

# The Rise of China's Cashless Society - The overall picture and cases -

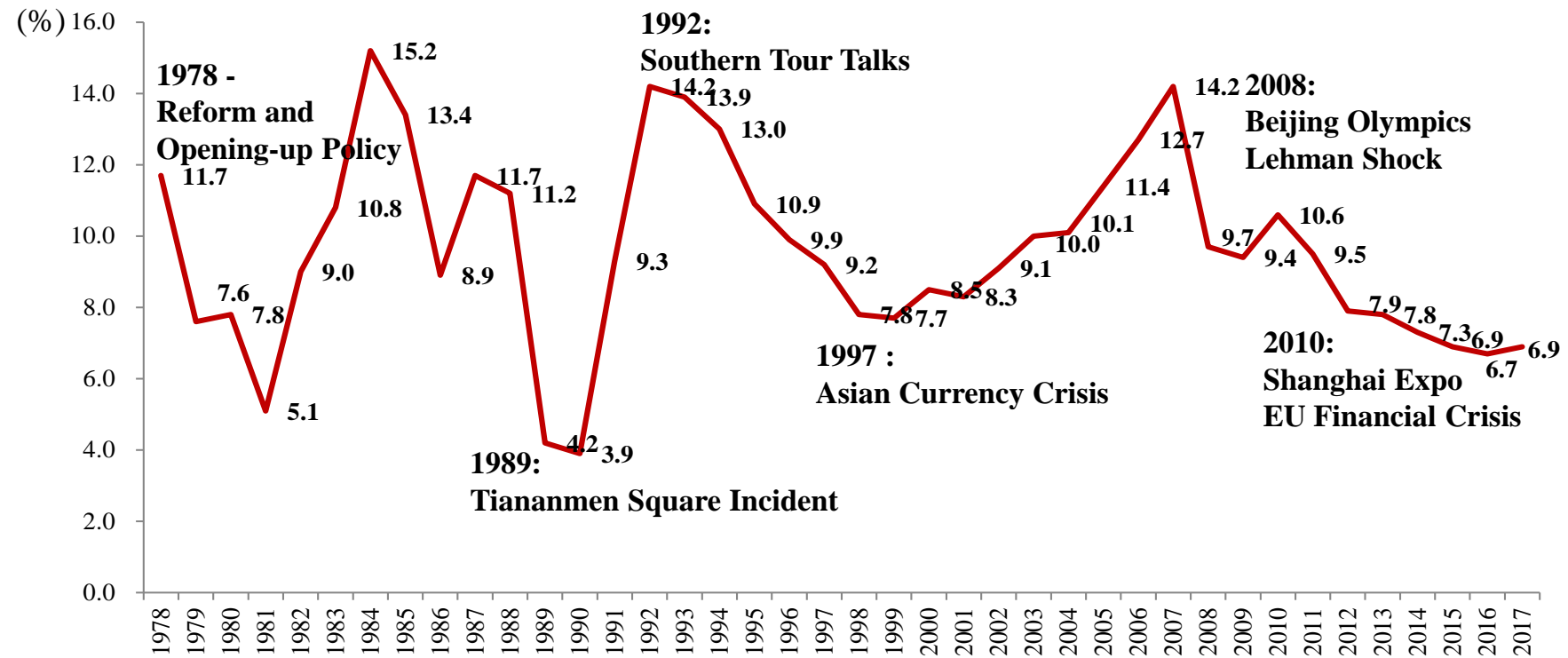
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# Content

1. China Moving Towards a Cashless Society
2. Expansion of Mobile Payments and Main Players
3. Diffusion in Public Services

# 1.1 China's Economic Growth

- Rapid economic growth after 1978, government-led growth model
- Average economic growth rate of 9.65% (1978-2016), world's second-largest economic power in 2010, economic slowdown from 2012
- The shift of economic development model, **innovation-driven growth**



Source: National Bureau of Statistics of China.

# 1.2 The Goal of an Innovation Nation

- Released in 2006: become an **innovation nation by 2020**
- The specific targets of realizing an innovation nation

	<b>R&amp;D expenditure / GDP</b>	<b>Patent Registration</b>	<b>Academic Papers</b>	<b>Total Factor Productivity</b>
<b>2020</b>	> 2.5%	At least 5 <sup>th</sup> worldwide	At least 5 <sup>th</sup> worldwide	> 60%
<b>2015</b>	2.06% (1.4 trillion yuan)	1.1 million domestic patent applications, 1 <sup>st</sup> in the world	1.58 million, 2 <sup>nd</sup> worldwide from 2005 to September 2015	55%

(Source) Based on data of the Chinese Government and other published reports

- When examining the 2015 data, it can be seen that some of the numerical targets of the innovation nation have already been realized, and others are nearing their targets
- Promotion of digital innovation**

# 1.3 Important Policies

## ■ China Manufacturing 2025 (May, 2015)

- A strategy for upgrading the manufacturing industry form 2016 to 2025
- Digitalization of the manufacturing industry

## ■ Internet Plus (July, 2015)

- New business, employment, value from [Internet + industries]
- Digital transformation based on ICT



(資料) Baidu Picture

# 1.4 Chinese People's Lifestyle is Changing

## ■ A lifestyle reliant on smartphone

### ■ In the morning :

China's UBER: Didi;

Bike-sharing service: Mobike or ofo

### ■ Lunch time

Order the lunch by Ele

(Ele means "Are you Hungry?")

### ■ In the evening :

Online shopping and paid by mobile payment

For the payment, not cash or cards, but Alipay or WechatPay

Smartphone as a virtual wallet



(Source) Passenger are looking at their smartphones in the subway  
(Photo by Zhao, Beijing/China)

# 1.5 China is Embracing Cashless

- Cash is rapidly becoming obsolete
  - Diffusion of mobile payment:
    - an important part of Chinese people's everyday life
  - Cashless city emerging: a cashless lifestyle
  - **US\$15.4 trillion in 2017**: China's mobile payment market is the largest

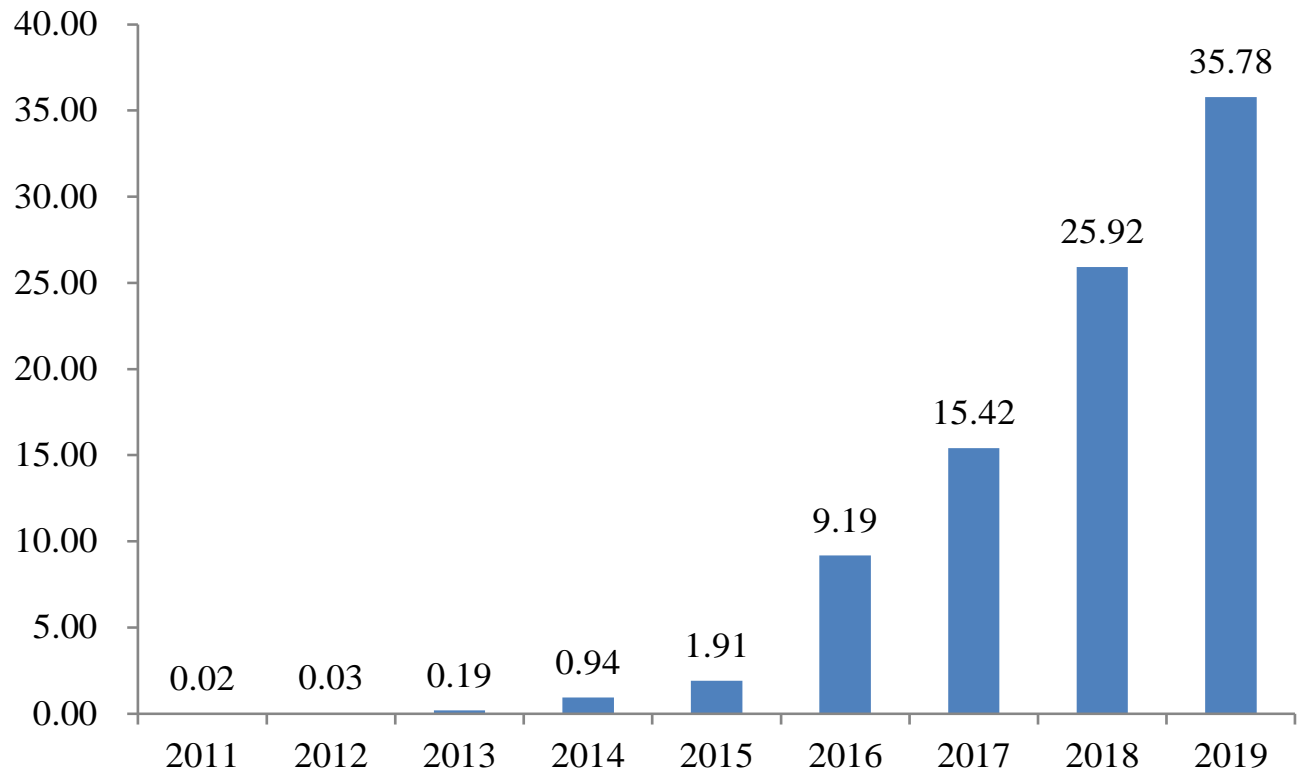


(Source) The mobile payment is wildly used in China  
 (Photo by Zhao, Beijing/China, Shenyang/China, Tokyo/Japan)

# 2.1 Rapid Growth of Mobile Payment

## Mobile payment transaction volume in China

(US\$ Trillion)



(Source) iResearch (2017)  
Note: 2018, 2019 with an estimation  
1US\$ = 6.4 RMB

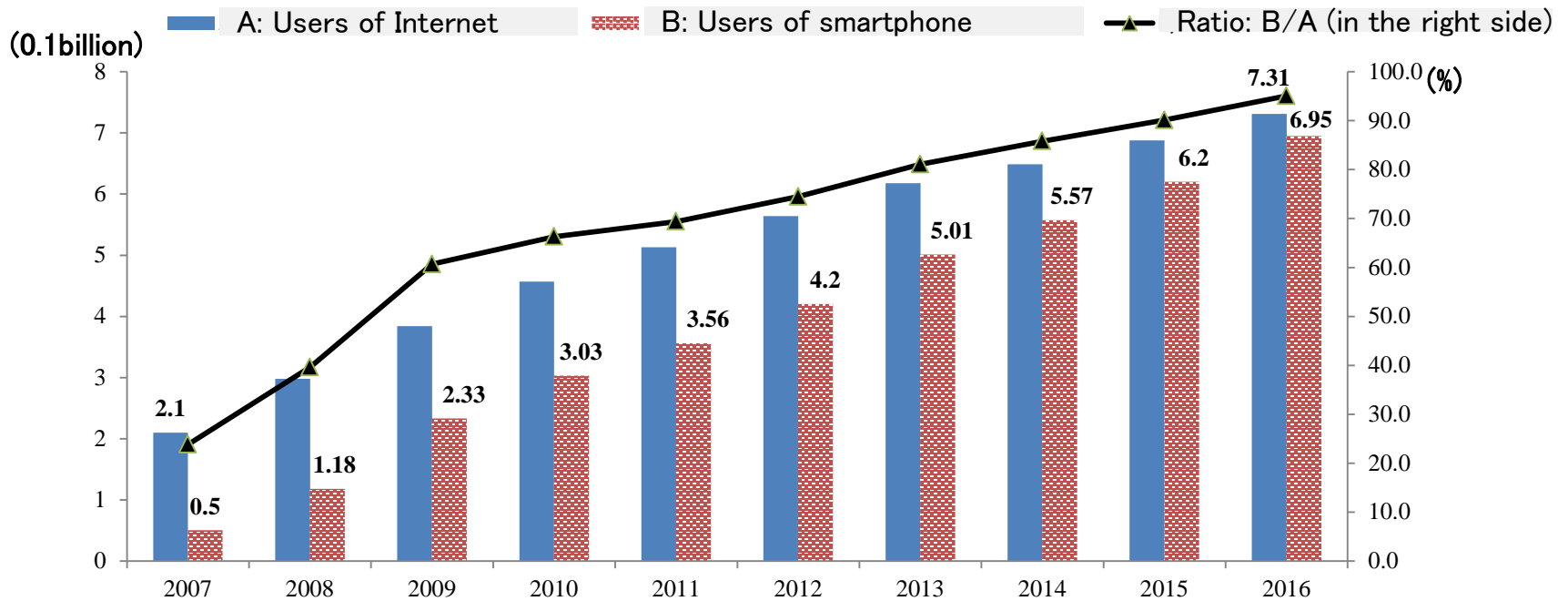


# 2.2 Diffusion of Internet and Smartphone

■ Users of Internet: 0.77billion (2017)

■ Users of smartphone and mobile internet are increasing

## Users of Internet and mobile internet in China



(Source) Report on Internet Development in China, China Internet Network Information Center (2016)

# 2.3 Factors Contributing to the Shift

## Behind in financial sector

- Credit card penetration rate: low  
(Credit card – 0.43 billion in 2015)
- Unionpay’s role in promoting cashless  
(Debit card “Unionpay” – 6.2 billion in 2016)
- Mobile payment: fast and easy to use

Bank infrastructure / 100 thousand people

	China	North America	Europe
Branch	8.1	28.2	28
ATMs	55	222	81

(Source) World Bank (2014)

## Security

- Counterfeit Money as a serious problem
- US\$0.1 billion in 2014



(Source) Counterfeit money (Baidu picture)

## Low cost

- Expensive card reader vs a simple printout of a QR code
- No charge for personal money transfer
- 0.6% charge for business transactions

## 2.4 Key Players: Alipay and WechatPay

### ■ Alipay: a new ecosystem of financial services

- Both payment services and diverse financial services
- Base of many services provided by Alibaba



(Source) Alipay's HP

### ■ WechatPay: rapid growth

- a function of Wechat, which is a popular free messaging application
- Number of users is increasing



微信支付  
Wechat Pay

(Source) WechatPay's HP

### ■ Two important payment platforms

- Have conquered the service sector
- Dominate elsewhere, which do you want to use?
- **More than 90% of the mobile payment market**
- Intense competition, Apple pay, JD pay, Unionpay Quick...
- **Expand to public services**  
and beyond China to overseas markets

# 3.1 An Important Gateway to Other Services

- Fast and easy to use for consumers' convenience
- Increase the users of many other services
- A case of mobile payment and bike-sharing service



(Source) People can ride Mobike or ofo by Alipay or WechatPay  
(photo by Zhao, Beijing/China, Guangzhou/China)

# 3.2 Cashless in Transportation Systems

## From cash to card and smartphone application

### Shift in payment method

	Description	Cash	(Bank / Credit ) Card	Mobile Payment
Bus	common, popular public transport tools	✓	n.a. (Bus card)	✓ (some cities)
Subway	increasing in megacities and bigger cities	✓ n.a.	✓	✓ (some cities)
Railway	becoming convenient	✓	✓	✓



(Source) No cash mark when buying the tickets in the subway station (photo by Zhao, Shanghai/China)



(Source) Mobile payment as a payment method (photo by Zhao, Hangzhou/China)

## 3.3 Diffusion of Mobile Payment

- Not only as a payment method to buy tickets
- A new style: scan, pay and pass
- More cities begin using QR code services to allow passengers quicker entry and exit via the mobile payment in public transport
- To push the public transport to card-less and cashless



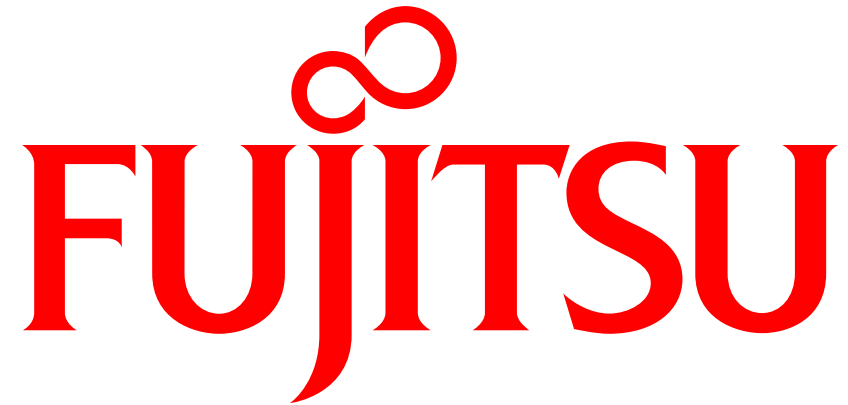
(Source) People are going to scan the QR code to pass in the subway (photo by Zhao, Hangzhou/China)



(Source) Promotion of the use of Alipay when passing the gates of Shanghai's subway (photo by Zhao, Shanghai/China)

# At Last...

- The rise of China's cashless society
  - Mobile payment is growing fast
  - Advantage and disadvantage
  - Security of transaction, data protection
- Expand to public services for a more efficient/smart society
  - To improve the efficiency of payment
  - To give impact to business model
  - Public transport as a new battlefield
  - More public services (hospital, government services)
  - Possibility of going broad
  - Balance of regulation and deregulation



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