

# The Political Economy of Fintech: Review of Literature and Proposal of Research Agenda

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**Summary.** This article aims to address the political economy of Fintech (Financial Technology). The key assumption guiding the paper is that the regulation, supervision, and ultimately the degree and shape of development of the Fintech sector are affected by and, at a fundamental level, even determined by political factors. While politics can influence Fintech via both demand and supply channels, this article primarily focuses on the supply side. The article reviews the emerging academic literature aiming to analyze the politics and political economy of Fintech, showing that there is still a significant gap. Drawing inspiration from the earlier literature on the political economy of traditional finance, but also taking into account certain specificities of Fintech, the article suggests how the research agenda for the political economy of Fintech should proceed, addressing the potential influence of economic interests, institutions, and ideas.

**Keywords:** Fintech; political economy; financial regulation; international diffusion; central banks; regulatory policy.

## Finansų technologijų politinė ekonomija: literatūros apžvalga ir pasiūlymai dėl tyrimo darbotvarkės

**Santrauka.** Straipsnis apžvelgia politinės ekonomijos išvalgas apie finansų technologijas (fintech) ir formuluoja tyrimų darbotvarkę, remdamasis „interesų, institucijų ir idėjų“ triada. Atskleidžiama, kad politiniai fintech reguliavimo ir plėtros veiksniai iki šiol tirti fragmentiškai; siūlomas preliminarus hipotezių rinkinys apie finansinių skandalų poveikį reguliaciniam griežtumui, priežiūros institucijų architektūros (integruoto vs. fragmentuoto modelio) reikšmę, dviprasmišką centrinių bankų nepriklausomybės ir partinės ideologijos

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įtaką bei įsitvirtinusių suinteresuotų šalių elgsenos įvairovę – nuo pasipriešinimo iki bendradarbiavimo su startuoliais. Taip pat pabrėžiama galima tarptautinės difuzijos (mokymosi, emuliacijos, konkurencijos ir prievartos) svarba. Straipsnyje siūloma plėsti empirinės analizės lauką, tam atlikti didelių imčių ir kokybinius tyrimus, atsižvelgiant į priežastinį heterogeniškumą tarp šalių ir skirtingų fintech segmentų (pvz., kripto-, mokėjimai, skolinimas). Straipsnyje raginama remtis tradicinėmis politinės ekonomijos teorijomis, tačiau kartu pritaikyti jas pagal fintech lauko specifiką, derinant politinės inovacijų ekonomijos ir technologijų reguliavimo įžvalgas, taip pat atsižvelgiant į didelį naujųjų finansinių technologijų neapibrėžtumą bei spartų kitimą.

**Reikšminiai žodžiai:** fintech, politinė ekonomija, finansinis reguliavimas, tarptautinė difuzija, centriniai bankai, reguliacinė politika.

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## *Introduction*

Fintech is one of the most important, if not *the* most important, recent trends in finance. Fintech has been expanding rapidly, and holds considerable potential to disrupt and restructure financial markets, bringing benefits in terms of efficiency, innovation, and inclusion, but also posing risks for financial stability, consumer protection, and inequality. Fintech raises important challenges for policymakers, not least due to its fast-changing nature and technological complexity. According to some, Fintech is even capable of transforming “the fundamental political arrangement underlying the operation of the modern financial system”<sup>1</sup>. Fintech can be a powerful disruptive force because it has the potential to disintermediate traditional financial institutions and provision of financial services, presents important challenges to regulatory and supervisory frameworks, and may result in significant reallocation of resources and changes in power relations within the financial system; all these are inextricably linked to questions of political contestation and political choices.

Not surprisingly, research on Fintech has grown rapidly. Economists, lawyers and economic (financial) geographers have been contributing to a growing body of literature on the *normative* aspects of

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<sup>1</sup> Saule T. Omarova, “Dealing with Disruption: Emerging Approaches to Fintech Regulation,” *Washington University Journal of Law & Policy* 61 (2020): 25–53.

the best way to regulate and supervise Fintech, Fintech's effects on financial markets, growth, and (in)stability, as well as the economic and technological drivers of the sector's development. However, contributions from political scientists and political economists have been largely missing from this conversation, specifically on the *positivist* question of how political factors affect Fintech regulation, supervision and, ultimately, Fintech development. This is an important omission in scholarship (with several notable exceptions). My argument is that politics has an important influence on Fintech development in terms of both demand and supply. In this article, I focus on the *supply* aspects of this phenomenon, exploring how political factors may affect regulatory and supervisory decisions that can, in turn, significantly influence the development of the Fintech sector.

This article aims to review the current literature on the political economy of Fintech and discuss potential avenues for future research. To this end, I start with an overview of the political economy approaches to finance in general, by focusing on the role of interests, institutions, and ideas. I then turn to the literature review of the political economy of Fintech, and subsequently discuss how future scholarship should proceed.

## 1. “The inescapable politics of money”<sup>2</sup>

There is a very large body of literature addressing how political factors affect regulatory and supervisory decisions related to finance, and, ultimately, the growth (or lack thereof) of the financial sector, be it in the banking sector or capital markets. The core insight is the realization that one cannot fully understand financial regulation and financial development without taking into account the political dimension(s)<sup>3</sup>. When analyzing monetary matters, politics is ‘ines-

<sup>2</sup> Jonathan Kirshner, “The Inescapable Politics of Money,” in *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Ithaca, NY: Cornell University Press, 2003).

<sup>3</sup> Marco Pagano and Paolo Volpin, “The Political Economy of Finance,” *Oxford Review of Economic Policy* 17, no. 4 (2001): 502–519, <https://doi.org/10.1093/oxrep/17.4.502>; Sourafel Girma and Anja Shortland, “The Political Economy of Financial Development,” *Oxford Economic Papers* 60, no. 4 (2008): 567–596, <https://doi.org/10.1093/>

capable’<sup>4</sup>. According to Kirshner, “The management of money is always and everywhere political: for every policy choice, there is an alternative that some actors would prefer”<sup>5</sup>.

This is for two fundamental reasons. First, economics often does not provide a clear answer as to the best policy, although it does describe real constraints facing decision-makers (in terms of tradeoffs, limitations, and costs involved). To give one example, financial market liberalization entails both costs and benefits – while lower regulation can allow for more efficient capital allocation, it also may increase risks of financial instability and volatile capital flows. Second, even if there is a clear policy solution in terms of *aggregate* economic efficiency, ultimately that decision will only get adopted if it is politically *feasible*. For instance, allowing better access to banking and other financial instruments is often considered a key prerequisite to encourage economic growth, but it may not be adopted if it goes against the interest of powerful political actors or violates other important political constraints. In terms of Fintech, the implication is that policy decisions, including the adoption (or lack thereof) of Fintech sandboxes, innovation hubs, and other regulatory tools, as well as the degree of permissiveness regarding different types of Fintech activities (crypto, capital raising, consumer lending etc.), are at their core *political* decisions influenced by competing interests and institutional constraints.

One way to structure the discussion on the politics of money and finance is to divide the factors according to the classical triumvirate of interests, institutions, and ideas<sup>6</sup>. The *interest*-based perspective poses

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oep/gpm040; Mark J. Roe, *Political Determinants of Corporate Governance: Political Context, Corporate Impact* (Oxford: Oxford University Press, 2003); Peter A. Gourevitch and James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance* (Princeton, NJ: Princeton University Press, 2005).

<sup>4</sup> Kirshner, “The Inescapable Politics of Money.”

<sup>5</sup> Jonathan Kirshner, “Money is Politics,” *Review of International Political Economy* 10, no. 4 (2003): 645–660, <https://doi.org/10.1080/09692290310001601911>.

<sup>6</sup> Mark Blyth, “An Approach to Comparative Analysis or a Subfield within a Subfield? Political Economy,” in *Comparative Politics: Rationality, Culture, and Structure*, ed. Mark Irving Lichbach and Alan S. Zuckerman, Cambridge Studies in Comparative Politics (Cambridge: Cambridge University Press, 2009): 193–219; Colin Hay, “Ideas,

the question ‘Cui bono’, by asking “In whose benefit would it be for outcome X to pertain over outcome Y?”<sup>7</sup> A very influential strand in scholarship, often associated with – but not limited to – the rational choice (public choice) approach, has explained financial regulation and development by analyzing how interest groups in the society benefit or lose from certain financial changes<sup>8</sup>, and thus traced financial policy decisions and regulations to the politically powerful interests that support them. An important broader insight is that the *aggregate* economic effects can be ambiguous compared to the sometimes much clearer distributive effects (one good example of this is the exchange rate policy<sup>9</sup>).

A classical study by Rajan and Zingales explains the changes in financial development in the 20<sup>th</sup> century by analyzing the incumbents’ interests, and, specifically, their opposition to competition<sup>10</sup>. Another influential study by Benmelech and Moskowitz<sup>11</sup> has looked into the usury laws in 19<sup>th</sup> century US and found that these “laws

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Interests and Institutions in the Comparative Political Economy of Great Transformations,” *Review of International Political Economy* 11, no. 1 (2004): 204–226, <https://doi.org/10.1080/0969229042000179811>.

- <sup>7</sup> Blyth, “An Approach to Comparative Analysis or a Subfield within a Subfield? Political Economy,” 196.
- <sup>8</sup> Oscar Becerra et al., “The Politics of Financial Development: The Role of Interest Groups and Government Capabilities,” *Journal of Banking & Finance* 36, no. 3 (2012): 626–643, <https://doi.org/10.18235/0010996>; Deniz Igan and Thomas Lambert, “Bank Lobbying: Regulatory Capture and Beyond,” *International Monetary Fund Working Papers*, no. 2019/171 (2019), <https://doi.org/10.2139/ssrn.3128829>; Thomas Kalinowski and Hyekyung Cho, “The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors,” *Asian Survey* 49, no. 2 (2009): 221–242, <https://doi.org/10.1525/as.2009.49.2.221>; Stefano Pagliari and Kevin L. Young, “Leveraged Interests: Financial Industry Power and the Role of Private Sector Coalitions,” *Review of International Political Economy* 21, no. 3 (2014): 575–610, <https://doi.org/10.1080/09692290.2013.819811>.
- <sup>9</sup> Jeffrey A. Frieden, *Currency Politics: The Political Economy of Exchange Rate Policy* (Princeton, NJ: Princeton University Press, 2015), <https://doi.org/10.1515/9781400865345>.
- <sup>10</sup> Raghuram G. Rajan and Luigi Zingales, “The Great Reversals: The Politics of Financial Development in the Twentieth Century,” *Journal of Financial Economics* 69, no. 1 (2003): 5–50, [https://doi.org/10.1016/s0304-405x\(03\)00125-9](https://doi.org/10.1016/s0304-405x(03)00125-9).
- <sup>11</sup> Efraim Benmelech and Tobias J. Moskowitz, “The Political Economy of Financial Regulation: Evidence from U.S. State Usury Laws in the 19th Century,” *The Journal of Finance* 65, no. 3 (2010): 1029–1073, 1029 <https://doi.org/10.1111/j.1540-6261.2010.01560.x>.

coincide with other economic and political policies favoring wealthy political incumbents, particularly when they have more voting power”. Of particular note is the research agenda on regulatory capture – “the process through which special interests affect state intervention in any of its forms”<sup>12</sup>. The research agenda emphasizing the importance of economic interests in explaining financial regulation and development has thus, to a more or less implicit degree, carried a largely negative normative connotation. The stress has often been on the mostly detrimental power of incumbents in erecting various barriers to limit competition, thus putting limits on the expansion of financial services, and hence financial development. For Fintech, the interest-based perspective suggests that the phenomenon can pit incumbent financial institutions versus Fintech newcomers, with the political fight being over a more conservative, restrictive approach versus a more permissive, proactive one embracing or even encouraging new financial models.

In a related but distinct line of research emphasizing the role of interests, scholars have examined the role of partisanship. The key idea is that political parties represent constituents with different underlying economic interests, and thus should mold public policies in accordance with those preferences once in power. Empirically, results concerning the financial realm have been mixed. Some studies find that right-wing parties are more likely to deregulate and encourage financial development<sup>13</sup>. On the other hand, Pinto<sup>14</sup>, somewhat

<sup>12</sup> Ernesto Dal Bó, “Regulatory Capture: A Review,” *Oxford Review of Economic Policy* 22, no. 2 (2006): 203, <https://doi.org/10.1093/oxrep/grj013>; Sam Peltzman, “Toward a More General Theory of Regulation,” *The Journal of Law and Economics* 19, no. 2 (1976): 211–240, <https://doi.org/10.1086/466865>; George J. Stigler, “The Theory of Economic Regulation,” *Bell Journal of Economics and Management Science* 2, no. 1 (1971): 3–21, 10.2307/3003160.

<sup>13</sup> Lawrence J. Broz, “Partisan Financial Cycles,” in *Politics in the New Hard Times: The Great Recession in Comparative Perspective*, edited by Miles Kahler and David A. Lake (Ithaca, NY: Cornell University Press, 2013), 75–101; Scott L. Kastner and Chad Rector, “Partisanship and the Path to Financial Openness,” *Comparative Political Studies* 38, no. 5 (2005): 484–506, <https://doi.org/10.1177/0010414004272540>.

<sup>14</sup> Pablo M. Pinto et al., “The Politics of Stock Market Development,” *Review of International Political Economy* 17, no. 2 (2010): 378–409, <https://doi.org/10.1080/09692290903310424>.

counterintuitively, found that left-wing governments are more likely to lead to more developed equity markets. In the Fintech realm, the partisan dimension may be particularly intriguing, given that Fintech can simultaneously be framed as a market-friendly innovation phenomenon aligning more with right-wing and liberal parties, but also as potentially increasing financial inclusion, which should be preferred by left-wing parties.

The second broad set of factors has been *institutional*. According to Blyth<sup>15</sup>, “institutional explanations focus our attention on how economies are organized and how such configurations impact agents’ interests. Seen in this way, institutions link larger economic structural changes and interests but become causally important in their own right.” Institutions can be defined as “rules of the game” in a society, and thus are open to multiple interpretations, ranging from broadest concepts encompassing culture and norms to more formal and legalistic definitions having to do with specific electoral and other governance rules.

An influential body of literature links financial development with ‘broad’ institutions<sup>16</sup>. The ‘legal origins’ theory states that financial development is favorably affected by the British (common law) tradition<sup>17</sup>. It has been additionally argued for the importance of ‘property rights institutions’ that constrain the elites, reduce risk and transactions costs, and thus foster financial development<sup>18</sup>. Finally, re-

<sup>15</sup> Blyth, “An Approach to Comparative Analysis or a Subfield within a Subfield? Political Economy,” 197.

<sup>16</sup> Andrés Fernández and César E. Tamayo, “From Institutions to Financial Development and Growth: What Are the Links?”, *Journal of Economic Surveys* 31, no. 1 (2017): 17–57, <https://doi.org/10.1111/joes.12132>.

<sup>17</sup> Thorsten Beck et al., “Law and Finance: Why Does Legal Origin Matter?”, *Journal of Comparative Economics* 31, no. 4 (2003): 653–675, <https://doi.org/10.1016/j.jce.2003.08.001>; Ross Levine, “The Legal Environment, Banks, and Long-Run Economic Growth,” *Journal of Money, Credit and Banking* 30, no. 3 (1998): 596–613, <https://doi.org/10.2307/2601259>.

<sup>18</sup> Daron Acemoglu and Simon Johnson, “Unbundling Institutions,” *Journal of Political Economy* 113, no. 5 (2005): 949–995, <https://doi.org/10.1086/432166>; Edward Glaeser et al., “Coase versus the Coasians,” *The Quarterly Journal of Economics* 116, no. 3 (2001): 853–899, <https://doi.org/10.1162/00335530152466250>.

searchers have argued that social trust (social capital) is conducive to the development of the financial sector, especially in settings where “legal enforcement is weaker and among less educated people”<sup>19</sup>.

One important institutional dimension has been the political regime type, usually conceptualized as the effect of democracy versus autocracy. Theoretically, the most commonly held view has been that democracies should lead to more financial development due to both supply and demand factors, as democracies have a larger selectorate with the public at large being interested in access to financial markets, while elected politicians face stronger incentives to deliver on the promises to expand said access<sup>20</sup>. The empirical findings have been less robust, with some studies finding null results<sup>21</sup>, and others arguing that the effect is contextual and depends on the *type* of democratic regime<sup>22</sup>. Furthermore, the national institutional setup has been argued to be important – for instance, financial policies in countries with more veto players tend to be more stable, with fewer and slower policy changes<sup>23</sup>. Finally, central bank independence has been shown to affect financial supervision as well<sup>24</sup>. The institutional perspective is arguably particularly relevant in the case of Fintech, given

<sup>19</sup> Luigi Guiso et al., “The Role of Social Capital in Financial Development,” *American Economic Review* 94, no. 3 (2004): 526–556, <https://doi.org/10.1257/0002828041464498>.

<sup>20</sup> Victor Menaldo and Daniel Yoo, “Democracy, Elite Bias, and Financial Development in Latin America,” *World Politics* 67, no. 4 (2015): 726–759, <https://doi.org/10.1017/s0043887115000192>.

<sup>21</sup> Benhua Yang, “Does Democracy Foster Financial Development? An Empirical Analysis,” *Economics Letters* 112, no. 3 (2011): 262–265, <https://doi.org/10.1016/j.econlet.2011.05.012>.

<sup>22</sup> Menaldo and Yoo, “Democracy, Elite Bias, and Financial Development in Latin America.”

<sup>23</sup> Scott L. Kastner and Chad Rector, “International Regimes, Domestic Veto-Players, and Capital Controls Policy Stability,” *International Studies Quarterly* 47, no. 1 (2003): 1–22, <https://doi.org/10.1111/1468-2478.4701001>; Manuela Moschella and Eleni Tsingou, “Regulating Finance after the Crisis: Unveiling the Different Dynamics of the Regulatory Process,” *Regulation & Governance* 7, no. 4 (2013): 407–416, <https://doi.org/10.1111/rego.12032>.

<sup>24</sup> Donato Masciandaro and Davide Romelli, “Central Bankers as Supervisors: Do Crises Matter?”, *European Journal of Political Economy* 52 (2018): 120–140, <https://doi.org/10.1016/j.ejpolco.2017.05.005>.

the significance of regulatory set-up, such as whether the financial supervision in a country adopts an integrated or fragmented model, with supervision shared across several agencies.

To finish the triad of factors, scholarship has argued that ideas can be important drivers of financial policy as well. In fact, given the often-high degree of complexity of financial markets, their technical nature, and the repeated occurrence of large crises, one could make the case that an ideational perspective might be particularly fruitful in this realm. The ideational effects could be conceptualized in various ways, ranging from policy paradigms<sup>25</sup>, to beliefs about causal relationships, normative frameworks (i.e., what goals should be pursued), framing and even as political weapons or as governance technologies<sup>26</sup>.

Of particular note has been research emphasizing global interdependence, which goes beyond national country-level comparative analysis. This research has explored important mechanisms of global diffusion behind financial regulatory decisions highlighting the importance of learning, emulation, and competition – with its key

<sup>25</sup> Peter A. Hall, “Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain,” *Comparative Politics* 25, no. 3 (1993): 275–296, <https://doi.org/10.2307/422246>.

<sup>26</sup> Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2009); Mark Blyth, “The Political Power of Financial Ideas: Transparency, Risk, and Distribution in Global Finance,” in *Monetary Orders*, edited by Jonathan Kirshner (Ithaca, NY: Cornell University Press, 2003), 239–259; Blyth, “An Approach to Comparative Analysis or a Subfield within a Subfield? Political Economy”; Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002); Susan Hoffmann, *Politics and Banking: Ideas, Public Policy, and the Creation of Financial Institutions* (Baltimore: Johns Hopkins University Press, 2001); Michael Lee, “How Many Lightbulbs Does It Take to Change the Financial System? Economic Ideas and Financial Regulation, 1846–2007,” *The British Journal of Politics and International Relations* 18, no. 4 (2016): 866–888, <https://doi.org/10.1177/1369148116668078>; Donald MacKenzie, “Is Economics Performative? Option Theory and the Construction of Derivatives Markets,” *Journal of the History of Economic Thought* 28, no. 1 (2006): 29–55, <https://doi.org/10.1080/10427710500509722>; Kathleen R. McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca, NY: Cornell University Press, 1998).

idea being that policymaking is interdependent among countries<sup>27</sup>. Finally, scholars have emphasized the importance of economic and financial crises, including financial scandals, in affecting the evolution of financial regulation<sup>28</sup>. The experience with large crises can be interpreted as an impetus for policy learning, usually leading to more cautious, restrictive policy stances. For Fintech, with its global nature and highly dynamic development as well as regulatory uncertainty and dynamics, these diffusion mechanisms, and, in particular, learning and emulation, may be especially pertinent.

## **2. Literature on the Politics (Political Economy) of Fintech**

In contrast to the vast literature on the politics of finance *in general*, there is surprisingly little work on the politics of Fintech. As Knight and Wojcik state, “despite a Fintech fever in business and media, research on Fintech is still niche, particularly in social sciences”<sup>29</sup>.

The bulk of literature addressing Fintech development and regulation has come from economics, finance, and law. According to Stolbov

<sup>27</sup> Sarah M. Brooks and Marcus J. Kurtz, “Paths to Financial Policy Diffusion: Statist Legacies in Latin America’s Globalization,” *International Organization* 66, no. 1 (2012): 95–128, <https://doi.org/10.1017/S0020818311000385>; Beth A. Simmons and Zachary Elkins, “The Globalization of Liberalization: Policy Diffusion in the International Political Economy,” *American Political Science Review* 98, no. 1 (2004): 171–189, <https://doi.org/10.1017/S0003055404001078>.

<sup>28</sup> Stephan Haggard and Sylvia Maxfield, “The Political Economy of Financial Internationalization in the Developing World,” *International Organization* 50, no. 1 (1996): 35–68, <https://doi.org/10.1017/S0020818300001661>; Luzi Hail et al., “Corporate Scandals and Regulation,” *Journal of Accounting Research* 56, no. 2 (2018): 617–671, <https://doi.org/10.1111/1475-679X.12201>; Abdul Abiad and Ashoka Mody, “Financial Reform: What Shakes It? What Shapes It?”, *American Economic Review* 95, no. 1 (2005): 66–88, <https://doi.org/10.1257/0002828053828699>; Sébastien Waelti, “Financial Crisis Begets Financial Reform? The Origin of the Crisis Matters,” *European Journal of Political Economy* 40 (2015): 1–15, <https://doi.org/10.1016/j.ejpolco.2015.10.002>.

<sup>29</sup> Eric Knight and Dariusz Wójcik, “FinTech, Economy and Space: Introduction to the Special Issue,” *Environment and Planning A: Economy and Space* 52, no. 8 (2020): 1490, <https://doi.org/10.1177/0308518X20946334>.

and Shchepeleva, “Fintech-related research naturally appears one of the fastest emerging research programs in finance”<sup>30</sup>. Economic geographers have also explored the variegated nature of Fintech spread<sup>31</sup>. Nevertheless, it has received limited attention from political scientists and political economists. Most analyses have posed the *normative* questions of how Fintech *should* be regulated, and whether Fintech development has positive or negative effects on important financial and macroeconomic variables. To the extent that scholars have looked into the *determinants* of Fintech regulation and Fintech development, they have largely scrutinized economic and technological factors.

There exists a sizable and growing literature on the *economic* and *technological* factors driving the development of Fintech. When trying to explain the divergence in Fintech development across time and countries, scholars have looked into the role of overall economic development, venture capital availability, technological sophistication (internet and mobile phone penetration), labor force characteristics, banking system concentration and mark-ups, trust in the financial system, development of bond and equity markets, inflation rates, quality of research and university systems, innovation capacity, the extent of globalization, shadow economy, financial literacy, and the country size<sup>32</sup>.

<sup>30</sup> Mikhail Stolbov and Maria Shchepeleva, “Does One Size Fit All? Comparing the Determinants of the FinTech Market Segments Expansion,” *The Journal of Finance and Data Science* 9 (2023): 100095, <https://doi.org/10.1016/j.jfds.2023.01.002>.

<sup>31</sup> Dariusz Wójcik, “Financial Geography I: Exploring FinTech – Maps and Concepts,” *Progress in Human Geography* 45, no. 3 (2021): 566–576, <https://doi.org/10.1177/0309132520952865>; Stefanos Ioannou and Dariusz Wójcik, “The Limits to FinTech Unveiled by the Financial Geography of Latin America,” *Geoforum* 128 (2022): 57–67, <https://doi.org/10.1016/j.geoforum.2021.11.020>.

<sup>32</sup> Stijn Claessens et al., “Fintech Credit Markets around the World: Size, Drivers and Policy Issues,” *BIS Quarterly Review September*, 2018, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3288096](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3288096); Theodor Florian Cojoianu et al., “Fin vs. Tech: Are Trust and Knowledge Creation Key Ingredients in Fintech Start-up Emergence and Financing?”, *Small Business Economics* 57, no. 4 (2021): 1715–1731, <https://doi.org/10.1007/s11187-020-00367-3>; Giulio Cornelli et al., *Fintech and Big Tech Credit: A New Database*, BIS working paper, 2020, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3707437](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3707437); Tatiana Didier et al., “Global Patterns of Fintech Activity and Enabling Factors,” *World Bank Group Fintech and the Future of Finance*

A number of studies address the influence of regulations on Fintech development. Claessens et al. look at banking sector regulation stringency<sup>33</sup>. Similarly, Cornelli et al. find that less stringent banking sector regulation is associated with higher Fintech lending<sup>34</sup>. Ciukaj and Folwarski created an index of Fintech regulation based on the World Bank's Fintech database (2021) and showed that, in the European Union, the more regulated the sector is, the more developed it is<sup>35</sup>. In support of this view, Rau argues that there is a causal positive relationship between explicit legal regulation and crowdfunding volume<sup>36</sup>. Moreover, Fung et al. analyze in a causal framework how the adoption of Fintech sandboxes has affected financial stability and find the effects to be heterogeneous and context-dependent<sup>37</sup>. Finally, Buckley et al.<sup>38</sup> investigate the actual regulatory construction of Fin-

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*Flagship Technical Note*, 2022; Oskar Kowalewski and Pawel Pisany, "The Rise of Fintech: A Cross-Country Perspective," *Technovation* 122 (2023): 102642, <https://doi.org/10.1016/j.technovation.2022.102642>; Laivi Laidroo and Mari Avarmaa, "The Role of Location in FinTech Formation," *Entrepreneurship & Regional Development* 32, nos. 7–8 (2020): 555–572, <https://doi.org/10.1080/08985626.2019.1675777>; Eun Young Oh and Peter Rosenkranz, "Determinants of Peer-to-Peer Lending Expansion: The Roles of Financial Development and Financial Literacy," *The Journal of FinTech* 2, no. 1 (2022): 2250001, <https://doi.org/10.1142/S2705109922500018>; Peterson K. Ozili, "Determinants of FinTech and BigTech Lending: The Role of Financial Inclusion and Financial Development," *Journal of Economic Analysis* 2, no. 3 (2023): 66–79, <https://doi.org/10.58567/jea02030004>; Stolbov and Shchepeleva, "Does One Size Fit All?"; Xiaoting Wang et al., "Exploring the Determinants of Fintech Credit: A Comprehensive Analysis," *Economic Modelling* 126 (2023): 106422, <https://doi.org/10.1016/j.econmod.2023.106422>.

<sup>33</sup> Claessens et al., "Fintech Credit Markets around the World."

<sup>34</sup> Cornelli et al., *Fintech and Big Tech Credit*.

<sup>35</sup> Radosław Ciukaj and Mateusz Folwarski, "FinTech Regulation and the Development of the FinTech Sector in the European Union," *Journal of Banking & Financial Economics* 1, no. 19 (2023): 44–56, <https://doi.org/10.7172/2353-6845.jbfe.2023.1.3>.

<sup>36</sup> P. Raghavendra Rau, "Law, Trust, and the Development of Crowdfunding," SSRN Working Paper, July 1, 2020, <https://doi.org/10.2139/ssrn.2989056>.

<sup>37</sup> Derrick W.H. Fung et al., "Friend or Foe: The Divergent Effects of FinTech on Financial Stability," *Emerging Markets Review* 45 (2020): 100727, <https://doi.org/10.1016/j.ememar.2020.100727>.

<sup>38</sup> Ross P. Buckley et al., "Building FinTech Ecosystems: Regulatory Sandboxes, Innovation Hubs and Beyond," *Washington University Journal of Law & Policy* 61 (2020): 55–98.

tech sandboxes and innovation hubs across the world, presenting a rather skeptical view on sandboxes and arguing that innovation hubs are usually superior instruments.

There are considerably fewer studies that examine what could be described as *political* factors influencing Fintech regulation and development. Several investigations use indicators of institutional landscape and its quality to analyze their associations with the level of Fintech development. Namely, a few large-N studies have looked into the potential role of the rule of law, institutional quality (government effectiveness, control of corruption, etc.), efficiency of the judicial system, doing business rankings, economic freedom, political stability, legal origins (Anglo-Saxon vs. French and German)<sup>39</sup>. A study by An et al.<sup>40</sup> finds that “private property rights protection, contract enforcement and information sharing infrastructures are all significantly, positively associated with the amount of capital raised through ICO” (initial coin offerings).

There are some exceptions, however, that aimed to look at a broader set of potential political determinants beyond indices of institutional quality, government efficiency, political stability, and trust. Most of the analyses in this vein have been qualitative case studies. Several qualitative studies were conducted analyzing the political economy of Fintech in the Baltic States. The Baltic countries present a fruitful object of study for the evolution of Fintech regulation and development. Although these countries are similar in many important background conditions, and thus present a good set of cases for the most-similar case design, their approaches have diverged significantly, both across countries and over time. Estonia was initially very

<sup>39</sup> Serhan Cevik, “Prometheus Unbound: What Makes Fintech Grow?” *Economics & Politics* 37, no. 3 (2025): 1145–1156, <https://doi.org/10.1111/ecpo.70006>; Claessens et al., “Fintech Credit Markets around the World”; Kowalewski and Pisany, “The Rise of Fintech”; Laidroo and Avarmaa, “The Role of Location in FinTech Formation”; Rau, “Law, Trust, and the Development of Crowdfunding.”

<sup>40</sup> Jiafu An et al., “Historical Determinants of Fintech Development: Evidence from Initial Coin Offerings,” *Finance Research Letters* 46 (2022): 102472, <https://doi.org/10.1016/j.frl.2021.102472>.

active in promoting crypto sector development. The crypto sector expanded very fast but led to numerous compliance issues and overwhelmed the regulators, leading to a U-turn in regulation, from a lax and proactive approach to a crackdown<sup>41</sup>. Subsequently, Estonia was rather cautious in terms of Fintech promotion. By contrast, starting in 2016, Lithuania took deliberate and active steps in promoting Fintech, leading to rapid growth of the sector, especially regarding payments companies. After 2020, however, Lithuania also adopted a more cautious approach. Finally, Latvia was initially rather conservative, but started being more active after 2020, most notably, by adopting a national Fintech strategy in 2023, and updating it in 2025, as well as establishing the regulatory sandbox in 2021. Raudla et al.<sup>42</sup> analyze these differences and highlight the role of institutions and policy learning. They note that the integrated financial regulation approach (with the central bank being responsible for supervision) in Lithuania was more conducive to a more proactive approach, while the fragmented model in Estonia and Latvia (in the latter case, until 2021) was related to a more cautious policy stance. Furthermore, policy learning, and, specifically, the legacy of financial scandals in Estonia and Latvia acted as a force against active promotion of Fintech initially, while, in Lithuania's case, several Fintech-related scandals contributed to the toughening stance.

In another article, Raudla et al.<sup>43</sup> tackle the establishment of regulatory sandboxes in the Baltic States – a specific experimental policy tool aimed at testing new Fintech models. The Baltic countries diverged on this – Lithuania created the Fintech regulatory sandbox as early as

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<sup>41</sup> Matti Ylönen et al., “From Tax Havens to Cryptocurrencies: Secrecy-Seeking Capital in the Global Economy,” *Review of International Political Economy* 31, no. 2 (2024): 563–588, <https://doi.org/10.1080/09692290.2023.2232392>.

<sup>42</sup> Ringa Raudla et al., “Drivers of Fintech Policy Evolution: The Role of Policy Learning and Institutions,” *Policy & Politics* 53, no. 1 (2025): 87–108, <https://doi.org/10.1332/03055736Y2024D0000000042>.

<sup>43</sup> Ringa Raudla et al., “To Sandbox or Not to Sandbox? Diverging Strategies of Regulatory Responses to FinTech,” *Regulation & Governance* 19, no. 3 (2025): 917–932, <https://doi.org/10.1111/regg.12630>.

2018, followed by Latvia in 2021, while Estonia eventually opted not to pursue this regulatory tool, although initially joint work was being carried out together with EBRD planning a Fintech sandbox<sup>44</sup>. The article argues that this divergence can be explained by the influence of key decision-makers (policy entrepreneurs), as well as the perception of existing legal and financial constraints facing financial regulators.

Investigating Fintech regulation in the UK and Germany, Hodson analyzes the political dynamics of regulation of the new Fintech banks, and, in particular, how they “challenged incumbents without breaking or remaking regulation”<sup>45</sup>. Furthermore, Tsang and Chen<sup>46</sup> and Tsai et al.<sup>47</sup> show how the processes of diffusion (learning and emulation) shaped the adoption of the sandbox in Taiwan. Using the two-level game theory, Lee and Seo explore the role of interest groups in South Korea in adopting the Fintech regulatory sandbox<sup>48</sup>. In another qualitative study, Langley and Leyshon compare Fintech regulation in the UK and China. They dub the UK’s approach as “regulating with/by platforms”, “where start-up and early-career platforms are enrolled into an innovation-friendly financial regulation regime that promotes consumption and competition balanced with stability”<sup>49</sup>. By contrast, China’s stance is conceptualized by

<sup>44</sup> Antony Peyton, “EBRD and Estonia Unveil Regulatory Sandbox,” *Fintech Futures*, February 18, 2019.

<sup>45</sup> Dermot Hodson, “The Politics of FinTech: Technology, Regulation, and Disruption in UK and German Retail Banking,” *Public Administration* 99, no. 4 (2021): 859–872, 859, <https://doi.org/10.1111/padm.12731>.

<sup>46</sup> Cheng-Yun Tsang and Ping-Kuei Chen, “Understanding Policy Diffusion Mechanism of Financial Regulatory Innovation: The Experience of Taiwan,” *Asia Pacific Law Review* 30, no. 1 (2022): 21–43, <https://doi.org/10.1080/10192557.2022.2045705>.

<sup>47</sup> Chang-Hsien Tsai et al., “The Diffusion of the Sandbox Approach to Disruptive Innovation and Its Limitations,” *Cornell International Law Journal* 53, no. 2 (2020): 261–296.

<sup>48</sup> Sungdo Lee and Yongseok Seo, “Exploring How Interest Groups Affect Regulation and Innovation Based on the Two-Level Games: The Case of Regulatory Sandboxes in Korea,” *Technological Forecasting and Social Change* 183 (2022): 121880, <https://doi.org/10.1016/j.techfore.2022.121880>.

<sup>49</sup> Paul Langley and Andrew Leyshon, “FinTech Platform Regulation: Regulating with/against Platforms in the UK and China,” *Cambridge Journal of Regions, Economy and Society* 16, no. 2 (2023): 257–268, 257, <https://doi.org/10.1093/cjres/rsad005>.

these authors as “regulating against/of platforms”. Besides, Hendrikse et al.<sup>50</sup> “analyse how Belgian entrepreneurs and politicians assess Brussels’ locational resources, and strategically couple big financial institutions with small tech startups in order to cultivate a Fintech ecosystem in the service of incumbent finance, constituting a Fin-Tech-State triangle” (p. 1516–1517). Gruin and Knaack<sup>51</sup> “find that the growth of both shadow banking and fintech can be located in the same trajectory of reform and development that has animated Chinese financial policy since the early 1990s” (p. 370). Moreover, Wang looks into the case of China and shows how the regulatory stance shifted “from being very supportive in the early years (2012–2014) to being very controlling between 2015 and 2018”<sup>52</sup> as a result of the Party’s aim to politically control the financial sector and to limit the risk of fraud. Finally, Liu<sup>53</sup> “demonstrates that Alibaba, Ant Group, and Tencent can be seen as a form of CCP financial statecraft to help achieve its foreign policy goals because they are established ‘fintech platforms’”.

Regarding quantitative large-N studies, one could single out the article by Ba and Sen<sup>54</sup>. They analyze the regulatory responses to cryptocurrencies. Their argument, backed by cross-sectional regres-

<sup>50</sup> Reijer Hendrikse et al., “Strategic Coupling between Finance, Technology and the State: Cultivating a Fintech Ecosystem for Incumbent Finance,” *Environment and Planning A: Economy and Space* 52, no. 8 (2020): 1516–1538, <https://doi.org/10.1177/0308518X19887967>.

<sup>51</sup> Julian Gruin and Peter Knaack, “Not Just Another Shadow Bank: Chinese Authoritarian Capitalism and the ‘Developmental’ Promise of Digital Financial Innovation,” *New Political Economy* 25, no. 3 (2020): 370–387, <https://doi.org/10.1080/13563467.2018.1562437>.

<sup>52</sup> Jing Wang, “‘The Party Must Strengthen Its Leadership in Finance!’: Digital Technologies and Financial Governance in China’s Fintech Development,” *The China Quarterly* 247 (2021): 787, <https://doi.org/10.1017/s0305741020000879>.

<sup>53</sup> Chiu-Wan Liu, “Conceptualising Private Fintech Platforms as Financial Statecraft and Recentralisation in China,” *New Political Economy* 28, no. 3 (2023): 433–451, <https://doi.org/10.1080/13563467.2022.2136149>.

<sup>54</sup> Heather-Leigh Ba and Ömer Faruk Şen, “Explaining Variation in National Cryptocurrency Regulation: Implications for the Global Political Economy,” *Review of International Political Economy* 31, no. 5 (2024): 1472–1495, <https://doi.org/10.1080/09692290.2024.2325403>.

sion analysis, is that these regulatory responses are related to governments' willingness to maintain monetary sovereignty. Specifically, they find that countries that have fixed exchange rate regimes and impose capital controls are more likely to ban cryptocurrencies. Furthermore, autocracies are more likely to ban cryptocurrencies than democracies, as democracies have more veto-players and have a stronger rule of law.

### ***3. Setting the Research Agenda: Theoretical Discussion and Expectations***

The previous section has shown that there is still a significant gap in literature regarding the political (economy) determinants of Fintech regulation and development. Therefore, there is a lot of potential in exploring these issues. A logical place to start would be to develop a theoretical apparatus generating guiding hypotheses.

In turn, the natural way of proceeding would be to build on the politics of finance literature covered earlier in this article, although being cognizant that certain modifications might need to be introduced, potentially bringing in insights from other theoretical bodies of literature. Why might such modifications be necessary? First, by definition, Fintech involves a *combination* of finance and *technology*. Thus, insights from the literature on the political economy of technology and innovation may prove valuable, particularly regarding how states promote technological development, and how regulatory frameworks adapt to technological change <sup>55</sup>. Second, Fintech is a very rapidly evolving area, thus introducing a high level of uncertainty, which can have important implications for how the preferences of traditional financial

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<sup>55</sup> Fabio Bulfone, "Industrial Policy and Comparative Political Economy: A Literature Review and Research Agenda," *Competition & Change* 27, no. 1 (2023): 22–43, <https://doi.org/10.1177/10245294221076225>; Réka Juhász and Nathan Lane, "The Political Economy of Industrial Policy," *Journal of Economic Perspectives* 38, no. 4 (2024): 27–54, <https://doi.org/10.1257/jep.38.4.27>; Mark Zachary Taylor, *The Politics of Innovation: Why Some Countries are Better than Others at Science and Technology* (Oxford: Oxford University Press, 2016).

institutions (economic interests) and policymakers are formed. Some empirical observations already suggest that the currently existing theoretical models of finance may need to be adjusted – for instance, conventional wisdom would lead to the expectation that incumbents aim to oppose competition and new business models, but it seems that the reaction of traditional financial institutions, such as the large banks, to Fintech development is variegated both across countries and over time<sup>56</sup>, with some traditional players choosing to cooperate with Fintech start-ups rather than lobby to erect barriers against them.

Starting with perhaps the strongest theoretical prior, one would expect that the experience with financial scandals – particularly those related to Fintech and money laundering – will induce countries to adopt a more restrictive approach towards Fintech regulation, and hence, via this mechanism, be linked with a *less* developed Fintech sector. The comparative studies of the Baltic countries<sup>57</sup> revealed that the experience (or lack thereof) with financial scandals and the associated policy learning led to substantial variation in regulation (and hence Fintech development) across the Baltic countries and over time. Second, the institutional setup of regulation played a role – an integrated model of financial supervision in Lithuania was more conducive to enabling Fintech regulation and proactive stance compared to the fragmented model in Estonia, where the supervisor of the financial system is separate from the central bank. Therefore, another hypothesis is that the institutional setup of financial regulation will have an effect on Fintech regulation and development – in particular, the integrated model being associated with more enabling regulation and faster Fintech development.

The independence of the central bank is another potentially important variable, although the exact mechanisms and even the direc-

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<sup>56</sup> K. P. Lai, “The Dis/Re-Intermediation of Finance,” in *The Routledge Handbook of Financial Geography* (London: Routledge, 2020), 440–458; Ioannou and Wójcik, “The Limits to FinTech Unveiled by the Financial Geography of Latin America.”

<sup>57</sup> Raudla et al., “To Sandbox or Not to Sandbox?”; Raudla et al., “Drivers of Fintech Policy Evolution.”

tion of its influence are theoretically ambiguous. On the one hand, independent central banks tend to be rather conservative, and are more able to resist potential pressure by politicians to facilitate financial innovation and experimentation. On the other hand, independent central banks have more room for maneuver, and can take the initiative to act as policy innovators, enabling the emergence of new financial models, especially if they perceive the existing financial system as deficient in terms of the price and quality of services provided, as was the case in Lithuania in 2016–2020<sup>58</sup>. The Bank of Lithuania, which represents a case of a highly integrated and independent supervisor, was actively promoting Fintech development in this period.

The role of partisanship is theoretically ambiguous and intriguing, even more so than in the realm of traditional finance, given that Fintech is multi-dimensional and can be framed in very different ways<sup>59</sup>. The basic expectation would be that right-wing and liberal parties would be likely to enact Fintech-enabling regulation, as they tend to support new business models and economic expansion, while emphasizing the higher competition that Fintech brings. Furthermore, Fintech is sometimes framed as perpetuating inequalities and increasing the already high level of financialization, which might further strengthen left-wing opposition to the sector. However, one could also conceive of Fintech as a challenge to the existing financial order and entrenched incumbent power, potentially leading to fuller ‘democratization’ of finance and *reducing* inequalities, thus increasing the leftist parties’ support for the sector’s development.

As mentioned above, another basic expectation would be that incumbent economic interests – traditional banks – would be opposed to the emergence of new companies that can create competitive pressures, and thus one would hypothesize that countries with more powerful incumbent financial lobbies would have less enabling

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<sup>58</sup> Raudla et al., “Drivers of Fintech Policy Evolution.”

<sup>59</sup> Jack Kværnø-Jones, “The Significance of Boring FinTech: Technology Imaginaries and Value Vernaculars in Established Banks,” *Journal of Cultural Economy* 15, no. 2 (2022): 232–246, <https://doi.org/10.1080/17530350.2021.2002174>.

Fintech regulation and less Fintech development. Nevertheless, the multi-faceted and fast-changing nature of Fintech may complicate the formulation of strong preferences on the part of incumbents. Furthermore, we know that some traditional institutions choose to co-operate with Fintech start-ups, integrate with them, or adopt Fintech technologies themselves. An intriguing question thus is what factors determine this opposing-versus-welcoming stance of the incumbents. One possibility is that this stance is contingent upon other important factors – for instance, a strong and independent central bank impervious to incumbents’ lobbying may send a clear message about the will to support the transformation of the financial system, prompting the incumbents to embrace the new opportunities rather than fight a losing battle. Second, Fintech does not always challenge the core business models of the traditional financial institutions and may specialize in more niche segments of the market – one could hypothesize that traditional financial interests will only strongly oppose Fintech expansion when they see it as a major threat challenging the incumbents’ core business models, for instance, when Fintech companies start entering the mortgage lending market. Finally, the traditional banks may face different degrees of difficulty in replacing or updating their IT systems to embrace Fintech<sup>60</sup>, and thus, accordingly, have different preferences regarding the sector’s development.

Furthermore, even if the incumbents are opposed to enabling Fintech regulation and development, they do not always win the political battle. First, promoting Fintech, especially when framed as an inclusive and democratizing force, can draw the political fight out of the ‘quiet politics’<sup>61</sup> into highly salient public debates, hampering the lobbying power of incumbents. Second, the incumbent interests may simply lack conducive avenues for lobbying, especially if Fintech is promoted by determined politicians and regulatory authorities, or

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<sup>60</sup> René M. Stulz, “FinTech, BigTech, and the Future of Banks,” *Journal of Applied Corporate Finance* 31, no. 4 (2019): 86–97, <https://doi.org/10.1111/jacf.12378>.

<sup>61</sup> Pepper D. Culpepper, *Quiet Politics and Business Power: Corporate Control in Europe and Japan* (Cambridge: Cambridge University Press, 2010).

face too strong an opposition – particularly if pro-Fintech regulation is supported by the so-called ‘Big Tech’ players, such as the US-based giant tech companies.

It would also be worthwhile to analyze the diffusion processes across countries when it comes to Fintech regulation. Literature in international political economy and public policy has seen a proliferation of the study of policy interdependence<sup>62</sup>. The key insight is that policymaking is not made independently across the world but is considerably affected by processes beyond a given country’s borders. Case studies<sup>63</sup> suggest that the mechanism of diffusion might be particularly strong when it comes to Fintech regulation given its highly uncertain and evolving nature. Diffusion comes in different forms: learning (adjusting regulation rationally reacting to perceived failures or successes in other jurisdictions), competition (competing for a limited set of resources, such as investment, with others), coercion (powerful foreign actors forcing the adoption of regulation), and emulation (following others’ examples according to the logic of appropriateness)<sup>64</sup>. So far, case studies have largely focused on learning and emulation. However, one could also investigate all the main mechanisms of diffusion.

<sup>62</sup> Fabrizio Gilardi, “Who Learns from What in Policy Diffusion Processes?”, *American Journal of Political Science* 54, no. 3 (2010): 650–666, <https://doi.org/10.1111/j.1540-5907.2010.00452.x>; Simmons and Elkins, “The Globalization of Liberalization”; Covadonga Meseguer and Fabrizio Gilardi, “What Is New in the Study of Policy Diffusion?”, *Review of International Political Economy* 16, no. 3 (2009): 527–543, <https://doi.org/10.1080/09692290802409236>; Frank Dobbin et al., “The Global Diffusion of Public Policies: Social Construction, Coercion, Competition, or Learning?”, *Annual Review of Sociology* 33, no. 1 (2007): 449–472, <https://doi.org/10.1146/annurev.soc.33.090106.142507>; David Marsh and J.C. Sharman, “Policy Diffusion and Policy Transfer,” *Policy Studies* 30, no. 3 (2009): 269–288, <https://doi.org/10.1080/01442870902863851>; Brooks and Kurtz, “Paths to Financial Policy Diffusion.”

<sup>63</sup> Raudla et al., “Drivers of Fintech Policy Evolution”; Raudla et al., “To Sandbox or Not to Sandbox?”; Tsai et al., “The Diffusion of the Sandbox Approach to Disruptive Innovation and Its Limitations.”

<sup>64</sup> Fabrizio Gilardi and Fabio Wasserfallen, “The Politics of Policy Diffusion,” *European Journal of Political Research* 58, no. 4 (2019): 1245–1256, <https://doi.org/10.1111/1475-6765.12326>.

Furthermore, in terms of ideational perspective, there is a multitude of ways that Fintech development is framed. For instance, some observers and organizations tend to emphasize the benefits that Fintech can bring in terms of innovation, efficiency, lower costs, and bringing even broader benefits, described as ‘democratizing finance’. This is an example of how the potential benefits of Fintech are described in a Laboure and Deffrennes’ book<sup>65</sup>:

*These technologies have a common goal: they are designed to make financial services more accessible to the public. Today’s fintech revolution enables consumers to transfer funds, raise money for business start-ups, and manage personal finances without the help of an intermediary or professional. Fintech is also improving economic inclusion, providing access to banking and commerce in rural areas, and allowing individuals to receive social security transfers. In summary, modern fintech is democratizing finance.*

At the same time, there are also many critical voices, encompassing calls for concern regarding money laundering and an increased financial risk as well as broader financial instability. Some authors describe Fintech as a technology that provides “global finance new forms of ‘profiling’ poor households into generators of financial assets”<sup>66</sup>, while innovative regulatory solutions such as sandboxes are seen as providing opportunities for riskwashing – a term defined as “a financial regulatory institution’s making products or processes of a company seem to involve less risk for stakeholders by engaging in activities that mimic in a superficial or narrow way genuine attempts to assess and reduce risk”<sup>67</sup>.

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<sup>65</sup> Marion Laboure and Nicolas Deffrennes, *Democratizing Finance: The Radical Promise of Fintech* (Cambridge, MA: Harvard University Press, 2022), 1.

<sup>66</sup> Daniela Gabor and Sally Brooks, “The Digital Revolution in Financial Inclusion: International Development in the Fintech Era,” in *Material Cultures of Financialisation*, ed. Kate Bayliss, Ben Fine, and Mary Robertson (London: Routledge, 2019), 69–82.

<sup>67</sup> Eric Brown and Dóra Piroška, “Governing Fintech and Fintech as Governance: The Regulatory Sandbox, Riskwashing, and Disruptive Social Classification,” *New Political Economy* 27, no. 1 (2022): 19–32, <https://doi.org/10.1080/13563467.2021.1910645>, 20.

When thinking about the potential drivers of Fintech regulation, supervision, and development, one important issue to keep in mind is causal heterogeneity, and, in particular, that the drivers of Fintech policy and development can be substantially different across geographical contexts. Concretely, one might expect that they would differ between richer and poorer regions. As was put by Langley and Leyshon<sup>68</sup>, Fintech is often understood as “transforming banking in the global North” and “banking ‘the unbanked’ in the global South”<sup>69</sup>. Another potentially important heterogeneity might be expected to emerge regarding different types of Fintech activities, and in particular between crypto assets versus other types of Fintech. Research suggests that the determinants of the development cryptocurrencies versus peer-to-peer lending are substantially different<sup>70</sup>. Furthermore, it has also been found that the drivers and effects of digital lending vs. digital capital raising might also be different<sup>71</sup>.

Table 1 summarizes the preliminary theoretical expectations of how different political variables may affect Fintech, and also provides some illustrative empirical examples showcasing the political forces at play.

<sup>68</sup> Paul Langley and Andrew Leyshon, “The Platform Political Economy of FinTech: Reintermediation, Consolidation and Capitalisation,” *New Political Economy* 26, no. 3 (2021): 376, <https://doi.org/10.1080/13563467.2020.1766432>.

<sup>69</sup> Cevik, “Prometheus Unbound”; Alfredo Hernandez Sanchez and Vytautas Kuokštis, “One Size Does Not Fit All: Analysis of Adoption of FinTech Regulatory Sandboxes,” *Working Paper*, 2024; Dariusz Wójcik, “Financial Geography II: The Impacts of FinTech – Financial Sector and Centres, Regulation and Stability, Inclusion and Governance,” *Progress in Human Geography* 45, no. 4 (2021): 878–889, <https://doi.org/10.1177/0309132520959825>.

<sup>70</sup> Stolbov and Shchepeleva, “Does One Size Fit All?”

<sup>71</sup> Cevik, “Prometheus Unbound”; Serhan Cevik, “The Dark Side of the Moon? Fintech and Financial Stability,” *International Review of Economics* 71, no. 2 (2024): 421–433, <https://doi.org/10.1007/s12232-024-00449-8>; Serhan Cevik, “Is Schumpeter Right? Fintech and Economic Growth,” *Economics of Innovation and New Technology*, October 8, 2024, 1095–1106, <https://doi.org/10.1080/10438599.2024.2413478>.

**Table 1. Expectations on some factors as to their effects on Fintech regulation and development**

| Factor             | Expectation for traditional finance                                                                                                                                                                 | Modifications for Fintech                                                                                                                                                                                      | Illustrative examples                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Economic interests | Incumbents will oppose financial innovation; stronger incumbents → slower finance growth                                                                                                            | Preferences are more uncertain and fluid, more contingent on the specific business models challenged by Fintech, technical expertise of incumbents, coalition of the challengers (e.g., might include BigTech) | There are instances where the classical incumbent opposition emerges, such as the US banks' "opposition to giving crypto and fintech firms direct access to the core of the US payments infrastructure" <sup>72</sup> or the UK banks resisting compliance to open banking <sup>73</sup> . In other instances, by contrast, traditional banks developed partnerships or their own digital service products, for instance, <i>JPMorgan Chase</i> with <i>OnDeck</i> , <i>Goldman Sachs</i> co-created <i>Apple Card</i> with <i>Apple</i> , <i>HSBC</i> launched its <i>Connected Money</i> app |
| Partisanship       | Right-wing parties prefer lower regulation and more innovation, while left-wing parties care more about consumer protection; thus, right-wing governments are associated with higher finance growth | Potentially less solidified partisan lines and may be more subject to contingencies, depends on how specifically Fintech development is framed (financialization versus democratization)                       | In some cases, partisan lines reflect traditional expectations. In the US, for example, Republicans (including the Trump administration) favor less regulation of cryptocurrencies, while Democrats (notably, Elizabeth Warren) push for more regulation. Surprisingly, Republicans voted to ban central bank digital currency (CBDC) – a financial innovation. Conversely, the Baltic case studies suggest no significant <i>partisan</i> influence on Fintech regulation <sup>74</sup>                                                                                                       |

<sup>72</sup> Emily Mason and Evan Weinberger, "Banks Demand Delays as Crypto Firms Push for Fed Payment Access," *The Edge Singapore*, February 10, 2026, <https://www.theedgesingapore.com/news/highlight/banks-demand-delays-crypto-firms-push-fed-payment-access>

<sup>73</sup> "Are Banks Delivering the Open Banking We Were Promised?," *Paysafe Resource Center*, July 12, 2018, <https://www.paysafe.com/en/resource-center/are-banks-delivering-the-open-banking-we-were-promised/>; "Open Banking Year One: Insights from the CMA9 and More," *Finextra*, January 11, 2019, <https://www.finextra.com/newsarticle/33194/open-banking-year-one-insights-from-the-cma9-and-more>.

<sup>74</sup> Ringa Raudla et al., "Drivers of Fintech Policy Evolution: The Role of Policy Learning and Institutions," *Policy & Politics* 53, no. 1 (2025): 87–108, <https://doi.org/10.1332/03055736Y2024D000000042>.

| <b>Factor</b>              | <b>Expectation for traditional finance</b>                                                    | <b>Modifications for Fintech</b>                                                                                                                                                                                                                                                                                                      | <b>Illustrative examples</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Democracy                  | Democracies will foster financial development                                                 | Direction is unclear. On the one hand, democracies are associated with freer flow of information, more transparency, and stability, which might be particularly important for Fintech. On the other hand, in such a fast-changing field, quick reaction might be necessary to adapt, which might put democracies at a disadvantage    | China initially promoted Fintech development very actively; however, a significant crackdown ensued in 2020–23. This illustrates how authoritarian regimes might be able to rapidly develop Fintech but also are subject to rapid policy reversals. The UK's Fintech regulatory sandbox was the first example of its kind, subsequently emulated across the world. This illustrates how well-functioning institutions under a democracy can generate significant innovations in finance, fostering Fintech development |
| Central bank independence  | More independent central banks will lead to higher financial sector development               | Ambiguous: more independent central banks might be more conservative and less willing to experiment with innovative financial services; on the other hand, they might also be more willing to increase the efficiency and competition on the financial market, while the same confidence-inducing effects might also still be at play | In Lithuania, the highly independent central bank spearheaded active Fintech promotion in 2016–2020. On the other hand, the German Bundesbank, which is also an institution with a very high level of independence, was quite skeptical about Fintech.                                                                                                                                                                                                                                                                 |
| Number of veto players     | More veto players will lead to slower regulatory changes                                      |                                                                                                                                                                                                                                                                                                                                       | In the US and Canada, open banking regulation has been more difficult to adopt due to the fragmented nature of the polity, in contrast to the UK                                                                                                                                                                                                                                                                                                                                                                       |
| Global diffusion processes | Other countries' behavior substantially affects national policymaking in the realm of Fintech | Given higher uncertainty and fast-changing nature, one would expect these effects to be even stronger for Fintech                                                                                                                                                                                                                     | The UK's Fintech regulatory sandbox was subsequently copied and adopted in over 50 jurisdictions all over the world. Baltic policy-makers were highly mindful of Fintech developments in their Baltic neighbors                                                                                                                                                                                                                                                                                                        |

| Factor                                     | Expectation for traditional finance                                                                 | Modifications for Fintech | Illustrative examples                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Experience with financial scandals/ crises | More painful experience with financial scandals will make countries less prone to encourage Fintech |                           | Experience with scandals was important in discouraging Estonian and Latvian officials from actively promoting Fintech. The Wirecard scandal in Germany prompted regulatory changes, namely, more competencies and powers given to the country's Federal Financial Supervisory Authority (BaFin). The FTX scandal shaped European MiCA (Markets in Crypto-Assets Regulation) |

Note: the table was compiled based on own elaboration.

## Conclusions

In this article, I took stock of the growing scholarship on the politics and political economy of Fintech and suggested avenues of how future research should proceed. The article has identified an important gap, namely, that while economists, legal scholars, and economic and financial geographers have extensively analyzed Fintech, political scientists and political economists have so far been largely absent from the conversation, with a few notable exceptions. Furthermore, most research has so far posed the normative question of how Fintech should be regulated rather than a positivist one of why Fintech spreads the way it does across countries and over time.

This article drew on the well-known literature on the politics and political economy of finance, with a classical typology of the ‘three I’s’, i.e., *interests*, *ideas*, and *institutions*. Inspired by this literature, the article then formulated a set of preliminary theoretical expectations of how politics might affect the supply side of Fintech development via regulation and supervision. The main expectations are the following: a) Fintech should pit existing incumbents versus newcomers, although the extent and nature of this competition can be substantially influenced by contextual factors; b) experience with

financial, and specifically with Fintech scandals should lead to more restrictive regulation; c) central bank independence and partisanship have an ambiguous theoretical influence, given competing motivations; d) integrated financial supervision models should be more conducive to more proactive/less restrictive Fintech development; e) given the uncertainty and rapidity of Fintech development, global diffusion effects might be particularly important for Fintech.

The article also calls for further theoretical refinement. In particular, the simple expectation that incumbents should oppose Fintech development via regulatory and supervisory choices might need substantial modification, as preliminary empirical evidence suggests that incumbent responses vary significantly. Furthermore, there is likely space for fruitful incorporation of theories on technological regulation and industrial policy that can be used for theoretical advancement of Fintech political economy theories.

Future scholarship would be well advised to pursue both qualitative case studies and large-N quantitative studies, as well as mixed-methods designs. Both of these approaches should take into account important potential heterogeneities and contextual effects (such as different relevant aspects of Fintech in the developed world versus ‘Global South’) as well as potentially important differences across Fintech segments (digital lending, digital capital raising, crypto, etc.).

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