"The Party Must Strengthen Its Leadership in Finance!": Digital Technologies and Financial Governance in China's Fintech Development

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Abstract
This article examines the roles digital technologies have played in propelling the shifts in modes of financial governance which have been led by the Chinese Communist Party and enacted by a wide spectrum of regulative actors. Based on analyses of the laws, policies and regulations surrounding digital financial technologies, or so-called fintechs, as well as in-depth interviews with government officials and fintech business executives, I argue that the proliferation of fintechs challenged the existing regulatory schemes defined by the Central Bank and the State Council. This forced a reconsideration of the Chinese government's hegemonic strategies in governing the rapidly changing financial industries. While digital technologies have been promoted to accomplish the goals set by the Party for financial marketization and modernization, a set of institutions including regulatory, organizational and normative rules have been developed to strengthen the Party's control over the digitization of finance. This contradiction is pivotal to understanding the Party's financial policymaking in the digital age.

Keywords: fintech; internet finance; financial governance; digital technologies; China

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At the opening ceremony of China's first online-only bank, WeBank, in Shenzhen in January 2015, Chinese premier Li Keqiang 李克强 commented that supporting digital finance would lead to a "deep reform" of the traditional financial sector.[1] He then specified that the government would support fintech companies (like WeBank) in order to explore the development of alternative financial businesses, including small loans to small and micro enterprises (SMEs), rural finance, micro banks and other such endeavours. SMEs had

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1 "Zhuanjia jiedu: Li Keqiang kaochao qianhai wei zhong yinhang you he shenyi?" (Commentary: what does it mean when Li Keqiang visits Webank?). *People's Daily*, 4 January 2015, http://politics.people.com.cn/n/2015/0104/c1001-26322036.html.

 doi:10.1017/S0305741020000879 First published online 8 September 2020

been vital to China' economic growth and had generated a lot of demand for loan services. However, the major banks had labelled these companies as high-risk borrowers owing to their lack of credit records. To re-activate this alternative market, it would be necessary for Chinese banks to re-develop their credit evaluation systems, business development models and possibly even their recommended management schemes as part of a sweeping institutional reform of the finance sector. In contrast to the cumbersome strategies used by the Chinese banks, fintech companies are more advanced at collecting and evaluating the credit information of small and micro businesses. Moreover, digital algorithms allow fintech companies to provide banking services, including digital payment, consumer finance and online brokerage, in more efficient ways.[2] As such, fintech companies were recognized as the official harbingers of tech-based innovation that would lead to a "deep reform" of China's financial sector.

Prior to the premier's speech at WeBank, the phrase "deep reform" had been used in many financial work conferences to refer to institutional changes such as the commercialization of Chinese banks (for example, turning the four major banks from government subsidiaries into commercial banks) and ownership reform (for example, the shareholding system reform at Industrial and Commercial Bank of China). These reforms are considered to be profound since they have transformed large state-owned banks from being the agents of a monolithic banking system to being active participants in the growing market economy.[3] Similarly, supporting the fintech growth is a structural reform, while the government's pro-technology stance legitimized the running of financial businesses by internet companies and opened the financial sector up to private companies. Between 2011 and 2014, more than 2,000 IT companies received financial business licences from the Central Bank. During these four years, they attracted and managed more than US$82 billion beyond the traditional banking system.[4]

However, the government's supportive stance did not last long. In July 2015, the Central Bank announced its "Guidance on promoting the healthy development of internet finance" (also known as the "20 rules for internet finance," or *hujin ershi tiao* 互金 20 条) and imposed limits on the amount of money that could be handled in an individual transaction. In July 2018, the State Council established the Financial Stability and Development Committee in response to Xi Jinping's 习近平 resolution that the Party must strengthen its leadership over financial work (*dang guan jinrong* 党管金融).[5] As Sun Guofeng 孙国峰, the then-director of the Financial Studies Institute at the Central Bank elaborated, "according to the Committee's framework, nothing could be exempted from the regulatory control."[6]

2 Wang, Jing 2018a.
3 For a detailed review, see Pistor 2009 and Tobin and Volz 2018.
4 "Zhongguo hulianwang jinrong baogao (2014)" (China internet finance report (2014)), 9–10, http://www.cac.gov.cn/files/pdf/zghlwjrbg2014.pdf.
5 The National Financial Work Conference, 14–15 July 2017, http://www.gov.cn/guowuyuan/2018-07/03/content_5303229.htm.
6 Chen, Yingyi 2017.

The 2015 proclamation of the "20 rules" signifies a watershed between two types of policy tendencies: from being supportive to restrictive,[7] or from being permissive to balanced.[8] How has digital finance specifically reshaped the governing mechanisms in the financial sector? If taking policy changes as a lens through which to understand the politics of fintechs, a larger question is how has the Chinese state attempted to justify its legitimacy to rule after introducing and promoting technological practices that potentially undermine its authority?

Drawing upon institutional theory, this article analyses both the "hard" and "soft" aspects of digital financial governance in China.[9] The hard aspect refers to the regulatory institutions, which have drawn in a wider variety of actors to strengthen the government's control. As financial governance has moved from a laissez-faire approach to tightening control, how have the major actors changed in the network of policymakers, and how have regulatory boundaries been redefined? The soft aspect refers to the controlling apparatus and tactics beyond the hard orders, including ideological control, normative and cultural-cognitive influences. The two aspects – reflected in the analysed policies and in my interviews with fintech executives – collectively constitute a regulatory movement, which since 2015 has swept across a wide variety of institutional agencies and constructed new ruling mechanisms in both the technological and financial domains in China.

The analyses of the formal institutions are based on the laws, policies and regulations related to digital financial technologies and collected from the official websites of the People's Bank of China, China Bank Regulatory Commission, China Securities Regulatory Commission and the Association of Internet Finance, as well as the archive of *China Finance*, the Chinese-language fortnightly magazine established in 1950 and managed by the People's Bank of China. This national magazine reports financial policies and industry updates and has been the most often-used source of policy studies for Chinese financial officials and business executives. The archive holds online versions of all issues published since 2000 and supports keyword searches. I used key terms such as *hulianwang* 互联网 (internet), *hulianwang jinrong* 互联网金融 (internet finance) and *jinrong keji* 金融科技 (fintech) to search for relevant data. To analyse the collected policies, I coded the regulatory actors and business categories and counted the frequencies of these coded items. The archival research rendered 88 major policies reflecting the government's attitude towards fintechs since the year 2012. Fintech policies are pertinent to the development of alternative finance in China, yet the most up-to-date policy analyses only cover up to the year 2014.[10] This study fills the gap by analysing all the formal policies announced between March 2012 and March 2018.

7 Lee 2015.
8 Zhou, Weihuan, Arner and Buckley 2018.
9 Jepperson 1991; Djelic 2010.
10 Wang, Jing 2018b.

The interpretation of informal controlling mechanisms is based on in-depth interviews with 12 respondents conducted in Shanghai and Beijing from May to August 2017. These interviewees included eight executives from fintech companies and four government officials involved in fintech policymaking. Each interview lasted from an hour to 75 minutes and the interview questions were semi-structured and offered insights into norms and values underpinning policymaking and applications. All direct identifiers were removed if so requested by the interviewees. All the interviews were recorded on a password-protected smartphone and then transcribed for analyses.

Institutional Reform in China's Finance Sector

Institutional theory provides a broad avenue to studying governance since it considers institutions as both organizational and super-organizational forces which can be categorized as 1) formal or informal policies; 2) routines, norms or behaviour guidelines; and 3) cultural-cognitive understandings.[11] *Tizhi* 体制, the Chinese-language counterpart of "institutions," not only reflects these three-fold meanings but also connotes a cohesive set of ruling powers that are fundamental, structural and defining for political or organizational governance. For example, in his *Exhortation to Study* (1898), Zhang Zhidong 张之洞, a member of the Grand Secretariat in the late Qing dynasty who advocated controlled reforms for China's self-strengthening, contended that Chinese learning should be taken as *ti* 体, the essence of a subject, and Western learning should be taken as *yong* 用, its practical application.[12] Encouraging young students to learn Western science and technologies, Zhang also emphasized the authoritarian role of the feudal ruling class and subscribed to a conservative Confucian worldview. As such, technology-based development is important but utilitarian, whereas *ti*, or the government's ruling strength, is essential, and reinforcing the state's dominant position is the ultimate goal. *Tizhi* should also be taken broadly as institutions, including specific commanding systems and general norms as well as a set of governance cultures. For example, private enterprises are typically considered to be "outside *tizhi*" (*tizhi wai* 体制外) whereas state-owned/controlled businesses are "inside *tizhi*" (*tizhi nei* 体制内). Such a division is part of a specific administrative system but also part of the ruling norms and governance culture that have widely been accepted in Chinese society. The idea of *tizhi* thus is pivotal to understanding the policy changes effected when the government encounters tech-based reform or innovation. In the same vein, institutional reform (*tizhi gaige* 体制改革) has drawn increasing attention from scholars who try to interpret or predict the Chinese government's political or economic reforms.[13]

11 Jepperson 1991; Djelic 2010; Turner and Abrutyn 2011.
12 Yin 2015.
13 Guo, Xuezhi 2014; Perry 2011; Zheng 2010.

https://doi.org/10.1017/S0305741020000879 Published online by Cambridge University Press

Research on China's institutional reforms looks at the meaning of *tizhi* from a wide variety of perspectives, which can be categorized as policy paradigms,[14] organizational mechanisms[15] and management discourses.[16] These three types of institutions are embedded within the financial sector to ensure that the Party maintains control over financial work. Since the establishment of the People's Bank of China in 1948, the majority of financial industries have been state-owned or state-controlled and have undertaken highly centralized financial and economic work under the supervision of the Administration Council (later the State Council). For decades, the finance sector has been tasked with supplying and managing the funds for the rapidly growing economy. In addition, the Party has been the sole designer of China's financial reforms with regards to risk control. As reiterated by President Xi Jinping in the National Finance Work Conference in July 2017, "guarding against systemic financial risks is the eternal theme of financial work."[17] Financial risks, particularly the systemic risks, would undercut economic development and social stability, both of which are pivotal for the Party's social and economic governance. Following these two principles, the government would clamp down on any emerging financial businesses if they could potentially trigger systemic risks that posed a threat to economic and social development, regardless of their contribution to financial marketization and modernization. For instance, in the 1980s the government granted licences to a new form of business, the international trust and investment company (ITIC), in order to attract and manage international investment capital. Yet, many of these ITICs were shut down or merged when the government identified that these companies carried exceptionally high risks owing to high loan/deposit ratios and leverage ratios. [18]

The increasing application of digital technologies in the past two decades appears to have challenged the Party's hold over financial reforms and its traditional controlling mechanisms. Economically strong online platforms and their big data-based business models bypass institutional controls to some extent partly because the Party has not clearly defined the policy boundaries[19] or regulatory schemes.[20] In the last five years, internet companies such as Alibaba and Tencent have entered the market, providing business loans to small and micro enterprises.[21] Moreover, such companies have taken more than 70 per cent of the payment and clearance market, which was previously controlled by the state-owned banks. These fintech companies use digital technologies to enhance

14 Beeson and Li 2015.
15 Chen, Qi 2018.
16 Schubert 2008.
17 "Xi Jinping: shenhua jinrong gaige, cujin jingji he jinrong liangxing xunhuan jiankang fazhan" (Xi Jinping: deepening financial reform, promoting the healthy development of a virtuous circle of economy and finance). *Xinhua News*, 15 July 2017.
18 Zhu 1999.
19 Just 2018.
20 Wang, Jingyi, Shen and Huang 2016.
21 Kshetri 2016.

liquidity when they connect a wider variety of borrowers and creditors through the internet.[22] They also encourage interactions among networked actors, including fintech companies, borrowers and investors, disrupting the top-down and one-to-many relations between banks and customers.[23] In these cases, the internet and data technology have helped to modernize the Chinese financial market and have brought rigour to the SME sector. Yet, the popularization of fintechs has also given rise to a market brimming with scams and high-risk financial models, particularly in the peer-to-peer (P2P) lending arena.[24] For example, the once-popular investment platform, Ezubao, which attracted US$7.6 billion from nearly one million users in just 18 months, was later exposed as a Ponzi scheme with more than 95 per cent of its borrowers being fictitious. In 2014, more than 200 P2P lending platforms were registered as information technology companies but were actually operating as unlicensed lenders.

Market regulation has become a priority and the Party has been seeking effective ways in which financial technologies can be properly utilized for economic development but also fully controlled to avoid risks. In this new (since the year 2015) policy regime, the rise of digital technologies has forced engagement with a wider variety of policy actors. Chinese financial reform is no longer limited to transformation *within* the *tizhi*, the state-centred formal financial system: corporative actors from *outside* the system have now become part of institutional reform. Also, digital finance has transformed the essence of institutional control in Chinese financial industries in such a way that financial policies are also info-tech policies, and financial regulations are also regulatory efforts enacted on digital technologies. Situating the emerging fintechs phenomena in the larger context of financial reform in the past two decades helps us to understand state–corporate interactions in financial contexts. This approach is also useful to comprehend how the Chinese government achieves balance between the support of financial innovation and the overall control of the growing financial economy.

2015: A Turning Point towards Strengthened Regulatory Control

The financial industries in China embarked on informatization and networking strategies in the early 1990s.[25] Aiming for a higher level of "financial modernization," the Chinese government promoted the design, use and diffusion of digital finance both within and beyond the traditional financial system.[26] In this process, the alteration of info-tech policies in the financial sector had two foci. One was the informatization of banking operations using the internet and digital technologies, and the other was the inclusion of non-banking companies, particularly IT companies, in the financial arena. In the 1990s, information and communication

22 Ibbotson, Hu and Chen 2011; Wang, Jing 2018a.
23 Shin and Shim 2016.
24 Wang, Wei, and Dollar 2018.
25 Zhang 2004.
26 Wei and Deng 2016.

technologies (ICTs) became a vital component of the rebuilding of the financial infrastructure nationwide. Communication satellites, integrated circuit (IC) cards (also known as smart cards) and computers were utilized to promote the protocols, technical standards and management rules of individual banks and the larger financial industry.[27] In the early 2000s, the technology-facilitated reform was extended from within the formal financial system – that is, the traditional financial sector constituted by the state-owned banks, government-invested security agencies and insurance companies – to reach the non-financial sector. In July 2010, the Central Bank granted third-party payment (TPP) licences to major internet corporations such as Alibaba and Tencent.[28] Since then, formal policy changes have expanded opportunities for IT corporations to identify new markets and prospects for financial businesses. Contributing to this friendlier environment is big data, which has reduced informational opacity between borrowers and banks, allowing small and medium businesses to access financial loans.[29] Digital technologies have helped to bring in new actors and establish new operational rules, facilitating structural changes in China's financial industries.[30] In 2013, the State Council announced that it would allow private companies to establish banks on a trial basis and granted ten companies, including Alibaba and Tencent, banking licences. In June 2013, Alibaba launched an investment app called Yu'ebao 余额宝, which allows people to invest sums as small as one yuan online.

However, policy changes in 2015 indicated that the government was starting to tighten controls over fintech businesses. On 18 July 2015, the Central Bank published its "Guidance on promoting the healthy development of internet finance," which signified the government's formal intervention in the development of ICT-mediated financial businesses. Since then, a wider variety of business categories have been brought under the Central Bank's regulatory control. While the government has gradually developed a deeper and more holistic understanding of fintechs, the official definition of fintech businesses has become more specified. This shift has introduced more specialized government agencies to both policymaking and policy execution in this area. The enlarged regulatory ensemble demonstrates a stronger and networked execution power. Taking 2015 as a turning point, this paper focuses on the policy changes within the financial sector by comparing the different regulation strengths, policy foci and policymakers in two time periods: the growth spurt from 2012 to 2014 and the clampdown from 2015 to March 2018.

Chinese fintech companies had their heyday between 2013 and 2014, before the announcement of the "20 rules." Mainstream business news outlets gave greater coverage to "internet finance," the initial term, coined by a group of financial

27 Wang, Jing 2018b.
28 Wang, Jing 2018a.
29 Weiss and Stiglitz 1981.
30 Kshetri 2016.

reformists, for fintech industries.[31] Fintechs were framed as a new pathway to wealth and business opportunities.[32] In 2013, many major internet companies began to develop financial businesses. After Alibaba's Yu'ebao, Tencent launched WeChat Wallet before Jingdong 京东 joined the competition in 2014. In addition to these national IT giants, many other IT companies started their own local fintech businesses during these two years. One interviewee, Chang, saw this as a dangerous time in China's financial history: "in those early days of internet finance, you could do it [financial business] as long as you registered as an IT service company."[33] The low regulatory threshold enabled the exponential growth of digital finance but simultaneously failed to control financial fraud. Many fintech companies took advantage of lay investors' enthusiasm for digital finance without effectively managing financial compliance, legal risks or professional ethics. Chang gave an example:

> I wouldn't have believed it was true if I hadn't seen it in person. I was invited to a March 15 Conference for Consumers' Rights[34] and gave a talk about basic financial safety. One of the audience members, a woman in her late 40s, told me during the conference break that she lost more than 7 million yuan by investing in digital financial products. The scheme was like this: it asked you to invest 200,000 yuan and gave you a 15 per cent return. Then, if you doubled your investment, the company would give you 25 per cent return. After the first two rounds of investment, the women felt this was the best way to make a fortune since she made more than 130,000 yuan in less than six months. Then, she collected all her savings and her parents' savings, sold a property and invested more than 7 million yuan, expecting a 25 per cent return in six months. However, this time she didn't get any return and lost her money on the internet.[35]

During this period of rampant growth of fintech companies, many fraudulent deals were made under the banner of the internet, targeting lay investors who were enraptured with the idea of an "internet economy." Another informant who worked for the Compliance Chapter of the China Internet Finance Association told me:

> From 2013 to early 2015, it was the best time [for internet finance] but also the most chaotic time. The most terrible thing was those wealth management companies that called themselves internet finance companies and conducted illegal fundraising. Promising higher investment returns, these companies raised money mostly from retirees through off-line promotions. Sadly, the older generation of lay investors were very easily led by word-of-mouth.[36]

After the notorious Ezubao case, internet finance was suddenly viewed as a perilous business with many potential risks, and the public urged the state to tighten controls. Maintaining social stability has always been the Chinese government's foremost priority and the unanticipated growth of fintech industries not only threatened financial security at the regional level but also the stability of the whole financial sector. My interviewees in Shanghai witnessed multiple protests in 2015 including sit-down protests in front of the Shanghai Municipal

31 Xie, Zou and Liu 2016.
32 Wang, Jing 2017.
33 Interview with the CEO of Homefax, a Shanghai-based fintech company in July 2017.
34 15 March is the annual Consumer Rights Day assigned by the Chinese government.
35 Interview, CEO of Homefax, July 2017.
36 Interview with fintech informant, Beijing, June 2017.

Government and the occupation by some lay investor groups of Lujiazui 陆家嘴 Century Financial Square. To these retirees and housewives, the government and the financial centre represented the regulator and the major promoter of digital finance respectively, and the investors demanded action. Seen in this context, the regulation of fintechs is more than punishing fraudulent companies and establishing new laws; it also forms part of a campaign to rein in the seemingly uncontrollable digital technologies and reaffirm the legitimacy and dominance of the central government in the growing financial regime.

PILES: The New Governing Mechanisms

The rapid advancement of financial technologies and the complicated market changes propelled the Chinese government to adopt new mechanisms to exercise control over the fintech sector – mechanisms which at the same time reshaped the regulatory structure of the overall financial system (see Table 1).

Table 1: **The New Mechanisms of Fintech Governance**

	Stage I	**Stage II**
	Prior to "20 rules"	The "PILES" model since "20 rules"
Definition and categorization	Very few fintech categories were officially defined	More specified categorization defined by the State Council
Governing logics	Vertical governance of various industries (e.g. banking, securities, insurance)	Horizontal and collaborative governance according to the nature of financial products and services (e.g. Ministry of Education is assigned as one of the regulators in the case of consumer loans that target college students)
Regulatory coverage	Many fintech businesses self-defined as IT companies and so bypassed financial regulatory control	All fintech companies are put under regulatory control

Specifically, as shown in Appendix Table 1, between 2012 and 2014, only seven categories of fintech businesses were defined and regulated through 24 policy items; however, since 2015 more than 20 business categories have been regulated with more than 60 policy and regulation items. Also, of all the categories, P2P has become the most regulated business. Prior to 2015, only seven business categories were clearly identified as internet finance. Many other digital financial products and services were simply registered as IT services and considered as providers of financial information and digital apps rather than financial products. They were thus not subject to financial regulation. In the digital context, the line between financial companies and IT companies was indistinct given that service users could transfer money online or through mobile apps. For example, the internet has been used as an information platform connecting borrowers and lenders directly and not through the usual traditional banking systems. Such a

https://doi.org/10.1017/S0305741020000879 Published online by Cambridge University Press

platform is fundamental for P2P lending. In practice, Chinese P2P platforms not only provide information about available loans but also process these loans using digital payment technologies. The fuzzy division between digital financial services and IT services challenged the existing regulations established by the Central Bank based on its understanding of neatly categorized traditional financial businesses.

Since 2015, many unregulated IT companies have been redefined and supervised by more specified policies. For example, P2P platforms had been considered as "information agents" but were still subject to regulation by the China Banking Regulation Commission, as per its announcement of the "Interim measures for the administration of the online lending information intermediary institutions" in December 2015. As increasingly more technologies were adopted in finance, the government had to expand its supervision horizon accordingly. For example, big data, blockchain and initial bitcoin offerings (ICO) have come under the regulatory regime since 2015. Moreover, if the Central Bank found it difficult to differentiate between two closely related fintech businesses, the related policymaking tended to be business-specific. For example, P2P lending overlaps with private lending in fintech practice but is essentially different in terms of how the two hedge financial risks. The government responded by specifying separate regulations for the two categories. Moreover, in the second stage, linked vendor businesses such as fintech advertisements and fintech statistical systems were also included in the regulatory regime. As a result, 15 regulatory rules were applied to the industry during the clampdown stage whereas only three regulations were in place before 2015.

As fintech regulations have become more specific and comprehensive, a greater variety of political and regulatory actors have been drawn into the policymaking process. The financial sector used to be solely governed by the Central Bank, which reports to the State Council; however, the new governing mechanisms feature an ensemble of regulatory actors from political (P), information and technological (I), legal (L), educational (E) and specialized (S) agencies, or PILES. Appendix Table 2 compares the policymakers before and after 2015 by listing the numbers of policies that a specific department or admission has made or co-made with other policy organs. In the first stage, digital finance was supervised primarily by financial institutions, with only minor engagement from non-financial institutions. The Central Bank was the main policymaker while the three commissions, the China Banking Regulatory Commission (CBRC hereafter), the China Insurance Regulatory Commission (CIRC hereafter) and the China Securities Regulatory Commission (CSRC hereafter) took care of policy implementation.[37] The Ministry of Industry and Information

37 In April 2018, the CBRC was merged with the CIRC to form the China Banking and Insurance Regulatory Commission. See "Jigou gaige: yinjianhui, baojianhui hebing zujian Zhongguo yinhang baoxian jiandu guanli weiyuanhui" (Institutional reform: merger of CBRC and CIRC to form China Banking and Insurance Regulatory Commission). *Caixin*, 13 March 2018, http://topics.caixin.com/2018-03-13/101220360.html.

Technology (MIIT hereafter), as the major supervising body of the internet infrastructure, played quite a minor role in policymaking (it appears only once in the analysed policies) even though the development of digital finance has always been highly reliant upon internet usage. In the second stage, a group of non-financial institutions with diversified institutional backgrounds collectively replaced the central role of the People's Bank of China and its three commissions in fintech policymaking.

Among these institutions, the political departments had the upper hand in the making of 56 (out of the total 64) policies and regulations during this period. Such departments include those working on social stability (for example, the General Office of National Stability Leading Group, the Ministry of Public Security, the State Bureau for Letters and Calls), the departments on overall planning work (for example, the Development and Reform Commission and the Ministry of Housing and Urban and Rural Development) and departments of personnel work and human resources management (for example, the Ministry of Human Resources and Social Security). The diversity of the engaged political actors signifies that fintechs have penetrated a wide range of social and political domains. Fintech usage by regular consumers (for example, consumer loans) and non-traditional investors (for example, individual lenders in P2P lending platforms) has challenged existing policy systems and thus catalysed a re-evaluation of financial technologies in terms of their social and political influence. For example, the Ministry of Education participated in the drawing up of "The notice on further strengthening the management of campus loan regulations" in May 2017. In 2016, media reports exposed the "loan sharks 2.0" scandal in which Chinese female university students who borrowed money through popular online P2P lending platforms were being coerced into providing nude photos of themselves to secure high-interest loans.[38] When the borrowers were unable to repay their debts, the lenders threatened to send the photos to their friends and families. Wan, the secretary-general of the China Internet Finance Association, elaborated:

> We have to collaborate with the non-financial institutions, such as Ministry of Education in regulation-making. We need their reflections about the practical issues related to digital loans on college campuses. Also, we need their collaboration to execute and enforce the regulations.[39]

The new regulations on digital financial technologies usually involve multiple stakeholders. "The implementation plan for the special risk management work on internet finance advertisement and the financial activities in the name of investment and wealth management" may have experienced the most complicated deliberation process. Before the announcement of the plan in April 2016, 17 state institutions participated in the policymaking process, reflecting the collaboration among at least five governmental sectors. In addition to the financial regulators (including the Central Bank and the three commissions), legal

38 Loubere 2017.
39 Interview, Shanghai, July 2017.

institutions (such as the Legislative Affairs Office of the State Council, the Supreme People's Court of the People's Republic of China, and the Supreme People's Procuratorate of the People's Republic of China), IT regulators (such as MIIT and the Cyberspace Administration of China), social stability and security institutions (such as the General Office of National Stability Leading Group) and media and publicity regulators (such as the Administration for Industry and Commerce and the Publicity Department of the Chinese Communist Party) were involved. The collaboration of these regulators has left the typical internet finance business with no unattended regulatory space, from its marketing, to selling, financing and client servicing.

The policymaking process in the clampdown stage has demonstrated a new mode of financial governance developed by the Chinese party-state. This process has given the state's political organs many more seats than its financial or economic institutions. As such, the governance of fintech development is not only about the development of a particular business category; it has become a political issue, which affects social stability, systemic financial risks and, ultimately, the Party's legitimacy in supervising the financial system. Compared to the 2012–2014 phase, which prioritized innovation and technocracy, the second phase places Party control over the development of digital finance as the primary consideration. If this policy paradigm can be read as the Party's "hard" approach to fintech governance, the following section shows how the Party has utilized its "soft" power to legitimize and maintain its ruling position within the traditional financial sector and particularly in the banking industry.

Beyond Regulations: Alternative Institutional Control

Prior to the rise of internet finance, information technologies were widely promoted within the traditional banking system.[40] Since 2012, nearly all of the major commercial banks have constructed big databases in order to enhance their operations.[41] If the traditional financial industries in China are taken as a formal institutional system designed by the Central Bank and the State Council on behalf of the Party, digital finance growing *within* the system can be viewed as a mind-easing innovation that contributes to financial modernization. Information technologies not only improve the efficiency of the inter-bank transactions[42] but also help to rein in systemic risks. What kinds of institutional forces reassure the government about the promotion of digital technologies within the traditional financial system? Based on interviews with executives in Chinese banking industries, Table 2 displays the organizing logics and normative and cultural-cognitive factors that have constituted the institutional schemes in the traditional financial system in China.

40 Wang, Jing 2018b.
41 Wildau 2017; Kshetri 2016.
42 Wang, Jing 2018b.

Table 2: **Other Institutional Controls in the Management of the Chinese Financial System**

Organizing logics	Two-person team + Party's sub-branch organizations.*
	IT software and digital technologies have been designed and used for modernization but also centralized control in the finance sector.
Normative elements	The Party prioritizes financial stability over financial innovation.
Cultural–cognitive discourses	Workers are subject to regular training to reinforce awareness of financial risks.
	Technologies are innovative tools but also bring about uncertainty that needs to be tightly controlled.**

Notes:

*In every state-controlled company or agency, the top leadership is a two-person team: one is in charge of the operations and the other is the Party head. See details in Li 2016. **Wang 2018b.

As the fintechs took off in 2013 and 2014, many bank executives left the state-controlled banks to join fintech companies lured by the higher salaries, a greater degree of professional autonomy and the belief that fintechs offered a promising future. These "bank people" have integrated the banks' management ethos with the management structures in their new companies. They have also brought "bank culture" with them, promoting such practices as centralized control of customers' information and consistently emphasizing risk-control (*fengkong* 风控). As with many Silicon Valley start-ups, the Chinese fintech companies originally were a disruptive and innovative force, yet the banking executives who re-located to the private sector have significantly re-shaped the management culture in Chinese fintech sector.

When I asked Huang about her understanding of *tizhi*, she recalled how she had been made by the system and part of the system and then chose to leave it after working within it for more than 30 years:

> If you are a person beyond the system, you are a free man. But [if you are] within the system, you are led by the Communist Party. As a Party member, I am subject to its organizational principles and normally would not do anything against the organizational principles.[43]

Sun, another informant who turned to the private sector after working in one of the Chinese major banks for more than two decades, also discussed Party-manipulated systematic control.[44] She stressed how "the heads of all the banks and traditional financial companies are all Party members. They are in charge of how the overall system is going to develop. Technological innovation is just a small part of such a development." She pointed out that in addition to the bureaucracy, the highly centralized management system also urges all the banks to adhere to the same set of capital management and technological standards.

43 Interview with the CEO of Huarui Bank, Shanghai, July 2017.
44 Interview with the general manager of a Beijing-based private commercial bank in June 2017.

Chang had left a state-owned bank in 2011 and had been working in the private sector for more than six years.[45] She ran her business very successfully and had adapted well to organizational culture beyond the government system even though her ideological ties with the Party remained very strong. She considered her new career in a private company as a "relocation" enabled by the Party. In addition, Chang was proud of the traditional bank she had previously worked for because of their risk-control systems: "During the 2008 global financial crisis, my bank did not suffer from the crisis but became the world's most profitable bank. That was because we had been very stable in management and operations. Being steady is something built in our blood, regardless of the regulatory environment." Chang also appreciated the quality training the state-controlled financial system had given her:

> The state had invested a lot of public resources in the system, and we had been trained for so many years [on systematic control]. My bank started using Enterprise Resource Planning (ERP) software in the 1990s, but the private sector only started to use ERP in 2012. As a person from within the system who went to a company out of the system, I have capabilities and qualifications that surely could help the company to develop a controlling system. Lately, I have also integrated big-data technologies provided by a vender in Hangzhou into our systems, which has worked very well.[46]

Chang, a steady executive, imported her management style and strategies to her new company. Since 2012, she has been leading the development of risk-control systems and performance-evaluation systems through which every business case in the company could be measured. More than one staff member working under Chang told me she had a very calm and measured management style and often used the evaluation system to assess the workers' performances or to make decisions. She used the term "system" (*xitong* 系统) frequently throughout our dialogue. Chang regarded the "system" approach as the most effective way to enforce compliance with organizational rules and regulations.

Although accustomed to and comfortable with the Party system, most of my informants were clearly aware of the drawbacks of a stringent controlling system dominated by the Party. Chen commented on the accountability mechanism, or *wenzezhi* 问责制:

> A very important controlling mechanism is accountability. The top-down accountability rule forces you to do everything very carefully. You don't want to do anything too aggressive. If you can make a big difference but may face risk, you don't want to do that. For example, there were many things I could have done to the teller system reform. But the state-controlled system would not let you. If you did it and it did not work as you had expected, you would have to take responsibility for that [mistake].[47]

This may explain why Chang and Sun left the Party-controlled regime despite having been very successful "inside the system." The contention between the rapid growth of alternative finance and the state's stricter regulations has created positions perfectly suited for executives with inside-the-system experience. They

45 Interview with the CEO of Homefax, Shanghai, June 2017.
46 Ibid.
47 Interview with a compliance officer in Industrial and Commercial Bank of China, Beijing, June 2017.

have spent most of their careers within the system and their normative and cultural-cognitive foundations have been moulded by the system. As the state endeavours to regulate fintechs and also develop controllable alternative finance, it is these executives who will transfer the Party-style institutional apparatus to the new digital arena which the state intends to integrate into its overall control of the financial sector.

Conclusion: The Governing Pendulum on Fintechs

The application of big data, new algorithms and cloud computing will change the nature of work and the structure of the economy in China. The exact form of that change will be determined by the social, political and business choices the government, corporations and the public make.[48] In Chinese financial contexts, digital technology has been an engine for innovation. It helps to create new products and services that benefit a larger and more diversified social group. But, at the same time, the neatly defined business categories and corresponding regulations have not been applicable to emerging fintech products and services. Some unethical fintech companies have also threatened the country's financial security and even social stability. These tech-enabled social and economic changes have compelled the regulators to reconfigure financial governance.

Situating the fintech policy changes since the year 2012 within the larger institutional structure, this paper shows that two types of governing mechanisms underpin the Chinese regulators' swing from being very supportive in the early years (2012–2014) to being very controlling between 2015 and 2018. One type is the government's digitalization approach to institutional reform of the financial sector; the other is cultivating a regulatory hegemony to ensure financial – and also social – stability. The Party identified that technology would be among the foremost productive forces for economic development in China. Before 2015, the Chinese government strongly supported the early development of digital finance, identifying it as a technological category. However, much stricter control has been placed on digital finance since 2015 when most of the fintech companies were treated as financial businesses. It is commonly acknowledged that the financial sector is state-controlled and conservatively regulated, given its crucial role in economic development and maintaining social stability. The rapid growth of the fintech companies has diverted an incredibly large amount of financial capital to a circulation system beyond the traditional banking system, a situation that is impossible for the Central Bank to ignore. Risk control has always been a priority for the state and its agencies. When fintechs developed to the extent that they could potentially trigger a risk to the system, threaten financial security and ultimately lead to social turmoil, the government stepped in without hesitation.

48 Zysman and Kenny 2016.

Both the technocratic thinking in economic development and the conservative tradition in financial risk control are embedded in China's financial governance. One has overridden the other at different times, which has shaped a governing pendulum swinging between market orientation and state dominance. From 2012 to early 2015, the Chinese government liberalized the fintech sector by giving IT companies the space to develop non-traditional finance. Yet, after several fraud cases were exposed in 2015, the Party soon reasserted its power and legitimacy in the management of the Chinese financial market as a whole. The National Financial Work Conference for the first time in its history declared that financial work must be supervised by the Party. Prior to this announcement, the financial sector had been regulated by the State Council through the Central Bank of China. Interestingly, the liberal tendency gathered momentum once again in December 2019 when the "Fintech regulatory sandbox" was launched in Beijing and then rolled out to six other cities in the following four months.[49] This new trial, which is guided by the Central Bank, is considered to be a "soft regulatory method" and a relaxing of the restrictions on financial innovation. The shifting policy schemes in fintech regulation since the fintech surge in 2012 have reflected the increasingly sophisticated state–market interactions in China.

In addition to using policy to exert control, the Party has also re-directed technological resources such as the internet, computer technologies and big data towards reg-tech so that every transaction undertaken by fintech businesses is under systematic surveillance.[50] However, compared to techno-based regulatory mechanisms, the inherent ideological dynamics at play are much more powerful. Similar to Chang, Sun and many of my interviewees, professionals and executives in the financial domain still consider fintechs to be non-mainstream, informal and risky, and believe that their subordination to traditional finance, formal institutions and the Party's regulatory control is necessary. This is in contrast to the pro-innovation and pro-internet discourses that were pervasive in the early development of fintechs. From "using Internet finance to leverage a deep reform" to "establishing a comprehensive regulation system," the social and political perceptions of digital finance have undergone dramatic shifts. The "soft" institutions including the hidden organizing logic, normative foundations and cultural-cognitive discourses in China's finance sector need further scrutiny.

Acknowledgements

This paper has grown from my presentation at the "2018 California–Shanghai Innovation Dialogues." I am grateful to Bill Maurer, who organized this event and inspired me to undertake further research on fintech governance. I also thank the two anonymous reviewers for their valuable comments on the earlier drafts of this paper.

49 "China expands fintech 'regulatory sandbox' to Shanghai, Shenzhen." *Caixin*, 28 April 2020, https://www.caixinglobal.com/2020-04-28/china-expands-fintech-regulatory-sandbox-to-shanghai-shenzhen-101548194.html.

50 Sun 2019.

Conflicts of interest

None.

Biographical note

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摘要: 中国的金融治理模式正在发生结构性变化，而本文分析了数字科技在这一变迁中起到的作用。基于对 2012 年以来出台的与金融科技相关的法规，政策，监管措施的分析，以及对政府官员和金融科技公司管理者的访谈，本文指出：由于央行和国务院既有的监管系统无法有效应对金融科技的快速增长，中央政府从而重提并加强了"党管金融"的策略。这一策略一方面支持和推广金融科技以服务于金融"市场化"和"现代化"的目标；另一方面，新颁布的一系列监管措施和新的监管组织方式也在加强党中央对金融数字化的控制。研究这一策略及其所体现的对立统一关系，对理解中国政府在数字科技时代金融政策的制定起到关键作用。

关键词: 金融科技; 互联网金融; 金融治理; 数字科技; 中国

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Appendix

Appendix Table 1: **A Comparison of Regulated Fintech Categories during the Two Stages**

Business Categories	2012–2014	Business Categories	2015–2018. March
assets management	1	assets management	2
		big data	1
		blockchain	2
		consumer loan	1
		credit insurance	1
		credit system	1
crowd-funding	1	crowd-funding	1
		digital loan sharks	2
digital payment	8	digital payment	6
		financial trial	1
		fintech advertisement	1
		fintech statistical system	1
general	3	general	15
ICO	1	ICO	4
		illegal fund raising	2
		inclusive finance	2
insurance	9	insurance	4
		P2P	10
		private lending	4
		public offerings	1
securities	1	securities	2
7 categories	24 policy items	21 categories	64 policy items

Appendix Table 2: **A Comparison of Policymakers during the Two Stages**

2012–2014			2015–2018 March	Attributes
Asset Management Association	1			
CBRC	2	CBRC	11	F
CIRC	10	CIRC	5	F
		CPPCC	1	P
CSRC	2	CSRC	3	F
		Cyberspace Administration of China	8	IT
		Development and Reform Commission	5	E
		General Office of Internet Finance Specific Rectification Work	2	IT
		General Office of National Stability Leading Group	5	P
		General Office of P2P Specific Rectification Work	2	S
		General Office of the China Securities Regulatory Commission	1	F
		General Office of the Ministry of Education	2	S
		Insurance Association of China	1	S
		Legislative Affairs Office of the State Council	6	L
MIIT	1	MIIT	11	IT
		Ministry of Finance	6	F
		Ministry of Human Resources and Social Security	1	P
		Ministry of Public security	7	P
		MOHURD	5	S
		National Internet Finance Association of China	14	S
		NPC	2	P
Payment and Clearing Association	1	Payment and Clearing Association of China	1	S
PBC	6	PBC	12	F
		Publicity Department of the Chinese Communist Party	5	P
SAC	1	SAC	2	P
SAFE	1	SAIC	10	E
		State Bureau for Letters and Calls	5	P
		Supreme People's Procuratorate of China	5	L
		Central Committee of the Chinese Communist Party	1	P
State Council	3	State Council	8	P
		Supreme People's Court of the People's Republic of China	7	L