NUS National University of Singapore

Source: *The Straits Times*, pA15
Date: 24 August 2021

Is South-east Asia ready for the Chinese Big Tech wave?

Tech titans like Baidu, Alibaba and Tencent are keen to expand financial services to the region. The question is: Can its regulators cope with the complex risks they present?

Ramkishen S. Rajan and Bhavya Gupta

For The Straits Times

Much attention has been paid to China's massive crackdown on its tech titans, particularly those providing financial services.

The quashing of Ant Group's mega initial public offering in November last year was only the beginning. Since then, China's regulators have required, among other things, that the financial services divisions of Big Techs be restructured and subjected to much more supervision than in the past.

While China's regulatory fury has now widened in scope beyond financial services (education, gaming and social media), policymakers in some other Asian countries have also raised red flags.

For instance, India's central bank, the Reserve Bank of India, has publicly warned about plans by Big Techs to enter India's financial system and has recommended the creation of an internationally agreed regulatory framework for their supervision.

The Financial Stability Board, which is an international body tasked with monitoring the global financial system, has highlighted financial stability implications and other risks posed by the entry of Big Techs in finance, especially in developing economies.

In a similar vein, the Bank for International Settlements (BIS), often called the central bank for central bankers, recently reiterated the imminent need for regulators both at the domestic and international levels to carefully monitor and mitigate the complex systemic risks posed by Big Techs.

SECOND WAVE OF DISRUPTION

Big Techs' entry into finance represents the second wave of disruption in the financial sector. The first wave was marked by the emergence of smaller fintech players. While fintech firms presented a few novel risks to financial stability arising from their provision of products like peer-to-peer lending and crowdfunding, on balance they have yielded positive returns by catalysing improvements in the quality and standard of services provided to customers and encouraged innovations in financial products.

In contrast, the second wave currently under way with the entry of Big Techs is likely to be far more disruptive. Although financial services constitute a small portion of Big Techs' overall revenues currently, there is significant potential for expansion.

In a speech in January, Mr Agustin Carstens, general manager of the BIS, described the business model of Big Techs in terms of three features referred to as their DNA (data-network-activities). As he noted: "An essential by-product of their business is the massive user data they collect. They exploit natural network effects, generating further user activity."

The capacity of Big Tech to unleash massive structural changes in the sector is also evident from the fact that the market capitalisation of these companies in some instances has surpassed that of the globally dominant financial institutions.

Given Big Techs' unique business models and the complex risks they pose, regulating them in finance is highly challenging. A whole-of-government approach is needed to manage financial stability, defend against potential abuses of these platforms' monopoly power, protect consumers (from predatory lending and creation of a captive audience), and prevent misuse of data.

But that will not suffice. There also needs to be a recalibration of policies to take into account the systemic risks posed by the tech giants and to regulate them through a group/entity-based approach.

Just as large financial entities are labelled systemically important financial institutions – a bank, insurance company, or other financial institution of such size and importance whose failure might trigger a financial crisis – and subject to higher capital requirements and macroprudential regulations, a similar distinction could also be created for Big Techs in finance.

SOUTH-EAST ASIAN PASTURES

Penning his thoughts on the "platformification" of banking and finance, Professor Barry Eichengreen, an economist at the University of California, Berkeley, noted: "In an old parable about banks and regulators, the banks are greyhounds – they run very fast. The regulators are bloodhounds, slow afoot but faithfully on the trail. In the age of the platform economy, the bloodhounds are going to have to pick up the pace."

To date, the Monetary Authority of Singapore has not just kept pace but has also followed a balanced approach, both in terms of encouraging innovative fintech start-ups to venture into delivery of digital financial services, and ensuring a level playing field between these new entrants and incumbents.

While the first wave of financial sector disruptions in Singapore has been managed with aplomb, the second wave of disruptions due to the entry of Big Tech is in its infancy.

Although there are two Big Tech clusters globally – Amazon, Facebook, Google and Apple in the United States, and Baidu, Alibaba and Tencent in China, it is the latter that seems to have shown far greater interest in South-east Asia's financial sector to date.

According to reports, tech titans from China are entering Singapore in droves with the aim of using it as a hub or beachhead to expand to the rest of South-east Asia, which is now viewed as being a safer pasture (than China) with massive growth potential.

While these Big Tech investments should provide positive tailwinds for recovery in the South-east Asian region as it emerges from the Covid-19-induced downturn, the disruptive potential from Big Tech's ambitions in the financial sector can be far-reaching if the region's regulatory infrastructure does not keep pace and the evolving risks are not managed well. The Chinese financial ecosystem may not necessarily be the right blueprint for the region's future.

stopinion@sph.com.sg

• Ramkishen S. Rajan is Yong Pung How Professor and Bhavya Gupta is a PhD candidate, both from the Lee Kuan Yew School of Public Policy at the National University of Singapore.

**Given Big Techs' unique business models and the complex risks they pose, regulating them in finance is highly challenging. A whole-of-government approach is needed to manage financial stability, defend against potential abuses of these platforms' monopoly power, protect consumers (from predatory lending and creation of a captive audience), and prevent misuse of data.
But that will not suffice. There also needs to be a recalibration of policies to take into account the systemic risks posed by the tech giants and to regulate them through a group/entity-based approach.**

Baidu's Beijing headquarters. Tech titans from China are reportedly entering Singapore in droves, aiming to use it as a hub or beachhead to expand in the region. PHOTO: REUTERS