

# **Governmental Regulations of Electronic Payment Companies: The Case Study of Alipay in China**



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## **Abstract**

The Chinese government has developed and implemented several regulations in 2010, 2015 and 2018 to improve the functioning of online payment platforms in the country. These regulations have severely impacted the functioning of Alipay, one of the most-frequently used online payment platforms in China. This study sought to investigate whether and how the policy cycle model (PCM) can explain the Chinese government's response to the development of Alipay. For this purpose, the research has utilized the theory testing process tracing approach, in addition to the within-case analysis and document analysis methods. Furthermore, a set of assumptions were developed and tested, with the research indicating that the Chinese government has indeed undergone all of the stages of the PCM in the series of regulations that were instated between 2010 and 2018. A conceptual model, combining the PCM and the multiple streams framework, was developed in order to depict the response of the government in different stages and streams. Since the series of regulations indicate that the government had a hidden agenda, this research was essential to understanding its underlying motives. Currently, few studies have been conducted which illustrate the applicability of policy theories. Hence, scholars must conduct further research to better understand the adoption of these theories in relation to different public policies in practice.

## Table of Contents

<b>ABSTRACT.....</b>	<b>2</b>
<b>CHAPTER 1: INTRODUCTION.....</b>	<b>5</b>
1.1 BACKGROUND AND PROBLEM STATEMENT .....	5
1.2 RATIONALE OF THE STUDY .....	7
1.3 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS.....	8
1.4 SIGNIFICANCE OF THE STUDY .....	9
1.5 STRUCTURE OF THE THESIS.....	10
<b>CHAPTER 2: LITERATURE REVIEW.....</b>	<b>11</b>
2.1 INTRODUCTION.....	11
2.2 POLICY CYCLE MODEL .....	13
2.3 THE MULTIPLE STREAMS FRAMEWORK.....	18
2.4 THE ADVOCACY COALITION FRAMEWORK.....	21
2.4.1 <i>The Implications of Policies on this Research</i> .....	24
2.5 ANALYTICAL FRAMEWORK.....	24
2.5.1 <i>Advantages of the PCM and MSF</i> .....	24
2.5.2 <i>Integration of the PCM and MSF</i> .....	25
2.5.3 <i>Conceptual Model of the Analytical Framework</i> .....	25
<b>CHAPTER 3: METHODOLOGY.....</b>	<b>27</b>
3.1 THEORY TESTING PROCESS TRACING .....	27
3.1.1 <i>Within-case Analysis</i> .....	28
3.1.2 <i>Documentary Analysis</i> .....	29
3.2 RELIABILITY.....	30
3.3 EXTERNAL VALIDITY .....	31
3.4 CASE SELECTION.....	31
3.5 TABLE OF ASSUMPTIONS.....	32
3.6 SUMMARY .....	33
<b>CHAPTER 4: DATA ANALYSIS AND DISCUSSION.....</b>	<b>34</b>
4.1 BACKGROUND .....	34
4.1.1 <i>China's Banking Sector</i> .....	34
4.1.2 <i>Alipay: The Mobile and Online Payment Platform</i> .....	35
4.2 CONCEPTUAL FRAMEWORK ANALYSIS: INTEGRATING THE PCM AND MSF .....	36
4.2.1 <i>Problem Stream</i> .....	36
4.2.2 <i>Policy Stream</i> .....	39
4.2.3 <i>Politics Stream</i> .....	43
4.3 THE ADVOCACY COALITION FRAMEWORK ANALYSIS.....	44
4.4 ASSUMPTIONS TESTING RESULTS .....	45
4.5 SUMMARY .....	49
<b>CHAPTER 5: CONCLUSION.....</b>	<b>51</b>
<b>REFERENCES.....</b>	<b>56</b>

## **Chapter 1: Introduction**

### **1.1 Background and Problem Statement**

The evolution of financial technology is critical in bringing about significant developments in the money-management habits of individuals. One such development is the extensive use of online payment applications and wallets, which provides a certain convenience that is associated with payments. Salodkar, Morey and Shirbhate (2015) define electronic or mobile wallets as virtual or cashless services that are used as substitutes for physical cash. As indicated by Ramya et al. (2016), electronic or mobile wallets help consumers make payments, regardless of whether they have a bank account. Another significant advantage of using such applications is that they reduce the likelihood that people will lose their money, which can occur through the loss of physical cash.

However, individuals can also become more vulnerable (Small Business First 2017), for example, if money is stolen from their mobile wallet or they lose their phones, which can be equivalent to the loss of a wallet. Thus, hackers can access important bank-related details and settings from a smartphone (Bosamia 2018). Hence, security threats serve as a major disadvantage to having an e-wallet. Nevertheless, mobile payment applications are revolutionary in that they make transactions easier for individuals as well as for entities to carry out, including for e-wallet companies like the Chinese mobile payment platform, Alipay. As stated by Liu (2019), mobile payment providers tend to provide exclusive access to one's proprietary data, such as purchasing frequency, purchased items, bank details and personal data, including a person's phone number. Thus, governments should be concerned with the possibility that hackers may steal consumers' data, which may lead to fraud and other criminal offenses.

This additionally applies to China, which has been attempting to build a cashless society in the past decade. Since the end of the fiscal year in 2017, Chinese companies have accounted for 90% of the mobile payments market, which is double that of the fiscal year 2016 (CGAP 2019). They are also looking to expand across the world, especially in countries where consumers do not have access to traditional banking

services. However, this is a major concern for traditional banks in such countries, which often find it difficult to cope with these technological advances. As noted by Roy (2017), digital innovations have created a significant gap between traditional institutions and e-wallet companies due to the legitimacy and efficiency of these new digitalized entities. Thus, a change in roles and responsibilities is needed to fill the void and subsequently ensure that competition between traditional and digital entities is being regulated.

However, as indicated by Wang (2018), companies are likely to find it quite difficult to operate efficiently in China since 2018, mostly due to the notable interventions of regulators, such as The People's Bank of China (PBOC), which is the country's central bank. Prior to 2018, many incidents of financial fraud took place through e-wallet or digital financial services, which was caused by the lack of governmental regulation of such companies. Since e-payment platforms deal with individuals and their funds, regulators intervene to ascertain whether companies manage users' deposits effectively, subsequently fostering the introduction of new payment methods. Furthermore, e-wallet companies were also required to prevent fraud by ensuring their consumers' security in order to gain their trust. The significant evolution of companies in terms of security measures has occurred due to the support of regulators, who intend to tighten the regulations being imposed on companies so as to mitigate any potential financial risks. Another reason behind the implementation of significant PBOC regulations has been to enact a limit on spending of 500 yuan to reduce the risk that customers will lose large sums of money. Such Chinese payment wallets operate through QR codes, which can be falsified. For instance, in 2017, people lost around \$13 million in the Guangdong province due to a QR code scam (Tao 2017).

Hence, the PBOC enacted security measures by requiring consumers to verify their identity through electronic signatures and digital certificates in order to prevent monetary fraud from occurring. However, once the effectiveness of such security measures has been ensured, the amount will be increased up to 5000 yuan (Rambus Press 2018). Another major concern, as stated by Liu (2019), is that since the government does not collect and store any significant data, it tends to remain unaware of various changes in consumer behavior that are crucial for administrative decision-

making. Thus, considering the significant issues that exist in payment applications, there is a strong need for regulations to be instated in China.

## **1.2 Rationale of the Study**

Electronic payment activities often do not fall under the domain of traditional banks. Hence, people are more likely to lose their money due to insufficient security measures. Moreover, some companies, such as Alibaba Group Holding Ltd.'s Alipay, act as shadow banks, which are unregulated authorities that conduct financial activities under deregulated conditions, thereby putting immense pressure on other banks and financial institutions and subsequently dominating the market. As indicated by Luo (2016), Alibaba's actions are under the umbrella of the Financial Stability Board's shadow banking area, which monitors global financial activities and provides recommendations.

Furthermore, even though regulators tend to support the development of digital innovation companies, they indicate that compliance with the rules they have developed to secure monetary transactions is fundamental. On the other hand, companies like Alipay are instrumental in providing services to several consumers who were unable to access or be served by traditional financial institutions. However, due to their access to a niche consumer base, situations may arise where companies might pose a threat to such consumers. Thus, banking authorities must regulate the shadow banking practices of such companies. Such regulations have a dual impact as they mitigate any potential threats to traditional banks caused by the over-competitiveness of shadow banks. Likewise, they also protect consumers and their welfare by providing security measures to reduce the risk of monetary fraud.

The primary reason behind the selection of Alipay for this study is that it is one of the most used non-social media applications in the world, ranking in first place based on the number of monthly users it had in 2018 (Ant Group 2019). Additionally, the company has a consumer base of approximately 1.2 billion people globally that it serves in collaboration with local partners, such as True Money in Thailand and Paytm in India. The value of Alibaba's finance affiliate program is worth \$40 billion, which was created

by Alipay and is the nation's biggest fund. Thus, the government's control over Alipay is essential to protecting the financial interests of the public.

Furthermore, the existence of Alipay as a payment application serves as a major potential threat to banks, not only in China but also throughout the world as it aids individuals who do not have any bank accounts. As indicated by Surane and Cannon (2018), the inclination of Chinese consumers to save their funds with Alipay and what the company has been offering to the financial market since 2013 serve as crucial draw factors which can eventually render banks obsolete in the future. As outlined by Liu (2019), one significant threat that regulations seek to prevent is money laundering, even though the deregulated activities of such large companies are pivotal to their success and subsequent contributions to their country's economic growth and development.

Additionally, China has been selected for this study because Alipay has more than 450 million users, thereby representing the biggest payment service in the country, as indicated by Luo (2016). Moreover, regulations also give consumers access to their own data. According to Liu (2019), an increase in the availability of transactional data has enabled the Chinese Communist Party (CCP) and the PBOC to record the intimate behaviors of citizens, including with regard to their personal and professional lives. Such insights are presumably invaluable to them as it grants the government power in various administrative areas, namely in the political, social and economic systems. Thus, regulations imposed on Alipay are likely to both protect public sector banks, which would significantly affect Alipay's operations, and grant the government considerable control over citizens' economic and social activities.

### **1.3 Research Objectives and Research Questions**

The increasing governmental regulations are likely to have a significant impact on all organizations. Thus, it would be interesting to investigate the extent to which regulations have been imposed on Chinese digital payment companies, using Alipay as a case study. Therefore, the primary aim of this research is to test the validity of the policy cycle model through analysis of Alipay while also assessing the measures undertaken by China's government to restrict the functioning of online platforms. This

study also intends to evaluate the policy formation and implementation process used by the Chinese government to monitor the actions of Alipay. Hence, it intends to answer the following research question: *Can the policy cycle model explain the Chinese government's response to the development of Alipay? If yes, how?*

#### **1.4 Significance of the Study**

The regulatory policies of governments and their impact on mobile wallets and electronic payment systems remain an under-researched area, especially considering the fact that such interventions are not heavily documented. Furthermore, since Alibaba has developed as a shadow bank in China in recent times, this may affect the practices of other commercial banks where governments also have a stake, thereby harming their financial interests. As indicated by Luo (2016), the primary reason for the PBOC to assess Alibaba's Alipay is to ensure that a fair, competitive environment exists in the banking and financial services industry. Thus, this study contributes to the limited prevailing studies by assessing the implications of regulations and their effectiveness in restricting Alipay's functioning. On the other hand, this study also sheds light on how regulatory activities might affect the stakeholders of Alibaba and other similar companies.

Although significant research on regulatory practices and their impact on companies has been conducted, the case of Alibaba is different as the government regulates it to ensure that it does not threaten conventional banks. Furthermore, the primary motive behind selecting China and Alipay is that although several studies assess regulatory effectiveness, they focus on Western countries. Thus, the primary research gap pertains to the absence of significant studies on East Asia with regard to regulatory effectiveness. Additionally, the case of Alipay is presumably unique as the major implications of governmental regulations might not affect the functioning of the organization. Moreover, Alipay has significant influence not only in China but also in several other countries where it might eradicate the role played by traditional banks and financial service entities by catering to the needs of several untapped markets. In addition, another reason for selecting Alipay for this research is the innovativeness of

such Chinese payment companies, which tend to dominate the overall mobile payments and banking industry. Thus, it is also critical to elucidate the impact of such practices where the regulatory pressures on e-wallet companies mainly focus on enhancing the effectiveness of government protocols and protecting traditional banks.

### **1.5 Structure of the Thesis**

This thesis consists of five chapters. Chapter 2, the literature review, aims to explore the theoretical aspects of the concepts being studied in this research. Here, previous literature and the perceptions of other scholars regarding e-wallets and relevant regulations are discussed in relation to the policy cycle model, the multiple streams framework and the advocacy coalition framework. Chapter 3 elaborates on the research methods that have been adopted to conduct this study, including the within-case, theory-testing process tracing and document analysis methods. In addition, the process of data collection and data analysis are described. In Chapter 4, the collected data is analyzed and presented to reach a conclusion, focusing on the case study of Alipay in relation to the abovementioned models and frameworks. Lastly, the conclusion summarizes the key findings of the study, describes the limitations of this thesis and identifies its implications for future research.

## **Chapter 2: Literature Review**

### **2.1 Introduction**

A public policy is a set of rules and regulations set by the government that individuals, institutions and groups are expected to follow in a country for the purpose of ensuring the welfare of people in society. Such public policies can be identified as regulations, social welfare programs, funding priorities or planned inaction which lead to specific results, such as economic growth or fewer cases of fraud. These policies can be related to a specific business, industry, community or even all citizens within a country as their purpose is to promote social justice, welfare, growth and equanimity (Ansell, Sorensen and Torfing 2017). Early public policy scholars claimed that public policies focus on the government's authority and vision of how society should be (Kingdon and Stano 1984), whereby a government's primary goal is to stay in power, leading to policies which promote this motive (Ansell, Sorensen and Torfing 2017). However, most contemporary scholars agree that a specific public policy in a country is representative of the vision of the communities in that country, especially since people elect their governments and their opinions largely determine the latter's functioning (Ibid.). Furthermore, if a particular set of policies is not agreeable to the people of a country, citizens are likely to voice their opposition, leading to either modification or removal of the policy or, in extreme cases, the overthrow of the government (Howlett 2019).

The policy development and design process are followed by policy implementation, which means that a planned action is adopted as a solution to a particular problem or in order to further develop society (Milio 2014). In the past, political scientists assumed that the process of public policy implementation is generally easy and uncomplicated, thereby helping the government achieve its goals (Ibid.). However, most public policy administrators and scholars currently acknowledge that the implementation process of a policy is never straightforward and requires contextual and environmental factors to be taken into consideration (Noordegraaf, Annema and van Wee 2014). The failure to achieve the desired results through a policy is known as an "implementation failure" (Ibid.). According to Milio

(2014), implementation failures primarily occur due to three reasons, which are budgeting problems, ineffective policies and insufficient efforts made by the implementers of such regulations.

For example, the scholar Marta Ferreira Santos Farah (2014) conducted a study illustrating that in the United States (US), over 45% of the population thinks that public administrators are incapable of developing efficient policies to tackle existing problems. In addition, approximately the same percentage of people similarly believe that these administrators lack the expertise needed to implement such policies. The study was conducted in relation to Americans, with the intent to better understand the view of the general population on governmental regulations. In addition, over the past few years, policies have become less effective in terms of their ability to meet their goals and concerning whether they can solve problems that exist across different communities. This can be attributed to the increasing complexity of societies and the appointment of officials in government based on the popularity of candidates, instead of their expertise, as is the case in most Asian countries (Farah 2014).

The implementation failure of policies is often followed by the process of policy analysis, which involves comparing the stated goals of a particular policy with its outcomes (Ahlqvist, Valovirta and Loikkanen 2012). The policy analysis process aims to identify the gap between the policy motives and results, which is then analyzed and interpreted to determine whether the policy has able to successfully solve a given problem. The typical tools utilized for policy analysis are surveys, focus group discussions, interviews and document analysis (Ibid.). Apart from the identification of policy effectiveness, the process of policy analysis could also be utilized to understand the underlying motives of the administrators as well as the public's opinion of the policy. This can consequently reveal the objectives that had been set and the reason why they had been identified (Noordegraaf, Annema and van Wee 2014).

Traditional policy administrators and political scientists have also disregarded the policy analysis process as leading to inconclusive results, which has further invited questions on the authority and expertise of the government (Ibid.). They claim that such analysis most often results in increased cases of protests and disregard for the rules. In

addition, the results of policy analysis serve as a tool used by opposition parties and social activists against the government. However, most scholars agree that the policy analysis process is critical to understanding both the effectiveness of a particular regulation as well as the reasons behind its enactment (Ibid.). This is because this method would help in the adoption of more effective policies in the future and the overall development and growth of societies, since it would help to determine the weaknesses and areas that need improvement in public policy.

Although the implementation of public policies in countries is necessary, problems associated with this have largely been attributed to a lack of economic growth and social injustice (Ansell, Sørensen and Torfing 2017). The following sections discuss the policy cycle model (PCM), the multiple streams framework (MSF) and the advocacy coalition framework to explain the process of developing and implementing policies in societies. Then, the next section juxtaposes research on these policies before finally deliberating upon their usage in this research.

## **2.2 Policy Cycle Model**

Ideally, there are six stages of public policy which are widely accepted by scholars around the world (see Figure 1). According to the European Geosciences' Union (EGU), the first stage involves "agenda setting," where the problems related to public interests and needs are acknowledged and addressed (EGU 2020). Such issues are generally those which have either already been discussed by the government or have become highly visible in society. The second stage consists of the stage of policy formulation, whereby different possible solutions are identified, along with the goals that the government needs to achieve. The implications, costs and the reaction of all stakeholders are also analyzed at this stage. The third stage pertains to the process of adoption, whereby a specific policy or framework is prioritized over others and is subsequently approved by the government (Ibid.). In the fourth stage, the policy is implemented through the allocation of resources and the undertaking of certain actions in order to enact the policy. In the fifth stage, the evaluation process begins, whereby the results of the policy are compared with its goals. In the sixth stage, support is

provided to enable the continuation of an effective policy or support is stopped in order to discontinue an ineffective policy.

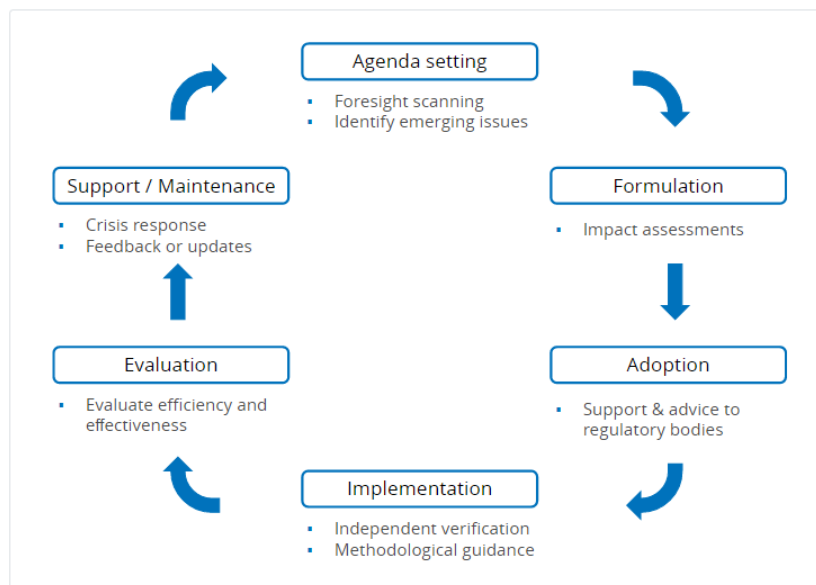


Figure 1: The Generally-accepted Policy Cycle Model (re-developed) (EGU 2020)

However, Janssen and Helbig (2018) proposed that the PCM and its processes should be modified in order to deal with the innovative and dynamic environment in European countries. They also indicated that the PCM should be practiced in combination with Sonja Blum’s modelling cycle, which incorporates the processes of problem definition, conceptualization, data collection, verification and validation and lastly, experimentation. Furthermore, the authors argued that the PCM needs to be modified in order to include the general population and their perspectives in the decision-making process, in accordance with participatory governance (Janssen and Helbig 2018). Innovations in technology and information systems should also be leveraged by the government in policymaking and implementation. First, at the agenda setting stage, the government should collect data from citizens, businesses and other relevant stakeholders. Second, the policy formulation and adoption process should be supported through crowdsourcing, simulation and co-creation between different stakeholders. Third, the policy implementation process involves collaboration between the private and public sectors. Lastly, the policy evaluation and maintenance process should be overseen through the use of surveillance, sensors and smartphones.

In addition, further research on the PCM has led to the development of additional stages and categorizations in order to decrease the level of complexity, so as to increase the applicability of policies. In their research, Höchtl, Parycek and Schöllhammer (2016) placed the stages of the PCM into two separate categories: the policy development and the policy implementation phases. Moreover, the authors proposed seven stages of the model, which are agenda setting, policy discussion, policy formation, policy acceptance, provision of necessary means, policy implementation and policy evaluation. They further indicated that all seven stages of the policy cycle can be integrated into these two categories. Although these scholars' model is generally similar to that of Janssen and Helbig and the EGU's model, Höchtl, Parycek and Schöllhammer's (2016) model claims that the evaluation stage in a policy cycle should be seen as a continuous process, which takes place during all other stages and moves back and forth between them, instead of viewed as a separate phase (see Figure 2). It is also different from other proposed models as it claims that the different divisions in the PCM do not take place separately from one another or in different steps.

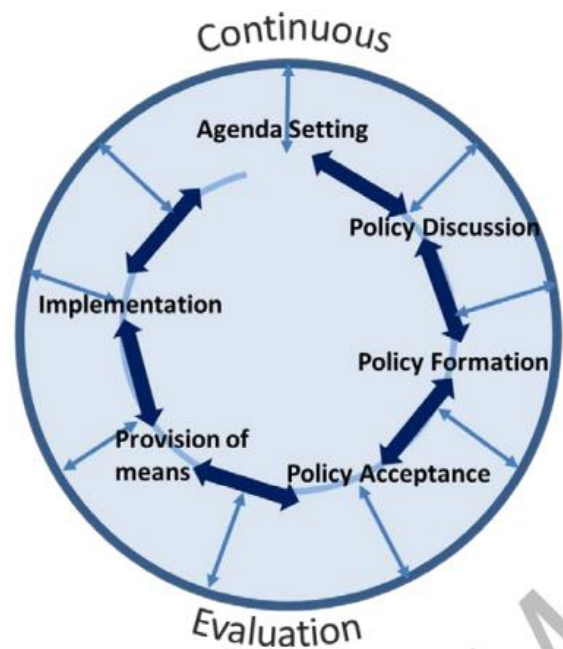


Figure 2: Höchtl, Parycek and Schöllhammer (2016), Policy Cycle Model

The PCM has been further developed so as to simplify the number of stages as well as include other contexts in which policy formation and implementation take place.

Another researcher, Pippa Norris, proposes her own model, which provides a cultural explanation of the PCM. Norris's (2011) model proposes that the creation and adoption of policies takes place across three stages, which are the agenda setting, policymaking and implementation stages. Furthermore, the whole process is affected by the evaluation and feedback that is received from different stakeholders, which takes place across all stages. She further suggests that the environmental context, which pertains to the culture, traditions and socio-economic development of a particular community, strongly impacts the policy cycle stages (see Figure 2).

Although Norris's model is similar to that of Höchtl, Parycek and Schöllhammer (2016) in emphasizing the continued evaluation of the different phases of policymaking and implementation, it differs from other models by acknowledging the context of a public policy's environment. For example, Howlett, McCommell and Perl (2016) differ by arguing that the consideration of the whole policy environment can lead the model to become highly complex. They further claim that the actual goal of the PCM is to simplify the whole process for policymakers and implementers, rather than to make it more complex. Due to the model's increased complexity, which results from the incorporation of many aspects, the abovementioned scholars indicate that it is difficult for the implementers to satisfy the conditions of all aspects, thereby leading to the lower applicability of policies.

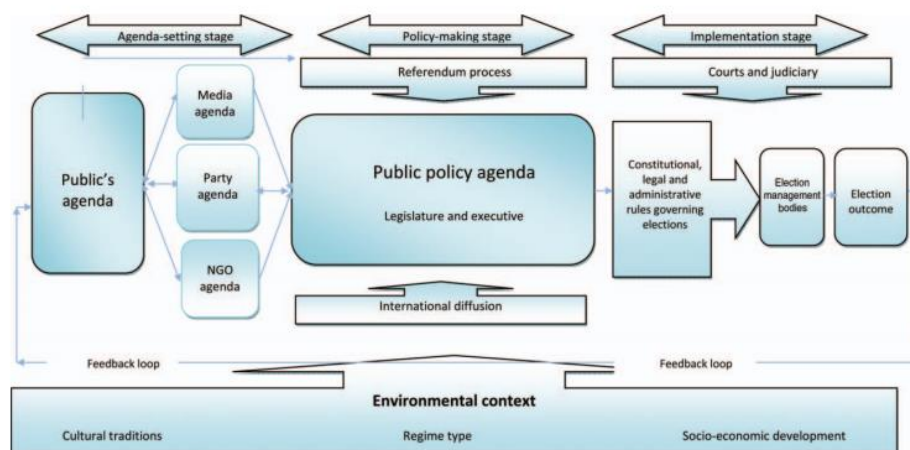


Figure 3: The Policy Cycle Model by Norris (2011)

Although it has been refined by several theorists, the PCM has been criticized for failing to address legislative factors and other matters in administrative procedures, which largely affect the policymaking and implementation process. It has also been criticized for being simplistic and highly rational, in that it is unable to consider the subjectivity arising from the individual characteristics and actions of actors involved in the policy development process (Howlett 2019). Even though efforts have been made to include contextual features and other components, the PCM appears to be unable to include them all since their actual inclusion in reality is more complicated than is implied by the theories. Researchers have also proposed other models for policy development and implementation, claiming that the PCM has not addressed the most critical factor of the policy development phase. This is in reference to administrators' political motivations to stay in power and personal economic benefits, which can influence the way in which a policy would be developed and implemented (Howlett 2019). For instance, some political motivations may persuade officials to devise policies that they know would eventually fail by steering the policy implementation process in a way that would most benefit them, regardless of whether the policy would aid society.

Aside from the abovementioned criticisms of the PCM, some researchers have completely rejected its basic premise, which refers to the top-down approach, which means that decisions are taken by top-level actors (administrators) and applied to lower-level actors (society). This is further based on the assumption that policymaking and implementation are hugely influenced by legislators and administrators (Nilsen et al. 2013). By contrast, the bottom-up approach claims that it is rather field variables within the general environment that significantly impact policy processes. Nilsen et al. (2013) further claim that those who implement policies are actual street-level bureaucrats, who continuously refine and modify policies to improve their application. As such, the PCM has been criticized for undermining the role of street-level bureaucrats as well as other field variables since it focuses predominantly on higher-level actors and their actions instead of lower level actors. This has resulted in the evolution of policy which is very different from the original policy developed by policymakers at a higher level. However, the bottom-up approach has itself been criticized for being unable to determine all field

variables and the extent of their impact on the policy implementation process. Therefore, despite its shortcomings, the PCM is useful for studying, developing and implementing public policies within communities since it examines the whole process in specific measurable and observable stages.

### 2.3 The Multiple Streams Framework

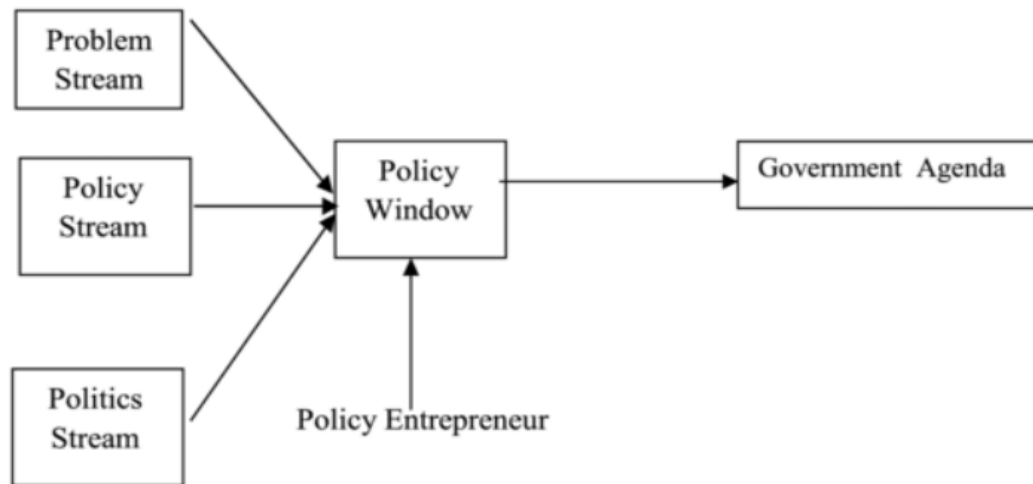


Figure 4: The Multiple Streams Framework

Apart from the PCM, the MSF also serves as a useful theory to understand the policies developed by the government. According to this model, it is not the different tasks or activities undertaken as part of the policy but rather the role of different actors and their opinions that influences the policy's creation and implementation (Howlett 2019). This model was developed by John Kingdon, who focused primarily on the agenda setting stage. Kingdon claimed that the process of policy formulation is necessarily dependent on three parallel and yet semi-independent processes, which are the problem stream, policy stream and the politics stream (see Figure 4). First, the problem stream identifies different problems related to society's functioning and their likely impact on a community. Second, the policy stream discusses different solutions to these problems and the expected impact of these solutions. Lastly, the politics stream determines the different stakeholders and their support or effect on a particular policy, in addition to their reaction to it.

Howlett (2019) states that under the policy stream, there are several policy entrepreneurs who actively develop solutions to problems and recommend them to policymakers. A policy entrepreneur refers to an official who offer different solutions to problems to policymakers, thereby hastening the decision-making process. According to Kingdon and Stano (1984), these policy entrepreneurs generally work in accordance with their interests and personal beliefs during a particular “policy window,” where due to an emerging problem, policymakers are required to develop and implement a policy.

However, the overemphasis of most theorists on policy entrepreneurs in the MSF has been criticized by some researchers, including Knaggard (2015). He claims that this focus has resulted in the combination of the three streams, which are actually independent of one another as they typically function in isolation and may or may not result in the development of a policy window. Knaggard (2015) also places special importance on the problem stream, further discussing the process of framing and the role played by problem brokers, who are actors in policymaking (primarily in the agenda setting stage) that identify important public problems. However, they are different from policy entrepreneurs in that they do not necessarily offer solutions to any problems. Problem brokers present issues to policymakers, with the help of a particular problem frame, which seeks to define a problem across the social, political and economic domains. Under the framing process, problem brokers focus on the impact of an issue, which is most likely to grab the attention of policymakers.

Furthermore, the three streams in the MSF have been coupled with the scientific utilization concept so as to lead to better policy results. Blum (2018) argues that there is a need to combine the MSF with the concept of scientific knowledge utilization, which will make the policy theory more suited to the policy development process. This concept refers to the consideration of a problem in terms of its causal mechanisms, their results and the complex relationship between cause and effect. Of the three streams mentioned earlier, the policy stream discusses the investment decisions to be made and technological resources. Furthermore, it addresses the importance of resources and investments for communities and the different ways in which resources can be

combined. Moreover, the politics stream takes into consideration the attitude of the ruling party, the outlook of voters and the interests of related organizations. Blum (2018) additionally states that there are three other components in the scientific knowledge utilization process, which are the operational, political-strategic and information-related aspects. When combined, Blum argues that the MSF and the scientific knowledge utilization concept lead to greater understanding of the policy process. This is because scientific knowledge utilization considers MSF streams in terms of causes and consequences. The operational aspect of this concept would help policymakers develop several solutions to a particular problem whereas the informational aspect only enables them to learn about policy development in the long-run.

Apart from the several definitions and applications of the MSF that exist, some researchers have criticized its overall approach. As illustrated earlier, Kingdon claims that policy entrepreneurs generally prioritize their interests and personal beliefs during a “policy window” when a problem emerges. However, Ackrill, Kay and Zahariadis (2013) indicate that most researchers emphasize the personal interests of policy entrepreneurs. In fact, policymakers are mainly seen as being influenced by their personal interests and their budget, which refers to the cost-benefit analysis pertaining to the implementation of a policy. Although policy entrepreneurs may play a significant role in proposing policies, the power to make decisions still generally remains with policy administrators, which these three scholars emphasize, unlike others. The significance of this can be understood in the example of Greece’s debt to European Union (EU) creditors during the global financial crisis of 2008, whereby EU policymakers initially did not agree with policies to reduce this debt. However, they later agreed based on a number of cost-benefit analyses. Prior to its adoption of the euro as a currency, Greece was experiencing an economic crisis in the 2000s. However, after its adoption of the euro, EU creditors were able to significantly reduce Greece’s debt since the continuing debt crisis could have impacted the value of the euro and the economic development of dozens of European countries.

Furthermore, the MSF has been criticized for its ambiguity. Cairney and Jones (2016) also discuss the flexibility of the MSF, whereby many interpretations can be

made based on the application of this theory. The authors also claim that no clear results can be achieved based on the current adoption of the MSF due to the differing impact of the three streams on the policy window as well as the ambiguous role played by policy entrepreneurs in this process. Such ambiguity can be perceived in Howlett's (2019) research on the role of the three streams, which incorporates the impact of different factors on the policy window.

#### **2.4 The Advocacy Coalition Framework**

The advocacy coalition framework is another useful model to understand the formation and implementation of public policies. Developed by Sabatier (1998), the author argues that the process of policy formulation and implementation is not as simple as has been proposed by previous models as it occurs in the form of a complex relationship between different actors and processes. Such complexity arises due to the beliefs and values of different actors in the policy formulation and implementation that directly or indirectly influences the whole process (Sotirov and Memmler 2012). A country's socio-cultural values, constitution, economic conditions, public opinion, political rivalries and the personal beliefs and resources of its policy actors all combine to form a coalition or a system which largely determines the solutions that are formulated to handle a problem in the form of public policy (see Figure 3).

The implementation of these solutions also takes place in the context of a formed coalition (Ibid.). For instance, the constitution of a country might disregard the role of public or opposition parties in policy formulation, leading the government to play a larger role in policymaking. In other cases, more dire economic conditions in a country may lead a government to focus more on issues of poverty and hunger instead of matters related to freedom or equal rights. However, it is important to note that the personal beliefs of governmental actors may influence how they approach policies, such as those related to environmental protection. Therefore, the advocacy coalition framework reduces the magnitude of a problem by developing a solution and promoting the formation of a coalition that consists of different actors and processes who work together to create policies.

Furthermore, Sotirov and Memmler (2012) indicate that there are primarily four features that impact policy development and implementation, which include relatively stable parameters, external system events, long-term opportunities and short-term constraints. Firstly, the relatively stable parameters refer to natural resources, social structures, laws and problem areas. Secondly, external system events pertain to socio-economic conditions and public opinion. Thirdly, long-term opportunities discuss overlapping social cleavages, such as those regarding different values and beliefs of

M. Sotirov, M. Memmler / Forest Policy and Economics 16 (2012) 51–64

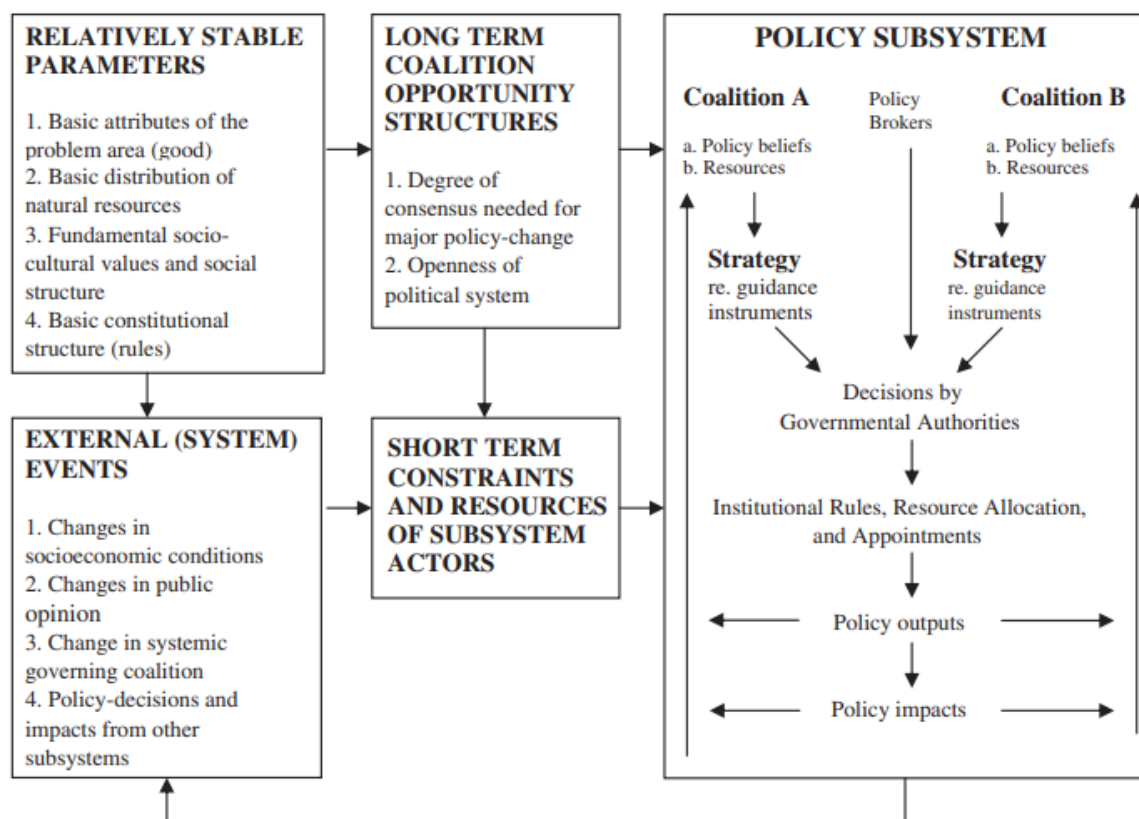


Figure 5: Advocacy Coalition Framework (Sotirov and Memmler 2012)

communities and the level of consensus among different actors. Lastly, short-term constraints involve the opposition of relevant actors. These four factors form a coalition that establishes a policy subsystem, which alludes to the whole process in which policies are formulated and implemented. Under this subsystem, different coalitions are made with the help of policy brokers, leading the government to make a final policy decision in the form of rules and procedures that are written down, implemented and

maintained by the government. The final result is the output and impact of the policy in question.

The advocacy coalition framework has been further discussed in-depth by several researchers. Pierce et. al. (2017) conducted research where they analyzed governmental documents to determine the application of policies. They also analyzed several journal articles regarding this framework, utilizing coding and content analysis to do so, whereby they claimed that the advocacy coalition framework can be divided into three aspects: advocacy coalitions, policy change and policy-oriented learning. Firstly, advocacy coalitions consist of policy actors who work together to achieve policy outcomes. The authors claimed that in almost all applications of this framework, at least one coalition was involved. Secondly, a policy change is an event in the policy subsystem which is largely influenced by four factors, which are external events, the presence of policy brokers, internal events and the knowledge gained from previous experiences. Lastly, policy-oriented learning addresses significant changes in the thoughts and behavior of individuals, which occurs due to their experience with previous policies. Pierce et. al.'s (2017) research is similar to that of Sotirov and Memmler (2012) as the former suggest the need for greater clarity and the identification of key aspects in the policymaking process.

Weible et. al. (2011) additionally elaborate on the advocacy coalition framework, evaluating several of its definitions and descriptions in different studies. While the scholars' findings led to results that were similar to each other, the authors emphasized the role of socio-cultural values and structures in the formation of public policy. They indicate that the former play a critical role in policy formulation since they impact policies at three levels: policy brokers, policy makers and voters and communities.

However, the advocacy coalition framework has also been heavily criticized for some of its limitations, with Howlett (2019) indicating that it is complex and messy due to the interaction of several aspects, coalitions and systems. Such complexity is said to limit the ability of actors to form and implement policies. Furthermore, Howlett also argues that the role of different events in policy formation, which are generally unstable,

makes the process unpredictable and therefore less controllable. Hence, this framework cannot successfully lead to the successful implementation of policies, which is the key component of any policy process.

#### **2.4.1 The Implications of Policies on this Research**

Scholars have argued that by focusing on the government's motives behind policymaking, it is possible to realize that several factors affect its decision to formulate a particular regulation. The PCM and the MSF jointly help explain the different political factors and struggles in the politics stream which can impact the policy development process. Hence, despite the abovementioned limitations, the advocacy coalition framework is critical to understanding the socio-cultural values of both the government and society that would affect the development of policies.

#### **2.5 Analytical Framework**

It has been revealed in the above discussion that each framework has some advantages and disadvantages. Hence, the analysis of a policy from one framework would have some limitations due to the disadvantages of each framework. This study has therefore combined two frameworks to analyze the policy and overcome such limitations, which are specifically the PCM and the MSF. The reason behind this combination is that both models complement each other. In other words, the PCM stresses the importance of the tasks, activities and functions needed to formulate a particular policy while refraining from discussing the influence of different actors on policy issues. However, the MSF largely fills this gap by addressing the different actors that are involved in policy issues. Thus, the advantages of the two models are discussed in detail in the following section. Furthermore, the conceptual model is subsequently delineated, which illustrates how these two models have been combined to analyze the PBOC's regulations in China.

##### **2.5.1 Advantages of the PCM and MSF**

The study uses the PCM due to its various strengths. According to Höchtel, Parycek and Schöllhammer (2016), the first advantage is that the whole process of forming and applying a policy is categorized into distinct stages, enabling policymakers to navigate

between them and make corrections as needed by going back to any stage due to the model's flexibility. Furthermore, during the analysis, it is easy to determine exactly where the problem lies in the process and in any particular level. The second advantage of the PCM is that it relies on decision-making based on statistics and quantitative data, thereby allowing the model to show the researcher any tested and definitive outcomes.

Hence, this model has been chosen to analyze the abovementioned policy as it points out shortcomings in specific activities that are undertaken while also providing objective outcomes. In addition, the MSF has been chosen to complement the PCM, with its main benefit being that it captures the opinions, individual dynamics and institutions involved in making and implementing a policy (Saurugger and Terpan 2016). Since a variety of actors and institutions shape this process, the MSF focuses on them and their influence over the policy in each stage.

### **2.5.2 Integration of the PCM and MSF**

The two models have been chosen to analyze the policy but it is equally important to address how these models have been combined. The PCM has generally been divided into three phases, which are policymaking, policy implementation and policy evaluation (Howlett, McCommell and Perl 2016). Within these three phases, six steps have been placed into these categories. For example, the agenda setting and policy discussion steps correspond to the policymaking phase. Then, policy formation and policy acceptance are the steps involved in the policy implementation stage. Lastly, the provision of means and the implementation steps are in the policy evaluation stage. The MSF can then be integrated into these three phases in order to determine the actors that affect a policy. In this way, comprehensive analysis of the policy would be done where the tasks or activities would be determined by the PCM and the actors involved would be examined by the MSF.

### **2.5.3 Conceptual Model of the Analytical Framework**

Figure 6 illustrates the conceptual model for the analysis of the policy. The research first analyzes the agenda setting and the discussion of the policy initiatives to identify

the problem and analyze the gap that exists in society. The research also determines the actors involved in the problem identification stream, such as civil society and non-governmental organizations (NGOs). In the second phase, under the policy stream, the research analyzes the policy formulation and policy acceptance steps of the PCM, in addition to the actors involved in this process. Lastly, the policy implementation and provision of means are analyzed under the politics stream with regard to whether adequate resources have been used in the final implementation of a regulation.

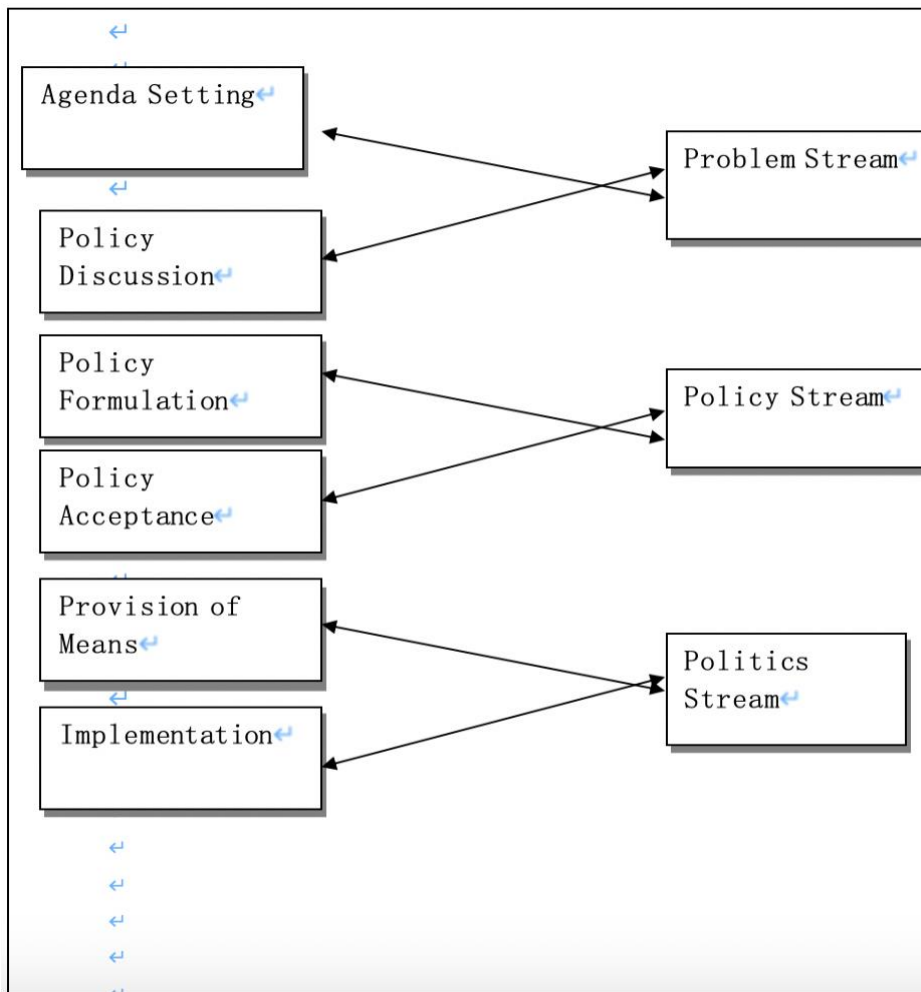


Figure 6: Conceptual Model

## **Chapter 3: Methodology**

The purpose of this study is to test the validity of the PCM using Alipay as a case study. For this purpose, the methodology has been designed to fulfill the objectives of the research. The following sections describe the within-case, theory-testing process tracing and document analysis methods as part of qualitative research and the reason behind the selection of these methods. Then, the next sections illustrate the process tracing method while additionally discussing the reliability, validity and ethical considerations of the overall research.

### **3.1 Theory Testing Process Tracing**

In the social sciences, process tracing involves determining the causal mechanisms behind a certain phenomenon in a single-case study design (Beach and Pedersen 2019). In this context, a causal mechanism refers to a system in which interaction between several components (or causal factors) results in a particular outcome. This outcome is then stated as a phenomenon, which is studied through the process tracing method. Within this method, the researcher seeks to identify and understand the different variables that come into play as well as the link between them. Process tracing methods are highly useful for the development of inferences about a causal process or factors and the mechanisms of an outcome. However, the method has been criticized due to its lack of objectivity and measurability (Ibid.). This ultimately prevents researchers from fully justifying their results or presenting them to other scholars for cross-checking since this subjectivity leads to inconsistency in the results. Moreover, the difficulty in measuring data prevents researchers from utilizing certain tools for testing. Nonetheless, process tracing serves as a useful method in qualitative research which can help researchers understand the causal mechanisms of a particular phenomenon (Ibid.).

Furthermore, the theory testing process tracing approach involves deducing a theory from existing theories and concepts (Ibid.). These inferences are then tested based on their presence in the causal mechanism and whether a phenomenon has occurred in accordance with an established theory or hypothesis. In this research, the theory testing process tracing approach helps the researcher easily organize and draw

inferences from the available data and from already existing theories. It also helps in determining the causal mechanisms of the phenomenon being studied.

### **3.1.1 Within-case Analysis**

The within-case analysis process requires the researcher to categorize qualitative data into certain categories or themes, which leads to the thorough analysis of different aspects within a case (Yin 2011). There are four types of within-case analysis approaches. The first one is the partially-ordered display, which requires minimal effort for the generalization or structuring of data and displays all the information that the researcher has gathered in a particular context (Ibid.). The second type of within-case analysis involves the time-ordered display, referring to the categorization of data in chronological order, based on the time of the occurrence of events. The third type is the role-ordered display, whereby the researcher arranges the qualitative data based on the informal or formal role of the participants in an event. Lastly, in the fourth type of display, the information is grouped together based on the different concepts or variables that were developed earlier or refined by the researcher (Ibid.). In this case, the researcher has chosen the time-ordered display for the purpose of this research.

The time-ordered display method has been chosen since this case involves the “tightening” of regulations, which means that developments in policies have taken place in some steps over a period instead of at only one point in time. This is shown through a table which depicts the tightening of regulations in China regarding mobile or e-wallet payment platforms.

According to Moller and Skaaning (2017), within-case study analyses have several advantages. They allow researchers to convert observations concerning a case into usable data (Onwuegbuzie and Weinbaum 2016). For instance, the data of a secondary research case study concerning an independence movement can be arranged into several stages based on unjust events, initial conflicts, awareness campaigns and the rise of protest armies. In addition, according to Finne et al. (2013), the within-case method also allows for multiple research tools to be used, ranging from interviews to direct observation. Thus, the case study method provides flexibility to the researcher

based on his or her convenience. However, apart from the benefits, the case study method also has some limitations. Bornmaan (2014) argues that the main limitation of case study analysis is that several other relevant factors are involved. In other words, the specific conclusions drawn may be influenced by other factors. Another limitation is that it takes a lot of time to gather data for a case study, such as weeks or even months, thereby making the process of collecting data somewhat tedious.

### **3.1.2 Documentary Analysis**

Aside from the within-case analysis, this research has chosen the document analysis approach, which entails collecting data from different documents and arranging them into several categories or themes (Karppinen and Moe 2012). The purpose of document analysis is to derive meaning from this data, which is particularly useful in this research due to the dearth of requisite primary sources that the researcher has access to. In addition, this method is more useful to understanding the government's true motive behind tightening regulations in China concerning mobile or online payment platforms as well as in understanding the overall impact of such regulations on the branding and financial reports of Alipay.

Document analysis also has many benefits. According to Bowen (2009), this includes the ease of gathering data as the documents produced by various institutions are easily available. Furthermore, document analysis also strengthens the arguments and conclusions drawn from the research as it complements the research findings. However, there are a few limitations as well. According to Woodside (2010), the documents that are gathered for a study might not contain all the information or data required by the researcher to conduct the study. In addition, it is possible that such documents contain inaccurate or unreliable information. Thus, the researcher must be aware of these issues when considering document analysis.

This thesis uses online public documents as data sources, such as handbooks, Alipay's financial reports, corporate social responsibility (CSR) reports of businesses, government reports, media reports, manuals and publicly-available transcripts of legal proceedings or government meetings (Stage and Manning 2015). These documents also

include the PBOC's reports, the agendas and objectives of policies, previous research conducted in this field and articles written by the Chinese media, depicting statements made by governmental spokespersons and online payment companies. In the context of this research, which deals with governmental regulations, governmental documents have been predominantly used as they contain information about state policies.

### **3.2 Reliability**

The reliability of a study relates to the authenticity of the data collected and analyzed. In qualitative research, reliability refers to the extent to which the reader can trust the research results, claims and overall interpretations that have been made (Flick 2015). This is a necessary aspect of research since the results can only be adopted, generalized or used in other research if the content is trustworthy. There are a number of means through which researchers can ensure the reliability of their work. Firstly, data should only be gathered from authentic sources (Silverman 2016). For instance, the data obtained from a well-established research organization is likely to be authentic since the information would have been carefully verified and cross-checked before being included in a study. Furthermore, researchers should ensure that their data results have not been affected by their personal biases (Ibid.), as this will ultimately make their research more credible.

In addition, researchers can ensure the reliability of their research by using updated sources instead of those which are outdated. According to Zuschke (2020), the data gathered by any researcher is of paramount importance as the credibility of the research is dependant on the reliability of the data. Numerous techniques have been employed to check the reliability of data, with Ilva (2017) arguing that this can be done by checking data sources, their consistency and the authors of certain data. This research is also credible due to a number of reasons. Firstly, only data from sources that have been published in the last ten years have been included. Secondly, this research has chosen data from sources like company websites, governmental reports, well-established media reports and peer-reviewed journal articles. The information from these sources has been further cross-checked with other sources to ensure the validity

of the information contained therein. Thirdly, this study has cross-checked the data that was gathered from at least two sources to ensure that the claims are true, thereby making this research credible.

### **3.3 External Validity**

Validity is a necessary aspect of research which refers to the extent to which it can be generalized across populations, phenomena, events or industries (Hesse-Biber and Leavy 2010). Since the primary purpose of any research is to be able to better understand a particular phenomenon, the validity aspect of a research is significant for a study to be useful. The authenticity and objectivity of research, as well as the inclusion of all relevant features, increases the validity of any research (Silverman 2016). This research has a reasonable validity due to its high authenticity, objectivity and inclusion of all necessary elements.

### **3.4 Case Selection**

In any study, the case selection is a critical component that determines the success of the whole research. There are several aspects which impact the case selection process, such as the suitability of the case based on the research purpose, the interest and aptitude of the researcher and the available resources (Yin 2011). In this research, the case focuses on the impact of the PBOC's regulations in China on the functioning of Alipay between 2010 and 2018. The first aspect of the case involves the increasing amount of regulations created to monitor the activities of online payment platforms, which is indirectly influenced by the Chinese government's personal motives. This has led to public concern over the actions of online and mobile payment companies due to the restrictive nature of the regulations. The second aspect of the case pertains to Alipay and the significantly negative impact of the increasing regulations on Alipay, leading to huge losses caused by a decrease in shares and a smaller market. These two aspects of the case are interrelated in that the first aspect directly impacts the second one, meaning that the PBOC's regulations have directly impacted the functioning of Alipay in China.

### 3.5 Table of Assumptions

Stage in Policy Cycle	Assumption
<b>Agenda Setting</b>	This involves the identification of issues related to the digital functioning of payment platforms, which impacts the communities or the government itself in a negative manner and requires governmental intervention.
<b>Formulation</b>	At this stage, the goals of public officials in relation to what benefits a community and/or the government are identified, along with the solutions needed to solve the problem in the digital world in order to fulfil the specified goals.
<b>Adoption</b>	This stage involves the selection of a particular policy over other solutions that have been offered so as to solve any problem that has arisen due to the emergence of a digital phenomenon, like a new regulation that influences the activities of payment platforms or companies.
<b>Implementation</b>	In the implementation stage, regulations are applied, thereby alerting the public and businesses to this through press releases and governmental statements. Furthermore, restrictions are imposed on online platforms and policy goals are established.
<b>Evaluation</b>	At this stage, the results of policies regarding the regulations are recorded and compared with the set parameters and goals in terms of what the policy has achieved.
<b>Support/ maintenance</b>	Based on the evaluation results, the government should decide whether to continue to invest resources in this digital policy and continue the abovementioned regulations.

### **3.6 Summary**

The purpose of this study is to test the validity of the PCM using Alipay as a case study. Thus, the research methodology has been designed to fulfill all of the objectives of the research. In social science research, process tracing is related to the identification of a causal mechanism behind a certain phenomenon, especially in single-case study designs. In this research, the theory testing process tracing approach helps in drawing inferences from the available data and already existing theories. Furthermore, the within-case analysis allows the researcher to organize qualitative data into certain categories or themes, which leads to thorough analysis. More specifically, the time-ordered display has been selected, which involves organizing the data into a sequence of events based on their occurrence over time since the case being studied pertains to the “tightening” of regulations between 2010 and 2018, instead of at one point in time. This research has also chosen to study public documents that have been made available online for the purpose of data collection, which includes handbooks, Alipay’s financial reports, CSR reports of businesses, governmental reports, media reports, manuals, publicly-available transcripts, the PBOC’s reports and Chinese media reports. Hence, this research focuses on the impact of the PBOC’s regulations in China, specifically on the functioning of Alipay.

## **Chapter 4: Data Analysis and Discussion**

### **4.1 Background**

#### **4.1.1 China's Banking Sector**

The banking sector in China is one of the highest revenue-generating sectors in the country as well as in the world, with its total assets valued at \$40 trillion in 2019 (Deloitte 2019). Currently, there are four major banks owned by the state, which are the China Construction Bank, the Agricultural Bank of China, the Industrial and Commercial Bank of China and the Bank of China (Stevenson and Li 2019). These banks perform several major functions, including the provision of loans, monetary transactions, issuance of banknotes and the preparation of fixed deposits. Furthermore, other private banks have also been established in the country, namely Xincheng Bank, the National Commercial Bank and Ningpo Commercial and Savings Bank. Despite being privately-owned, they are largely controlled by the Chinese government (Deloitte 2019). In addition, while a few foreign banks exist in China, their functioning has been largely affected by the nationalist government's restrictive policies, which were instated after Japan threatened to wage war on China in the 1940s (Stevenson and Li 2019). Such threats led the latter government to increase its investments in its military personnel, navy and military equipment, which caused the government to further divert capital through banks.

The PBOC was established in 1948 based on the combination of three banks, which are the Xibei Farmer Bank, Beihai Bank and Huabei Bank. It currently serves as the central bank in China, located in Beijing, and its value was deemed to be more than \$3 trillion in 2019 (Deloitte 2019). The PBOC oversees the functioning of different financial institutions in the country and is also responsible for the development and enforcement of monetary policies (Pellegrini, Pellegrini and Sergi 2018). In the 1990s, a series of regulations mandated that all governmental, private and foreign banks operating in China would be answerable to the PBOC with regard to their different functions. Moreover, they must report to the PBOC and turn to it for guidance or instructions for other operations. The governor and deputy governors of the PBOC are

responsible for making different decisions related to banking and any similar operations (Yi 2019). However, the National People's Congress of China directly manages the appointment, decision-making and removal of officials. It also oversees any other actions undertaken by the governor or deputy governors of the PBOC. Therefore, it can be seen that the PBOC controls the different functions and operations of financial institutions in China, which itself is predominantly controlled by the Chinese government.

Indirect control over most of the financial institutions in China provides the government with access to two primary resources, which are consumers' data and citizens' savings. Through its control of financial institutions, the government has access to data related to transactions and the money owned by different citizens (Ibid.). This data helps the government monitor and control the activities of different individuals in the country (Ibid.). In addition, banks in China earn their revenue through five sources, which are through interest on loans, interest on different investments, transactional fees, foreign exchange operations and commission earned through the sales of third-party products (Pellegrini, Pellegrini and Sergi 2018). Although the government claims it does not have access to the funds of the PBOC, it actually does and can easily utilize them for its different needs, such as by meeting fiscal deficits or during national emergencies. The Chinese government's control over citizens' data and the money held by financial institutions has especially increased after a series of financial regulations were established by the government's finance committee in the 1990s to control the resources and operations of the PBOC (Ibid.).

#### **4.1.2 Alipay: The Mobile and Online Payment Platform**

Alipay is a mobile and online payment platform which was founded in 2004 by Jack Ma, the owner of Alibaba. Initially, the company was established in Hangzhou, a city in China, but was later moved to Pudong, Shanghai (Alipay, n.d.). By 2018, Alipay had become one of the most-used mobile payment platforms, with a user base of over 850 million people across the world. As of 2018, the annual revenue generated by Alipay has been more than 250 million yuan (\$36 million) (Bloomberg 2020). The company

began expanding into Asian markets before proceeding to encompass the Australian, American and African regions.

There are several related services provided by Alipay to its users. For example, the Alipay wallet app is used in smartphones, where users can buy products or pay for services through the use of QR codes (Alipay 2020). Furthermore, the application also connects to users' credit and debit cards, thereby enabling them to make payments. Alipay also allows its customers to transfer money to others and also helps people manage their bank accounts. Apart from these services, the company serves as a third-party app that enables one to book railway or movie tickets, order food, recharge mobile phones with credit, book taxi rides and even select and pay for insurance policies (Cao and Niu 2019). Furthermore, the company also serves as a payment platform for most Chinese websites. Hence, in China, Alipay holds more than 80% of the market share for mobile and online payments.

## **4.2 Conceptual Framework Analysis: Integrating the PCM and MSF**

### **4.2.1 Problem Stream**

Under the MSF, the problem stream determines different problems and their likely impact on society. As mentioned earlier, under this particular stream, problem brokers play a critical role in directing the focus of policymakers toward a specific issue of importance (Howlett 2019). Problem brokers are actors in policymaking (especially in the agenda setting stage) who identify public problems that must be addressed through governmental policies or regulations. In this case, problem brokers present problems to policy administrators with the help of a problem frame. Under the framing process, problem brokers focus their attention on the negative impact of a problem, which is most likely to grab the attention of policymakers (Knaggard 2015). Based on the conceptual model that has been presented earlier, the problem stream focuses on the stages of agenda setting and the policy discussion. The agenda setting stage involves the identification of different problems which are of concern to the public, stakeholders or policymakers. The policy discussion stage pertains the elaboration of these problems and the analysis of their various aspects.

Hence, during the agenda setting stage of the policies of online payment platforms, public sector banks and publicly-elected officials served as important problem brokers (Balding 2019). The major problems proposed by public sector banks were safety threats to consumers who use such online platforms. This could be justified by the increased number of fraudulent activities associated with the use of online payment platforms. The problems proposed by the publicly-elected officials kindled the interest of the government in such platforms, encouraging public officials to use them to increase governmental revenue and control over Chinese citizens. This need can be understood based on the government's desire to make China self-sufficient and enhance its reach and presence around the world so that it can become a superpower (Deloitte 2019; Wang 2018). Furthermore, increased revenue would enable the funding of government projects to stimulate the internal economy and the infrastructural development of China, as well as increase the country's power amongst the world's nations. Hence, these examples explain the government's reasons behind regulating online payment platforms.

***Problem Identification: The Chinese Government's Motives for its Strict Regulations***

The Chinese government has several additional motives to increase the regulations that apply to mobile and online payment platforms in the country. Some of these have been told to the public by the government and its spokespersons, thereby depicting the positive role of the government in imposing these regulations. However, there are also some hidden reasons behind this decision. The most publicly-acknowledged one is to increase the safety of consumers who use these platforms. In the past, several cases have emerged whereby illicit activities and fraudulent transactions occurred while people were using online and mobile payment platforms in China (Tao 2017).

One such example is the QR codes scam of 2016, which led to the theft of 24 million yuan through fake QR codes across different supermarket stores. In this scam, the thieves replaced or altered the QR codes in several supermarket stores, leading customers to pay to a fake account (Ibid.). Hence, fraudulent transactions through such applications or platforms have become widespread in China, where individuals or

groups can hack the mobile phones of consumers and transfer all their money to another account (Wang 2018). Furthermore, the use of these platforms for the purpose of easily transferring large amounts of money in illegal trade has also been a matter of concern for Chinese authorities.

Apart from consumer safety, promoting other small enterprises (in order to lead to the establishment of a free market) and preventing the misuse of earlier policies is also one of the stated and acknowledged reasons behind the government's tightening of regulations. Alipay and WeChat Pay are two companies in China which own more than 75% of the market share in the online payment industry in China (Balding 2019), which significantly decreases the market share of other companies, like PayPal. The Chinese government claimed that it needed to modify some previous regulations in order to prevent Alipay and WeChat Pay from manipulating the market to their advantage. Capitalizing on earlier regulations that restricted the entry of other actors to the market, these two companies used to charge consumers large transaction fees for the services provided. The government spokespersons claimed that new regulations would prevent this by enabling other companies to increase their market share, ultimately leading to fairer chances, higher competition and more innovation (Zhou and Zhang 2019). During the 2015 enactment of the regulations, governmental spokespersons also stated that the two specified companies had paid lower taxes to the government than they should have been paying.

In addition, governmental representatives indicated another reason for the enactment of new digital policies in China. In the 2018 policy enactment stage, these representatives declared that Alipay and other similar mobile and online payment platforms do not pay consumers well for keeping their money in their e-wallets, based on the significant interest that the platforms earn (Global Times 2018). Although keeping money in e-wallets or banks is intended to benefit the depositor through interest, such companies diverge from this in a bid to generate profit to the detriment of consumers (ICLG 2019). These companies used to encourage customers to leave large sums of money in their e-wallets, which was then used by the companies in different financial investments in order to earn more money through their shares.

Nonetheless, political experts argue that such stringent regulations reflect the government's ideology and efforts to exert more control over its citizens, which the Chinese government is well-known for (ICLG 2019). The new regulations are aimed at collecting the data of consumers from these platforms, thereby helping the government understand and monitor the spending patterns, income and finances of all citizens (ICLG 2019). It would also help the government identify any opposition, whether in the form of criminals, social activists or political opponents, and curb their activities. In fact, the spending patterns of consumers indicate their interests as well as the sources in which they invest their money. Hence, such regulations are intended to maintain and enhance the government's control over its citizens and their activities in China.

Another unstated motive is to increase the government's revenue. For example, in 2018, when new regulations were announced regarding online platforms and applications, the value of Union Pay's shares significantly increased (Wang 2018). Union Pay is a mobile payment portal developed under the PBOC, which is indirectly controlled by the Chinese government. Placing stricter regulations on platforms like Alipay would indirectly benefit Union Pay as many consumers and investors would be inclined to withdraw from the former platforms and join the latter. The government additionally indicated its willingness to refine the online banking system pertaining to public banks in China (ICLG 2019).

#### **4.2.2 Policy Stream**

The policy stream determines different solutions to the abovementioned problems and their expected impact on society. As indicated earlier, policy entrepreneurs are active in developing several solutions to problems and recommending appropriate ones to policymakers. These policy entrepreneurs play a significant role in applying different solutions to the problem, thereby affecting decision-making in the policy stream. According to Howlett (2019), the scholar Kingdon (1984) claimed that these policy entrepreneurs generally work in accordance with their interests and personal beliefs. Hence, when a "policy window" becomes available and a problem emerges, policymakers are determined to develop and implement a policy. Under this stream,

several aspects pertaining to viable investments and technological resources that communities can make use of are also discussed. The policy stream has been related to policy formulation and policy acceptance stages.

Under the policy formulation stage, an appropriate policy is devised and then rejected or accepted by policymakers. For regulations regarding online payment platforms, four solutions have been made available to policymakers. The first involved instating a complete ban on online transactions, such as is the case in North Korea (Ondrus, Gannamaneni and Lyytinen 2015). The second measure pertains to the use of increased taxes to limit or discourage such transactions from taking place. For instance, a tax of over 20% has been placed on transactions that are over \$10,000 through third-party online payments in the US (Chen and Han 2012). Furthermore, some governments have also been found to limit the use or existence of such third-party platforms, such as in the case of France (de Reuver et al. 2015). The most common method used by governments to regulate the functioning of online third-party platforms is the development of new regulations for these services.

A complete ban on such platforms could not have been a viable option to the Chinese government since in the technological age, online transactions serve as a comfortable and viable payment option for citizens, which increases the government's ability to monitor the latter and keep a record of their data (Balding 2019). The use of increased taxes was also not possible since it would result in increased overall costs for consumers and consequently lower their interest in utilizing such platforms. In addition, the major policy entrepreneurs behind such regulations are government-elected officials (Deloitte 2019). Thus, these actors are likely to work in the interests of the government itself by proposing solutions which align with its motives of protecting consumers, accessing their data and increasing governmental control over revenue. The following section discusses detailed measures undertaken by China's government to restrict the functioning of online platforms, thereby increasing the government's control over these platforms.

### ***Government Regulations in China on Online Payment Platforms***

In China, the government has adopted a number of different measures over the past 10 years, which has restricted the functioning of online payment platforms. The first of many regulations was instated in June 2010 when the PBOC issued a guideline that all third-party applications and online platforms must apply for a license to operate in China. Moreover, they must use banking institutions as intermediaries in their transactions with one another (Balding 2019; Chen and Han 2012). Platforms which failed to do so were at risk of being banned in the country. Additionally, these companies were supposed to keep their customers' funds in a trust account, which was being monitored by the PBOC, instead of elsewhere. Apart from these regulations, third-party payment platforms were also required to submit the personal data of all of their customers to the PBOC and prepare and publish financial reports of their earnings on a monthly basis. Although it can be stated that such regulations were necessary to protect consumers, their impact was such that until 2015, only four companies had been issued licenses by the government for their online payment services as others were banned (Balding 2019). This led to reduced innovation and quality management by such platforms, due to little competition in the market.

Online payment companies' decreasing innovation was further tackled by the new regulations issued in 2015 by the Chinese government regarding mobile and online payment platforms. In fact, the government issued new regulations as well as advice to online payment platforms. The regulations required such platforms to register their customers by supplying their identity cards, photos, proof of one's address, signatures and biometric authentication (Wang 2018). These platforms were not allowed to provide services to any customer without these necessary documents. Furthermore, the PBOC developed three types of accounts that these platforms could offer to their consumers under the know your customer (KYC) client guidelines (Zhao 2017). The first type of account was limited by the transaction amount that could be paid and the second type required special identification through three types of personal documents. Lastly, the third type of account was limited by both the transaction amount and several documents were similarly required to verify the identity of the consumer. Apart from these regulations, the PBOC also strongly recommended that such platforms focus on

encouraging consumers to make smaller transactions instead of larger ones (Balding 2019). Furthermore, the bank also warned the online and mobile payment platforms that it would release a list ranking them in terms of customers' safety, which would lead to the imposition of stricter regulations on platforms with lower rankings.

In China, governmental regulations restricting the functioning of mobile and online payment platforms were further tightened in 2018 through the PBOC's issuance of new regulations. These mandated that the platforms deposit over 50% of consumers' funds (which the users of these platforms have deposited in their e-wallet) in the account, under the direct supervision of the PBOC (Wang 2018). Earlier, the necessary amount was only 20% of consumers' funds, which were utilized by Alipay to invest in risk-free markets in order to earn money on interest. However, these new regulations significantly reduced Alipay's ability to invest in other markets and the PBOC has further indicated its plan to increase the 50% cap to 100% of consumers' savings in the near future (Balding 2019).

In addition, all of the transactions done through third-parties must go through the account of the PBOC and should be cleared by the bank. It also introduced rules that capped the amount that can be paid by users through QR codes, preventing the transfer of more than 500 yuan, 1,000 yuan and 5,000 yuan, depending on the type of account held by a consumer (Wang 2019). Other services provided by these platforms were also being affected by the regulations, for instance, as the provision of online loans was capped at an interest rate of 24%. Although such regulations have been explained by some scholars as intending to prevent fraudulent practices or transactions through consumer credit cards linked to these applications (Tao 2017), such regulations also significantly decrease the revenue and expansion of these platforms in the country.

### ***Impact of Governmental Regulations on Alipay***

The series of regulations imposed on mobile and online payment platforms has negatively affected them in various ways, including Alipay. In 2018, on the day the regulations were announced, Alipay's stocks fell by 20% (Wang 2019). This depicts the trust of investors in the success of Alipay in China. A senior spokesperson at Alipay has also reported that the sharing of customers' data with the PBOC has led Alipay to

lose control of it, thereby failing to innovate and devise solutions based on its clients interests and expectations (Wang 2018). Furthermore, several regulations have made the process of registering customers more complicated, thereby negatively impacting the number of consumers that can use these platforms. In particular, the different types of accounts under the KYC requirements have been reportedly confusing consumers, which indirectly leads to higher costs for Alipay in its attempt to handle queries and focus on customer retention (Zhao 2017).

#### **4.2.3 Politics Stream**

The politics stream determines the different stakeholders in policies as well as their support and reaction to a particular policy. As indicated in the conceptual framework, the politics stream consists of the stages of provision of means and implementation. However, in this particular case, the politics stream plays a significant role in all stages of the policy cycle. In China, the government has appointed officials to serve as problem brokers and policy entrepreneurs, whereby the different stakeholders involved are public sector banks, private banks, foreign private banks, consumers and the government. As indicated earlier, since the government has a strong interest and will to control citizens' data and generate revenue, it has played an active role in the formation of policies that regulate online payment platforms (Global Times 2018).

Since public sector banks have largely been under the control of the Chinese government, their reaction has been insignificant to policymakers. However, since foreign and national private sector banks have limited rights and powers in the country, they have also had a minimal say in the regulation and implementation of such policies. In light of the recent cases of fraud, scams and illicit activities that have occurred through online payment services, most Chinese citizens have responded positively to restrictions on such activities. In fact, very few of them are aware of the larger implications of such regulations, with regard to the invasion of consumers' privacy and restrictions placed on their freedoms (Wang 2018). This also supports policymakers in

their attempt to promote regulations that limit the functioning of these companies and increase the powers of the government.

### **4.3 The Advocacy Coalition Framework Analysis**

Further, the advocacy coalition framework is also a useful model to understand the development and implementation of public policies. The advocacy coalition framework has been developed by Sabatier with his colleagues, claiming that the process of policy formulation and implementation is not a simplified process as being proposed by previous models, rather it occurs as a complex relationship between the different actors and processes. The socio-cultural values of a region, the constitution of a country or state, economic conditions, trending public opinion, political rivalries, and personal beliefs and resources of the policy actors, all combine to form a coalition or a system which largely determines the solutions formulated for a problem in the form of public policy (Sotirov and Memmler 2012). The aspects of advocacy coalition framework generally operate in the agenda setting stage of the policy cycle model. There are primarily four aspects that impacts the policy subsystem. These four aspects involve the – relatively stable parameters, external system events, long-term opportunity and short term constraints.

The relatively stable parameters involve the natural resources, social structures, constitutional laws and problem area aspects. In the case of restrictive regulations on the online payment platforms, these parameters can help to understand the reasons for successful implementation of such policies. The constitutional structure of China is rather less empowering to the organizations, especially the private organizations (Bell 2016). The law for private organizations allow the government to easily take restrictive actions for any company if it fails to enforce the legal structures of the country. Further, on the social level, the country has a high power distance (Huang et. al 2019). This leads the individuals to accept social rules and structures easily, without much question. It helps the Chinese government to easily implement laws and regulations without much restriction.

Further, the external system events involve the socio-economic conditions, public opinion and impact of other policy systems. In the past, in China, several cases have emerged of illicit activities and fraudulent transactions using the online and mobile payment platforms (SCMPH 2017). The QR codes scam in 2016, which led to the theft of 24 million yuan through fake QR codes across different supermarket stores. In this scam, the thieves replaced the QR codes or did some changes in the QR codes at several supermarket stores, leading the customers to pay to a fake account (Ibid.). The fraudulent transactions through the mobile payment applications have been quite popular in China, where the hacker hacked mobile phones of consumers and transfer all of their money in their own account (Forbes 2018). Further, the use of these platforms in illegal trades for easy transfer of large amount of money, had also been the concern of the authorities in China. Due to these scams using the online payment platforms, public opinion became positive towards the restrictive regulations on these platforms. This helped the government in easy enforcement of such policies.

Further, the long-term opportunity involves the openness in the political system and level of consensus for policy change. Since, China is a democracy with one-party system, there is little non-consensus in the political system, leading to more control of the ruling party (Bell 2016). Further, the lower level of openness allows the government to employ schemes that astutely helps them to gain higher control over different systems of the country. This helped the government in employing restrictive regulations on the online payment platforms within the country.

#### **4.4 Assumptions' Testing**

Agenda Setting

*Identification of issues related to digital functioning, which impacts the communities or the government itself in a negative manner and requires governmental intervention.*

The series of regulations related to digital platforms' operation was initiated after their unregulated functioning was considered to be threatening to customers' security. At the time of Alipay's establishment in 2004, this was considered to be a gray area in

China's financial system as businesses and customers were calling for the establishment of such online platforms. With the advent of mobile internet, online third-party payment platforms have entered a period of rapid growth and the market for such services has expanded rapidly. Without national credit support or supervision from authoritative departments and based on their exclusive reliance on commercial credit and product innovation, domestic electronic payment services have become increasingly recognized by major banks, financial institutions and domestic and international well-known companies. In addition, they have also been well received by users, which is rather unexpected.

Due to the lack of clear policy supervision, people in the industry had never reached a consensus in terms of what can or cannot be done. Moreover, what has become concerning is whether it is safe for consumers to transfer money to online third-party payment platforms or to pay through them for certain products. When companies such as Alipay became increasingly popular with consumers, the government did not immediately suppress them. Rather, it was the urgent security concerns that prompted the central bank to intervene and supervise third-party payment platforms. One way in which governmental supervision has been implemented is through the review and issuance of third-party payment licenses. Firstly, fraudulent activities that were undertaken in the past through these platforms caused the government to consider such reforms. Secondly, the government's desire to attain more control and ward off any threats from political opposition groups was another important reason behind the government's intervention.

### **Formulation**

*At this stage, the goals of the government related to what benefits a community and/or the government are identified, along with the solutions needed to solve the problem in the digital world in order to achieve most of the goals that are specified.*

The government identified four possible solutions in the initial stages. These involved a complete ban, increased taxation, limited use of the platforms and policy reforms. Furthermore, the cost-benefit analysis of each method was performed by policy entrepreneurs at the policy formulation stage.

## **Adoption**

*This stage involves the selection of a particular policy over other offered solutions in order to solve any problem that has arisen due to the emergence of a digital phenomenon.*

During the adoption stage, the Chinese government attempted to introduce policy reforms in order to protect consumers and increase governmental control. Furthermore, on June 30, 2018, the central bank required third-party payment institutions to refrain from directly connecting with other banks and to use a governmental institution called UnionPay (Zhihu.com 2017). Before the adoption stage, Alipay used to directly charge consumers for their services from their bank accounts and the government had no regulations in place to monitor these transactions. Currently, however, Alipay is charged by UnionPay, which serves as the intermediary that charges customers' bank accounts. Prior to this, Alipay had avoided dealing with UnionPay (Ibid), largely because it served as the equivalent to an intermediary agency imposed by the central bank on third-party payment companies. Although the internet era promotes disintermediation and deregulation simultaneously, the government decided to become involved by creating UnionPay as a third-party organization to regulate such transactions.

## **Implementation**

*In the implementation stage, regulations are laid out through the use of press releases and statements. Furthermore, restrictions are imposed on online platforms and the parameters of the policy achievement are set.*

Through press releases, the government communicated its policy reforms to the companies and their customers. The government also imposed restrictions on the functioning of the platforms, which is mentioned in the adoption stage as UnionPay serves as the means of implementation.

## **Evaluation**

*At this stage, the results of policies regarding the regulations are recorded and compared with the set parameters and goals in terms of what the policy has achieved.*

Regarding the policy reforms established in 2010 and 2015, the government compared the results of these policies in terms of the safety of consumers and increased its control over third-party payment platforms. However, due to the fast development of the digital era, banknotes were no longer as useful as e-payments. Therefore, the government was required to maintain its control over third-party payment companies while further innovating with regard to Chinese banknotes as well.

### **Support/ maintenance**

***Based on the evaluation results, the government should decide whether to continue to invest resources in this digital policy and continue the abovementioned regulations.***

The increased control of the government over consumers' data and online platforms as well as the decrease in online fraud cases due to the policy reforms implemented between 2010 and 2015 led the Chinese government to continue with the digital policies of the PBOC. In fact, it introduced additional reforms in 2018 to maintain and support these policies. Furthermore, due to the rapid development of electronic payment platforms, the central bank will launch an electronic version of the Chinese yuan. With regard to digital currency, the most represented digital money has been Bitcoin. However, unlike Bitcoin, the digital currency launched by the PBOC has a national credit endorsement, which serves as an electronic version of the yuan. Therefore, the central bank's digital currency is considered as the legal equivalent of the physical currency. More importantly, through national endorsements, the central bank's digital currency value will become more stable than other digital currencies, such as Bitcoin, especially since the latter does not have a stable value (Beijing News.com 2020). According to a China Central Television (CCTV) report, in terms of how this currency can be utilized, the central bank's digital currency does not count interest and can be used in small, retail and high-frequency business scenarios, thereby making it no different from banknotes.

In the present, mobile payments represented by Alipay and WeChat Pay have a high replacement rate for cash in many scenarios (Ibid.). By contrast, the Chinese version of digital currency does not need to be bound to any bank account. Therefore, it should be free from the control of the traditional banking system. In addition, having

the "dual offline from WiFi" option will be a goal in the future (Ibid.). Currently, Alipay and WeChat offline payments are all "single offline," meaning that they are offline for users and online for merchants. For example, Mu Changchun, the director of the Central Bank's Institute of Digital Research, stated that if two people have digital wallets in their mobile phones, as long as the mobile phones are turned on, digital currency can be transferred from one person's electronic wallet to that of another even if there is no internet.

#### **4.5 Summary**

In China, the government has adopted a series of different measures over the past 10 years, which has led to the increasing regulation of the functioning of online payment platforms. This began in June 2010 when the PBOC issued the rule that all third-party applications and online payment companies must apply for a license to operate in China. In 2015, the government issued new regulations which required such platforms to register their customers based on documents such as identity cards, photos, proof of one's address, signature and biometric authentication. Then, toward the end of 2018, the PBOC issued additional regulations that necessitated that mobile and online payment platforms deposit over 50% of consumers' funds in the account, under the direct supervision of the PBOC.

The series of regulations had a significantly negative impact on these platforms, including Alipay, as is seen in that the company's stocks fell by 20%. Furthermore, several regulations related to the registration of consumers have made this process more complex, thereby affecting the number of consumers that use the platform. The Chinese government had several motives behind the tightening of regulations, which included ensuring consumers' safety, enabling the growth of small enterprises and preventing the misuse of earlier policies. In the 2018 policy enactment stage, governmental spokespersons said that Alipay and other similar platforms do not pay consumers well to keep their money in their e-wallets. Thus, another unstated motive behind the government's tightening of regulations is to increase its revenue and control of citizens through online banking and payment applications. The hypotheses that tested the results

indicate that, in the policy formation and implementation stages, the Chinese government has followed the six stages of the PCM. However, with regard to the latest policy reforms of 2018, the government has yet to enter into the evaluation and support and maintenance stages after the reforms have been successfully implemented for a few years.

## **Chapter 5: Conclusion**

China is taking leaps toward building a cashless society and its success is highly attributable to the government's promotion of digital systems. In the fiscal year of 2017, Chinese companies accounted for 90% of the mobile payments market, which is twice that of the fiscal year 2016. They are also looking to expand throughout the world, especially in countries where customers do not have access to traditional banking services. However, this is becoming a major concern for traditional banks in the country which often find it difficult to keep up with such advances. Furthermore, the increasing number of fraudulent activities taking place through such cashless systems had led to concerns among consumers. In light of this, the Chinese government launched a series of regulations targeting companies with mobile payment platforms, such as Alipay. These regulations also point toward the willingness of the Chinese government to increase its control over its citizens' personal data and online payment systems in the country.

This study has attempted to answer the research question "Can the policy cycle model explain the Chinese government's response to the development of Alipay? If yes, how?" Broadly, this study has developed a conceptual model and utilized it to explain the government's regulations in response to Alipay and other digital payment platforms' actions in China. The study has discussed this response in several stages of the conceptual model while further examining the government regulations with the help of the advocacy coalition framework.

In the first chapter, this thesis provided the background and rationale of this study, along with identifying the research question and significance of this research. Through such regulations, an increase in the availability of transactional data has enabled the CCP and the PBOC to develop in-depth knowledge of the intimate behaviors of citizens, in relation to their personal and professional lives. Such insights are presumably invaluable to them as it grants the government power in various administrative areas, namely in the political, social and economic systems. Furthermore, Chapter 2 discusses three theories of public policy, which are the PCM, MSF and the

advocacy coalition framework. In addition, it also developed a conceptual model combining the PCM and the MSF. The conceptual model involves the agenda setting and policy discussion stages under the problem stream, the policy formulation and policy acceptance stages within the policy stream and the provision of means and implementation stages as part of the politics stream.

The third chapter then discusses the methodology adopted for this study, which is the theory testing process tracing approach. Within this approach, within-case analysis and the document analysis methods were adopted. Furthermore, a set of assumptions were developed to be tested later in the study. The fourth chapter of discussion and analysis illustrated several events with regard to the policy formulation and implementation in the different streams of the conceptual model. The advocacy coalition framework analysis and the hypothesis-testing results were also depicted in the end.

Under the MSF, the problem stream determines different problems and their likely impact on society. Based on the conceptual model, the problem stream focuses on the stages of agenda setting and the policy discussion. The agenda setting stage involves the identification of different problems which are of concern to the public, stakeholders or policymakers. Lastly, the policy discussion stage involves elaborating on these problems and the analysis of their various components. With regard to online payment platforms and their related policies, the agenda setting stage involved identifying the major problem brokers, which are public sector banks and publicly-elected officials. The main issue highlighted by the public sector banks was safety concerns for consumers through such online platforms.

This could be justified due to the increased number of fraudulent activities that were associated with the usage of e-wallets. The problems that were proposed by the publicly-elected officials then revived the interest of the government in using such platforms to increase their control over Chinese citizens as well as attain higher governmental revenue. This need can be explained by the government's desire to make China self-sufficient and enhance its reach and presence around the world to become a superpower. Furthermore, increased revenue would enable the funding of government

projects for the purpose of strengthening the internal economy and improving infrastructure within China, as well as increasing China's power globally. This further justifies the need for the regulation of online payment platforms.

The policy stream determines different solutions to the abovementioned problems and the likely impact of these recommendations. As indicated earlier, policy entrepreneurs are active in developing several solutions to problems and suggesting appropriate ones to policymakers. The policy stream has been related to the policy formulation and policy acceptance stages. Under the policy formulation stage, an appropriate policy is devised and then rejected or accepted by policymakers. Concerning the regulations that apply to online payment platforms, four solutions have been made available to policymakers. The first pertains to the instatement of a complete ban on online transactions whereas the second measure refers to the use of increased taxes to limit or decrease such transactions. The third solution involves making it more difficult for such platforms to continue operating. Lastly, the fourth method used by governments to regulate the functioning of online third-party platforms involves the development of new rules for these services. Completely banning such platforms could not have been a viable option to the Chinese government since they increase the government's ability to monitor and keep records of citizens' data. The use of increased taxes was also not possible since it would result in increased overall costs for consumers, thereby decreasing their interests in using the services offered by such companies. Hence, the Chinese government chose to impose a series of regulations on them in 2010, 2015 and 2018, which helped the government to both work toward protecting consumers while simultaneously increasing its power over its citizens.

The politics stream determines the different stakeholders involved in policymaking. As indicated in the conceptual framework, the politics stream consists of the provision of means and implementation stages. However, in this particular case, the politics stream plays a significant role in all stages of the policy cycle. In China, the government has appointed officials to serve as problem brokers and policy entrepreneurs. In this particular case, the different stakeholders involved are public sector banks, private banks, foreign private banks, consumers and the government.

Since the government has a strong will and desire to control citizens' data and generate revenue, it has taken an active role in the formation of policy concerning the regulation of online payment platforms. Moreover, because of the fact that public sector banks have largely been under the control of the Chinese government, their reactions have been insignificant to policymakers. In addition, foreign and national private sector banks also have limited rights and powers in the country since they are monitored by the PBOC and must follow governmental regulations. Hence, these banks have had little say in the implementation of such policies. In light of the recent fraud cases, scams and illicit activities that have occurred through online payment services, most Chinese citizens have responded positively to restrictions on such activities, with very few of them being aware of the larger implications of such regulations and the fact that they invade consumers' privacy and limit their freedoms.

Furthermore, the advocacy coalition framework is also a useful model to understand the development and implementation of public policies. There are primarily four aspects that impact the policy subsystem, which are relatively stable parameters, external system events, long-term opportunities and short-term constraints. The constitutional structure of China does not empower these organizations, especially private companies. On the social level, the country also has a high power distance, which leads individuals to accept social rules and structures easily, without much question. The external system events also involve the socio-economic conditions, public opinion and the impact of other policy systems. Due to the occurrence of different scams in China through online payment platforms, public opinion has shifted in favor of the restrictive regulations on these platforms. This helps the government easily enforce such policies. Moreover, as a democracy with a one-party system, there is little non-consensus in the political system, which furthers the control of the ruling party.

Hence, in answer to the research question, this research has indicated that the Chinese government has indeed undergone all of the stages of the PCM in the series of regulations that were implemented between 2010 and 2018. A conceptual model, using the PCM and the MSF, has been developed so as to depict the response of the

government in different stages and streams. Since the series of regulations show the government's hidden agenda, this research has proven essential in uncovering and further understanding these motives. In fact, this research would help other theorists to clearly understand the applicability of different policy models, such as the PCM, MSF and the advocacy coalition framework since few studies have attempted to illustrate the practicality of public policy theories. Thus, scholars should conduct further research to understand their applicability with regard to different public policies. In addition, it is also important for them to further delve into the series of regulations concerning online payment platforms adopted by the Chinese government in order to further understand any additional motives behind its instatement of these regulations.

There are also several limitations in this research, which could not have been avoided. Firstly, this research does not use many types of primary data, which increased its subjectivity and made it more difficult to measure the results of this research. Moreover, the secondary data sources used might themselves be influenced by the biases of their authors. Secondly, this research is primarily based upon a conceptual model, which itself has limitations with regard to data analysis. Thirdly, very limited data was available online, due to the recent nature of the policies being studied as well as the few efforts made by other scholars to understand the government's response to Alipay's actions based on public policy theories.

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