as unhealthy and criticized regulators for suppressing innovation. Unlike in the U.S. and the U.K., in Red China, CEOs and entrepreneurs, no matter how prominent, are not free to criticize government policy without fear of retribution.

Beijing reacted swiftly. Ant Financial’s IPO, which was on track to be the biggest ever, was canceled by Emperor Xi.

For years, conservative regulators chafed at captains of fintech like Jack Ma being protected. Given the green light, regulators moved. Ma disappeared for several months. Fortunately, he didn’t get the Khodorkovsky treatment.

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While American and European payments and financial services industries are more mature than China’s circa the early 2000s, there are lessons to be learned from the Middle Kingdom’s “cashless revolution.” Light regulation permitting experimentation and failure spurs innovation. Jack Ma says that trying to manage “risk down to zero is the biggest risk.”

Chorzempa’s *Cashless Revolution* is a page turner that policymakers, payment-industry practitioners, and interested laymen all would enjoy and benefit from.

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