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INTERNATIONAL ECONOMICS

# Shared Challenges on Big Tech in Finance

**Martin Chorzempa**

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Policymaking in a Big Data, Big Tech Global Economy

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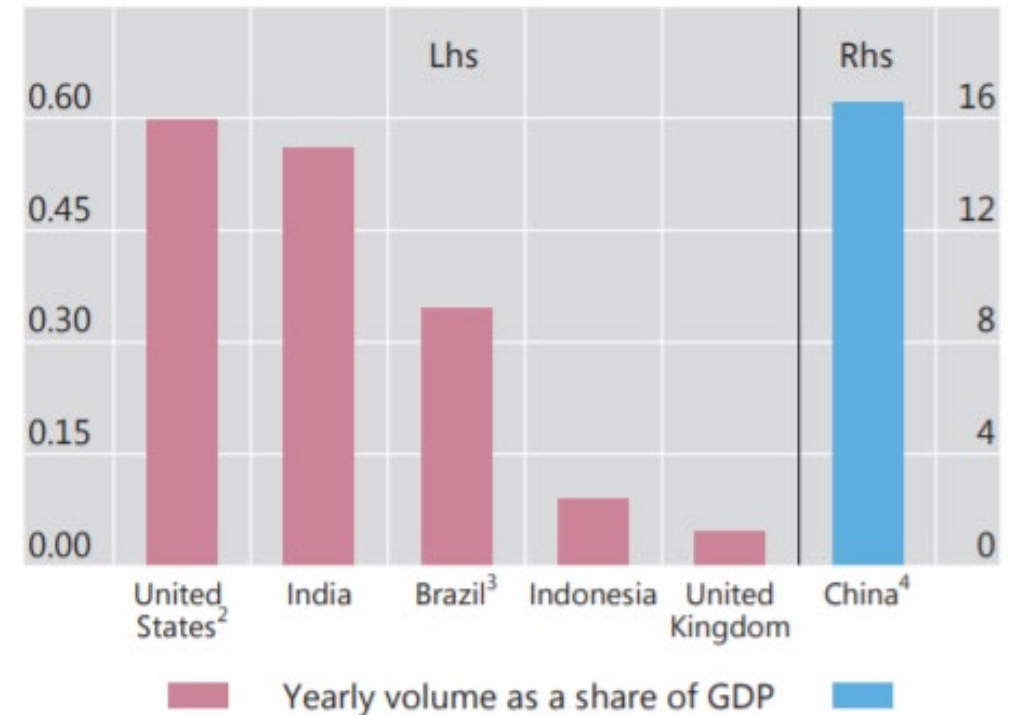
# “When we look across the water, we see a lot that’s familiar...”

- Can you guess which is EU Commission, Biden Admin, and Yi Gang (PBOC)?
- “greater scrutiny of mergers, especially by dominant internet platforms, with particular attention to...the accumulation of data, competition by “free” products, and the effect on user privacy”
- “The winner-takes-all nature of platform companies could lead to market monopolies and compromise innovation efficiency. Some platform companies seized market share through cross-subsidization and adopted anti-competitive policies after gaining a dominant position.
- "Due to the 'winner-take-all' dynamics of the platform economy, big online platforms have grown and gained gatekeeper power.“
- Answers: title Vestager (EU), 1 Biden Admin, 2 Yi Gang (CN), 3 EU Commission

# Big Tech and Finance: Unevenly Distributed

- China is huge outlier (vanguard?) in big tech's importance to financial system, where Ali/Tencent duopoly controls mobile payments and lends trillions of RMB
- Elsewhere, big tech's financial footprint is much smaller in depth and breadth
- Second round of fintech revolution will have more profound international implications, exemplified by Facebook's Libra proposal (inspired by WeChat)

Big tech mobile payment services



Source: BIS (2019)

# Common Concerns for Big Tech in Finance

## Financial Stability/Regulatory Arbitrage

- Rapid scaling on existing user networks
- Political influence
- Difficult to regulate, complex business models
- Conflicts of interest

## Competition

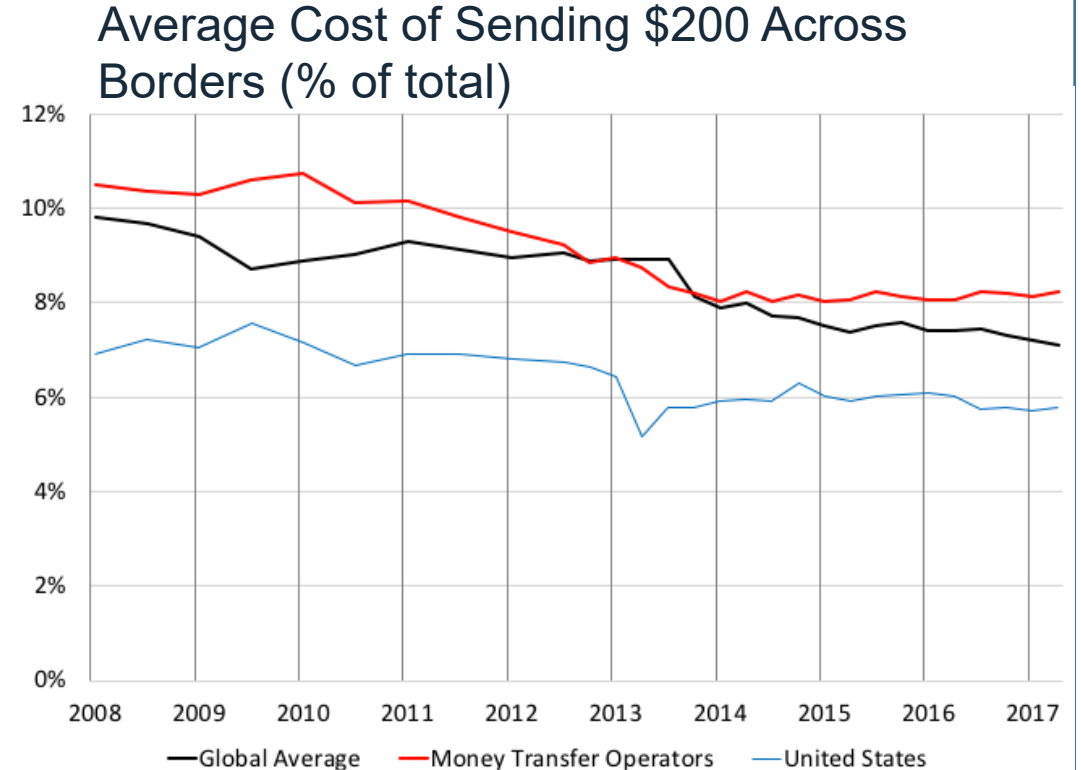
- Bundling services impossible to match
- Cross-subsidization can distort multiple markets

## Privacy

- Combination of individual financial/non-financial data
- Trade-off with competition is crucial
- Difference: your or foreign big tech?

# Risks of Regulation Keeping Big Tech Out

- Advanced Economies/EM: Forgone Gains
  - Limited flexibility in US missed opportunities
  - Negative reaction to Libra but little progress on int'l rules. ex: FSB stablecoin report excludes “AML/CFT, data privacy, cyber security...and competition...”
- China: “To make risk-free innovation is to stifle innovation...” –Jack Ma
  - Big tech brought new competition, unleashing financial inclusion and growth
  - Risk of tilting playing field back to inefficient incumbents



Source: Cecchetti and Schoenholtz (2018)

# Two Priorities for Fintech Cooperation

- Learning from pioneering jurisdictions to develop ex-ante tested rules
  - China designed its data protection regime with lessons from GDPR
  - Others can learn from China on fintech regulations, and teach on regulating financial conglomerates
  - CN experience's success and failures can reduce risk for others
- Interoperable data protection regimes would make rules of road clearer
  - US-EU Privacy Shield Invalidated → huge uncertainty
  - Absence of planned interoperability → data localization



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**Thank you!**

**Martin Chorzempa**

mchorzempa@pie.com

@chorzempamartin

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