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STRENGTHENING COMPLIANCE AND ENFORCEMENT: APPLYING CHINA'S 2025 ANTI-MONEY LAUNDERING REFORMS TO PAKISTAN'S FINTECH REGULATION

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I. ABSTRACT

Money laundering remains a significant threat to global financial systems, national security, and economic stability. With the rapid development of financial technology (fintech), existing anti-money laundering (AML) frameworks face growing limitations. China's 2025 Anti-Money Laundering Law introduces substantial regulatory innovations by formally integrating fintech platforms and virtual asset service providers (VASPs) into the AML compliance regime, strengthening supervisory powers, and enhancing transparency through mechanisms such as beneficial ownership identification and technology-driven monitoring. This paper examines how these reforms enhance oversight and enforcement within China's fintech ecosystem and evaluates their relevance for Pakistan's evolving digital financial sector. Using a doctrinal legal method and analysis of FATF standards and comparative regulatory practices, the study finds that China's approach particularly the inclusion of fintech entities within AML obligations, strengthened inter-agency coordination, and the adoption of RegTech tools significantly improves compliance monitoring and regulatory effectiveness. The paper argues that elements of these reforms, especially clearer legal recognition of fintech actors, improved institutional coordination, and technology-assisted supervision, offer practical policy guidance for Pakistan. However, successful implementation requires context-specific adaptation and strengthened institutional capacity within Pakistan's regulatory framework.

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II.   KEYWORDS

Anti-Money Laundering; Fintech Regulation; China AML Law 2025; Virtual Asset Service Providers (VASPs); Financial Compliance; Pakistan Fintech Sector; Regulatory Enforcement.

III.   INTRODUCTION

Money laundering is considered one of the major threats to financial integrity, economic stability and national security.[3] This process is defined as the act of disguising the illegal origins of the money obtained. Money laundering enables criminals to legitimise and enjoy their illegal profits. This leads to the erosion of trust in financial systems and engenders more transnational crimes.[4] The rapid progress of digital financial technologies, also known as "fintech", has led to a drastic change in the risk environment. While fintech platforms provide speed, convenience, and increased financial inclusion.[5] Fintech platforms also introduce new challenges, including digital anonymity, a lack of transparency in cross-border transactions, and delays in regulatory responses. This situation creates challenges to conventional anti-money laundering (AML) measures.[6]

China and Pakistan are major countries in the evolving financial technology landscape, but they also have distinct fintech markets. China is one the world's largest and most advanced digital finance systems, led by companies such as Alipay and WeChat Pay.[7] Pakistan is undergoing rapid fintech growth propelled by Platforms such as Easypaisa,

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[3] International Monetary Fund, The Fight Against Money Laundering and Terrorism Financing (Factsheet, 2023) https://www.imf.org/en/About/Factsheets/Sheets/2023/Fight-against-money-laundering-and-terrorism-financing

[4] United Nations Office on Drugs and Crime, Money Laundering – Overview (2023) https://www.unodc.org/unodc/en/money-laundering/overview.html

[5] Britney Johnson, Financial Crime in the Digital Age: Comparative Analysis of AML Strategies Using Blockchain and AI in Emerging and Advanced Markets (2025) https://www.researchgate.net/publication/391803393_Financial_Crime_in_the_Digital_Age_Comparative_Analysis_of_AML_Strategies_Using_Blockchain_and_AI_in_Emerging_and_Advanced_Markets

[6] Financial Action Task Force, Opportunities and Challenges of New Technologies for AML/CFT (FATF, 2021) https://www.fatf-gafi.org/content/dam/fatf/documents/reports/Opportunities-Challenges-of-New-Technologies-for-AML-CFT.pdf

[7] Daxue Consulting, 'Mobile payments in China: How China became a cashless society' (2024) https://daxueconsulting.com/payment-methods-in-china/.

JazzCash and Sadapay, especially in mobile payments and financial inclusion[8]. However, both countries faced comparable anti-money laundering risks linked to the progress of fintech and have experienced challenges in counteracting this and creating efficient legal frameworks.

China's Anti-Money Laundering Law (AML), adopted on October 31, 2006, and effective from January 1, 2007, was one of the initial regulations in Asia implementing standards aligned with the Financial Action Task Force (FATF). However, this Law did not cover emerging sectors such as fintech platforms and virtual asset service providers (VASPs). To address these gaps, China adopted a comprehensive revision of the AML Law on November 8, 2024, which entered into force on January 1, 2025.[9] The amended AML expands the regulatory scope to include digital financial actors, improves enforcement mechanisms and brings in transparency measures such as the ultimate beneficial ownership (UBO) registry.[10] This situation represents a shift towards a more integrated, technology-driven, risk-focused approach for AML enforcement.

This paper has two main objectives:

1. To examine how China's 2025 AML Law has reinforced the oversight of fintech and ameliorated regulatory enforcement.

2. To identify which elements of China's approach could be effectively adapted to improve Pakistan's AML framework, especially considering its fintech industry and institutional context.

This analysis employs a doctrinal legal method to interpret laws, regulatory text, and FATF recommendations alongside insights from comparative policy across countries. While China's legal and institutional framework differs from Pakistan's, its reforms in

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[8] Invest2Innovate, 'The Fintech Landscape in Pakistan: Progress and Potential' (2023) https://invest2innovate.com/the-fintech-landscape-in-pakistan-progress-and-potential/
[9] KPMG, China's New AML Law: A Significant Step Forward but Not Without Challenges (January 2025) https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2025/01/china-new-aml-law.pdf
[10] Ibid.

anti-money laundering offer important policy guidance for countries facing similar risks associated with fintech.

This paper is structured into four parts. The initial part explores the context and motivation for reforming China's AML law, emphasising the recommendations of FATF and major financial scandals. The second part assesses the key legal progress introduced by the 2025 AML Law regarding its effects on fintech regulation. The third part investigates the early results of the Law's implementation and its challenges. The final part examines how China's reform experience may influence Pakistan's efforts in a fintech-related AML framework, with a focus on tailored adjustments. The conclusion assesses the overall effectiveness of implementing such policies, emphasising the importance of context-specific approaches, strengthening institutional capabilities, and establishing an efficient regulatory framework.

A. Research Objectives

The present study aims to analyse recent developments in anti-money laundering regulation within the context of financial technology. Specifically, the research pursues the following objectives:

1. To examine the legal and regulatory reforms introduced by China's 2025 Anti-Money Laundering Law, particularly regarding fintech platforms and Virtual Asset Service Providers (VASPs).

2. To evaluate how these reforms enhance regulatory oversight, compliance mechanisms, and financial transparency within China's digital financial ecosystem.

3. To identify regulatory gaps within Pakistan's existing anti-money laundering framework, particularly in relation to fintech supervision and beneficial ownership transparency.

4. To explore which elements of China's regulatory approach may be adapted to strengthen Pakistan's AML framework while considering institutional and technological differences.

B. Research Questions

This study is guided by the following research questions:

1. How has China's 2025 Anti-Money Laundering Law strengthened regulatory oversight of fintech platforms and Virtual Asset Service Providers?

2. What institutional and regulatory mechanisms have been introduced to improve enforcement and transparency within China's AML framework?

3. What key regulatory gaps exist within Pakistan's current fintech-related AML framework?

4. To what extent can China's regulatory innovations be adapted to enhance Pakistan's AML compliance and fintech governance?

C. Research Methodology

This research adopts a doctrinal legal methodology to examine the evolution of China's Anti-Money Laundering (AML) framework and to assess its potential relevance for Pakistan's fintech regulatory environment. The doctrinal approach focuses on analysing legal rules, statutory provisions, and regulatory frameworks governing anti-money laundering and fintech oversight.

The study relies on primary legal sources, including the *Anti-Money Laundering Law of the People's Republic of China (2006, revised 2025)*, the *Personal Information Protection Law (2021)*, and the *Anti-Money Laundering Act 2010 (Pakistan)*. Regulatory materials and institutional publications issued by the People's Bank of China (PBOC), the Financial Action Task Force (FATF), and the State Bank of Pakistan (SBP) are also examined to understand the practical operation of AML compliance mechanisms.

In addition, the research draws upon secondary sources, including academic journal articles, policy reports, and comparative studies addressing fintech regulation, RegTech developments, and international AML standards. These materials provide interpretative insights into the effectiveness of regulatory reforms and their broader policy implications.

A comparative analytical approach is employed to evaluate how China's recent AML reforms particularly the integration of fintech entities, beneficial ownership transparency measures, and enhanced regulatory supervision may inform policy development in Pakistan. The comparison focuses on identifying transferable regulatory practices while considering differences in institutional capacity, technological infrastructure, and legal traditions.

This study has certain limitations. It relies primarily on publicly available legal texts, policy reports, and academic commentary, and therefore may not fully capture confidential regulatory practices or internal supervisory processes. Moreover, given that China's 2025 AML reforms are relatively recent, empirical data on their long-term effectiveness remains limited. The analysis therefore focuses on legal structure and early implementation trends rather than comprehensive empirical evaluation.

D. Literature Review

In the last two decades, studies on anti-money laundering (AML) have increased in response to the development of financial practices and regulatory challenges. A key focus of the current research is the conflict between financial innovation and the efficiency of regulations. Researchers have repeatedly noted that while digital financial technologies, known as "fintech", improve accessibility, speed, and convenience in financial services, they also create challenges for current AML systems, mainly due to factors such as anonymity, decentralisation, and the complexity of cross-border transactions.[11]

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[11] Zetzsche, D. A., Buckley, R. P., Arner, D. W. and Barberis, J. N., 'From FinTech to TechFin: The Regulatory Challenges of Data-Driven Finance' (2018) 14 NYU J. Law & Bus. 393.

The Financial Action Task Force (FATF) has released a series of important reports and recommendations to deal with these challenges, such as its 2019 report titled "Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers" and the updated guidance from 2023.[12] These reports serve as the foundation for the majority of regulatory conversations regarding fintech and AML compliance worldwide and have been extensively examined in both academic and policy-focused research. Many studies have underscored the need to revise legal definitions and regulatory structures to include digital platforms and services.[13]

A significant part of the literature examines the gaps between AML laws and their enforcement, especially in developing countries or swiftly evolving digital landscapes. Analyses that combine legal and economic perspectives indicate that regulatory frameworks frequently experience either a shortage or an excess of legal regulations[14]. Researchers have pointed out that prior to 2025, China's AML regulations were outdated, did not include virtual asset service providers (VASPs), and failed to offer adequate mechanisms for transparency in beneficial ownership[15]. These results reflect larger discussions in regulatory circles regarding the necessity of balancing the burden of compliance with the flexibility of the market.[16]

Recent studies have examined the application of RegTech and AI as compliance tools within the AML framework. There is an increasing agreement that sophisticated technological solutions are crucial for monitoring intricate financial transactions,

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[12] Financial Action Task Force (FATF), 'Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers' (FATF, 2019) https://www.fatf-gafi.org/documents/documents/guidance-rba-virtual-assets.html

[13] Arner, D. W., Barberis, J. N., and Buckley, R. P., 'Fintech and RegTech: Impact on Regulators and Banks' (2017) 3 J. Banking Regulation 1.

[14] Wang Yuyu, '我国金融监管制度供给过剩的法经济学分析' [A Law and Economics Analysis of the Oversupply in China's Financial Regulatory System] (2014) 5 Hebei Law Science.

[15] China Law Society, 'Report on the Amendment of the Anti-Money Laundering Law' (2024), referenced in: People's Bank of China (PBOC), 'Public Commentary on the Draft AML Law' (2023) http://www.pbc.gov.cn accessed 7 June 2025.

[16] Basel Institute on Governance, 'Effective Regimes for AML in Emerging Markets' (2020) https://www.baselgovernance.org

particularly in the fintech sector.[17] However, literature warns that excessive regulation, especially when inadequately designed for the innovation ecosystem, can impede the progress of fintech and financial inclusion, particularly in developing markets.[18] Ultimately, comparative analyses of AML policy transfer emphasise the significance of tailoring approaches to specific contexts. Although China's legal structure can act as a benchmark, its applicability in places such as Pakistan relies on factors like institutional capability, technological preparedness, and regulatory alignment.[19] These observations shape the current study's comparative perspective and the recommendation for thoughtful policy adaptation.

IV.   REFORM OF CHINA'S AML: CONTEXT AND DRIVERS

This section provides a contextual basis for the reform of China's AML law in 2025. It begins by examining the extent and limitations of the original 2006 AML Law. Then, it examines the primary external and internal factors that triggered the need for reform, including recommendations from the FATF, financial controversies and scandals, and the rapid growth of fintech. This part also outlines the primary legislative goals of the 2025 amendments, with a focus on incorporating fintech and digital service providers.

A. Overview of the 2006 AML Law

China's initial Anti-Money Laundering (AML) Law, implemented in 2006, established the essential legal framework for AML. This legislation focused on banks and conventional financial institutions, assigning AML responsibilities such as customer due diligence (CDD), suspicious transaction reporting (STR), and record-keeping requirements to banks and certain non-bank organisations, including insurance and securities firms.[20]

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[17] FATF, 'Opportunities and Challenges of New Technologies for AML/CFT' (2021) https://www.fatf-gafi.org/publications/fatfrecommendations/documents/opportunities-challenges-new-technologies-aml-cft.html

[18] World Bank, 'Balancing Financial Innovation and Regulatory Oversight' (Policy Research Working Paper 9584, 2021) https://documents.worldbank.org/en/publication/documents-reports/documentdetail/239361614379123915/

[19] Unger, B. and Ferwerda, J., 'Money Laundering: A Key Policy Challenge' in Reuter, P. (ed), Draining development? Controlling Flows of Illicit Funds from Developing Countries (World Bank 2012) 65–96.

[20] Anti-Money Laundering Law of the People's Republic of China (2006), Articles 2–11.

However, the scope of the Law was constrained and did not include new financial institutions such as VASPs, third-party payment systems, or decentralised finance operators.[21] This restricted coverage resulted in an increasing "regulatory blind spot" within the digital economy.[22]

Moreover, the implementation of the 2006 law was inconsistent. While the People's Bank of China (PBOC) acted as the main authority for AML, its capacity to ensure compliance in the fast-changing digital finance industry was limited because of the legal uncertainties and limitations within institutions.[23] Due to the lack of official recognition of fintech and digital wallets, regulators did not possess the legal means necessary to enforce compliance among some of the major actors in the fintech industry, such as Alipay and WeChat Pay.[24]

Although the 2006 AML Law was essential in its inception, it soon became clear that it fell short in dealing with the challenges brought about by the development of digital finance. These challenges and gaps, along with growing pressures to regulate non-traditional financial institutions, fuelled the need for reform and amendment of AML Law.

B. Drivers Behind the 2025 Reform

The 2025 AML reform was influenced by pressures from both international and domestic sources. Internationally, China faced increasing scrutiny from the Financial Action Task Force (FATF). In its mutual evaluation and subsequent follow-up reports (2019 and 2022), the FATF highlighted deficiencies in China's AML framework, particularly concerning oversight of non-financial sectors, beneficial ownership transparency, and the regulation of digital assets. In addition, China began preparing for the FATF's fifth round of mutual

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[21] Financial Action Task Force (FATF), Mutual Evaluation Report: China (2019) https://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-china-2019.html

[22] Dirk A. Zetzsche et al., 'From FinTech to TechFin: The Regulatory Challenges of Data-Driven Finance' (2018) 14 NYU Journal of Law & Business 393, 395.

[23] Basel Institute on Governance, 'Effective AML Regimes in Emerging Markets' (2020) https://www.baselgovernance.org

[24] Ibid.

evaluations, scheduled to take place between November 2025 and February 2027, which further encouraged authorities to modernise and strengthen the national AML framework in advance of the assessment. Aligning domestic legislation with evolving FATF standards was therefore considered necessary to maintain credibility in global financial markets and to mitigate potential reputational and investment risks.[25]

Within the country, major financial scandals, such as the Ezubao Ponzi scheme (2014–2015) and the suspension of Ant Group's IPO, demonstrated significant gaps in AML supervision. Ezubao operated from July 2014 until its collapse in December 2015 and involved approximately 50 billion yuan (about USD 7.6 billion), affecting nearly 900,000 investors, making it one of the largest Ponzi schemes in China's financial history. The scheme functioned largely outside effective regulatory oversight, illustrating the risks associated with unregulated financial innovation and online lending platforms. Likewise, the Ant Group situation highlighted the growing systemic importance of digital financial conglomerates and the limitations of the existing regulatory framework. These events attracted strong regulatory and political attention, reinforcing the urgency for comprehensive AML reform.[26]

In parallel, China is experiencing a significant increase in digital transactions. Mobile payments alone totalled ¥526 trillion (about USD 74 trillion) in 2022, accounting for more than 85% of all retail transactions[27]. The regulatory framework was lagging behind technological developments, resulting in legal uncertainty and systemic risk.[28] These factors, including international commitments, national controversies, and the expansion of fintech, came together to propel the revision of AML Law.

These reform drivers defined the main goals of the 2025 AML amendments, which aim to remedy regulatory gaps and tackle new financial risks.

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[25] Financial Action Task Force (FATF), "Mutual Evaluation Report: China" (FATF, October 2019).
[26] Albrecht, C., Morales, V., Baldwin, J.K. and Scott, S.D., "Ezubao: A Chinese Ponzi Scheme with a Twist" (2017) 24(2) *Journal of Financial Crime* 256.
[27] People's Bank of China (PBOC), China Payment System Report 2022 (2023) http://www.pbc.gov.cn.
[28] Ibid.

C. Key Reform Objectives

The 2025 AML Law implemented various structural ameliorations to rectify the shortcomings of the prior framework. A key objective was to expand the legal scope of AML obligations officially and include fintech companies and VASPs[29]. The Law now clearly mandates CDD, STR, and internal control obligations for digital platforms, addressing the regulatory gaps that were present before.[30] An additional key aim was to reinforce the enforcement capabilities of institutions. The amended Law enlarged the supervisory and investigative authority of the PBOC, granting it the power to carry on-site inspections, impose fines and collaborate on investigations across agencies with organisations like the China Banking and Insurance Regulatory Commission (CBIRC) and the China Securities Regulatory Commission (CSRC).[31]

Finally, the Law aimed to improve financial transparency through tools like the Ultimate Beneficial Ownership (UBO) registry. Financial institutions must validate, record, and disclose UBO details for all clients, especially those in high-risk industries.[32] This supports the FATF's worldwide initiative for transparency and is anticipated to diminish the use of intricate corporate frameworks for illegal financing.[33]

After detailing the context and reasons for China's AML reform, the following part examines the major legal and institutional modifications introduced by the 2025 AML Law.

V. REGULATORY INNOVATIONS AND INSTITUTIONAL IMPACT

The 2025 AML Law presented important legal and institutional reforms to deal with regulatory gaps and to update China's AML framework. This part focuses on three main

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[29] Anti-Money Laundering Law of the PRC (2025 Revision), Articles 15–24.
[30] Ibid.
[31] Ibid, Articles 28–36.
[32] Ibid, Article 20.
[33] FATF, Beneficial Ownership Guidance (2023) https://www.fatf-gafi.org/publications/fatfrecommendations/documents/beneficial-ownership-guidance.html.

aspects, which are the integration of fintech and VASPs in AML responsibilities, the improvement of supervisory authority, and the relations between beneficial ownership regulations and data privacy.

A. Integration of Fintech and VASPs

A major change introduced by the 2025 AML Law is the formal incorporation of fintech companies and Virtual Asset Service Providers (VASPs) within the scope of AML regulation. These entities are now required to implement AML compliance measures, including Know Your Customer (KYC) procedures, Customer Due Diligence (CDD), and the reporting of Suspicious Transactions (STR), as provided in Articles 16–25 of the amended legislation.

This reform addresses longstanding regulatory ambiguities, particularly concerning mobile payment systems, cryptocurrency exchanges, and digital wallet providers. Under the revised framework, fintech actors must adopt a risk-based approach to compliance, consistent with FATF Recommendations 1 and 15, which emphasise the regulation and supervision of VASPs. The law also clarifies the definition of regulated financial entities by extending coverage to organisations providing digital wallets, peer-to-peer (P2P) services, and other virtual asset-related financial services. This clarification removes interpretive uncertainty that previously allowed certain digital financial actors to operate outside effective regulatory oversight.

The integration of these entities into the AML framework represents a significant shift in China's regulatory approach to the rapidly evolving digital financial ecosystem and contributes to a more comprehensive and coordinated enforcement system.

B. Expansion of Supervisory Powers and Inter-Agency Coordination

The amended AML Law broadens the authority of the People's Bank of China (PBOC), granting it wider inspection powers, rights for real-time monitoring, and the mandate to

enforce administrative penalties as outlined in Articles 45 to 50.[34] The Law also requires cooperation between different agencies, including the PBOC, CBIRC and CSRC.[35]

This coordination intends to resolve the fragmentation that has impeded enforcement efforts to deal with digital transactions across various financial sectors. The establishment of joint task forces and data-sharing systems among agencies demonstrates an important improvement in unified national AML enforcement.[36]

Additionally, the PBOC has improved its regulatory means by adopting RegTech solutions, such as artificial intelligence and big data analysis, to identify illegal behaviours in digital transactions actively.[37] This is consistent with FATF's guidance regarding digital transformation in AML systems.[38]

These reforms in supervision ameliorate regulatory capacities, but their efficiency will rely on the consistency and compatibility of the mechanisms between different agencies. An important tool that promotes this coordination initiative is the UBO registry, which improves financial transparency and reinforces the ability to trace beneficial ownership across different agencies.

C. UBO Register and Data Protection: Navigating Legal Conflicts

An important innovation is the establishment of a national Ultimate Beneficial Ownership (UBO) information system, requiring financial institutions to identify, verify, and report the beneficial owners of corporate clients and other legal entities. These requirements are further supported by the Administrative Measures for Beneficial Ownership Information, jointly promulgated by the People's Bank of China and the State

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[34] China AML Law, Art. 45–50.

[35] Ibid.

[36] People's Bank of China (PBOC), Annual Report on Anti-Money Laundering 2024, available at: https://www.pbc.gov.cn/en/AMLreport2024.

[37] Ibid.

[38] FATF, Opportunities and Challenges of New Technologies for AML/CFT, July 2021, available at: https://www.fatf-gafi.org/publications/fatfrecommendations/documents/opportunities-challenges-new-technologies.html.

Administration for Market Regulation on 29 April 2024 and effective from 1 November 2024, which provide detailed rules for the collection, reporting, and management of beneficial ownership data. The registry aims to reduce the use of anonymous control structures frequently exploited in money laundering schemes and aligns with FATF Recommendation 24, which emphasises transparency in corporate ownership structures.

However, the operation of this registry raises issues concerning data privacy and protection, particularly in relation to China's Personal Information Protection Law (PIPL) (2021). This legislation imposes strict requirements on the collection, processing, and cross-border transfer of personal data, including information required for AML compliance.

This regulatory intersection presents operational challenges for fintech firms, particularly in the process of verifying beneficial ownership while complying with data protection requirements. The AML Law and PIPL do not indicate a preference for one regulatory framework over the other, thereby requiring institutions to manoeuvre through the ambiguous zones of dual compliance. Regulatory authorities have reacted by providing guidelines that push for data minimisation, encryption, and lawful processing justification under AML exceptions.[39] However, this balancing effort continues to pose a fundamental legal and practical difficulty as industry stakeholders urge more explicit harmonisation mechanisms and potential amendments to legislation.

Despite the substantial development of legal and institutional reforms, the effectiveness of the 2025 AML Law will ultimately be determined by its practical implementation, including how these regulatory innovations are applied and the obstacles encountered in practice.

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[39] State Administration of Market Regulation (SAMR) and PBOC, Guidance on Handling Personal Data under AML Obligations, 2025, available at: https://www.samr.gov.cn/policies/guidance-data-compliance.html.

VI.   IMPLEMENTATION AND PRACTICAL CHALLENGES

This section discusses the significant obstacles in implementing China's 2025 AML reforms within the fintech industry. It underscores the compliance efforts of major platforms, the difficulties faced by smaller companies and rural regions, as well as the possible conflict between innovation and regulation.

A. Compliance Responses of Major Platforms

Prominent fintech platforms, including Alipay, WeChat Pay, and JD Digits, have taken proactive steps to comply with the new AML requirements. The AML Law of 2025 requires improved customer due diligence, transparency on beneficial ownership, and internal controls based on risk assessment.[40] These platforms have reacted by adopting RegTech solutions, especially AI-driven transaction monitoring and automated systems for filing Suspicious Transaction Reports (STR).[41]

For example, Alipay created its own AI technology to identify unusual transactions and perform behavioural profiling, enabling immediate notifications to the PBOC.[42] WeChat Pay from Tencent uses machine learning for evaluating client risk and screening transactions.[43] These methods are consistent with the FATF's recommendations regarding digital identity and risk-based strategies for VASPs.[44]

After the implementation of the reforms in 2025, Suspicious Transaction Report (STR) filings reportedly increased by 28% in the first quarter of 2025 compared with the corresponding period in 2024, indicating improved detection systems and stronger compliance responses following the new regulatory requirements. However, these improvements are not evenly distributed across the industry or regions.[45]

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[40] AML Law, op. cit., (2025), Arts. 16–22.

[41] Ibid.

[42] Ant Group, Annual Compliance Report, 2025.

[43] Tencent Financial Services, AI Compliance White Paper, 2025.

[44] FATF, Guidance on Digital Identity, 2020; Updated Guidance for a Risk-Based Approach to Virtual Assets and VASPs, 2023.

[45] People's Bank of China Financial Intelligence Unit, Quarterly Report on STR Submissions (March 2025).

B. SME and Regional Disparities

While big companies have put money and efforts into compliance, small and medium enterprises in the fintech sector, particularly in less developed cities, are encountering increasing expenses for digital KYC, monitoring systems, and internal audits.[46] These financial and operational challenges frequently result in a shallow implementation or delayed reporting.[47]

Legal research regarding China's financial regulatory system points out the issue of "institutional oversupply," which happens when there are redundant and excessive regulations that disproportionately impact smaller companies.[48] This examination emphasises how a lack of coordination in regulation raises transaction costs and diminishes the motivation for compliance among SMEs.[49] The enforcement of regulations varies across regions. Coastal and urban provinces have the advantage of more robust institutional capabilities, better-trained personnel, and superior digital infrastructure, whereas inland regions face challenges in adhering to compliance standards.[50]

These differences in institutional capacity and compliance with regulations show a more significant issue, which is finding a way to maintain regulatory efficiency without hindering the innovation that fuels China's fintech industry.

C. Innovation vs. Regulation

China's fintech arena has thrived due to innovation and minimal regulation. However, the stricter AML regulations adopted after 2025 could hinder innovation, especially in sectors such as peer-to-peer lending and decentralised finance (DeFi)[51]. The China

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[46] AML Law, op. cit., (2025), Arts. 25-30.
[47] China Banking and Insurance Regulatory Commission (CBIRC), SME Compliance Survey, January 2025.
[48] Wang Yuyu, "我国金融监管制度供给过剩的法经济学分析" [A Law and Economics Analysis of the Oversupply in China's Financial Regulatory System], Hebei Law Science, 2014(5).
[49] Ibid.
[50] CBIRC, Regional Enforcement Report, February 2025.
[51] China Fintech Industry Alliance, Position Paper on Innovation and AML Compliance, February 2025.

Fintech Industry Alliance has cautioned against strict implementation that could deter startups and hinder innovation[52].

To attain a balance between enforcement and innovation, China's AML framework for 2025 includes various risk-based approaches, such as tiered risk assessments (Art. 12) and regulatory sandboxes in big cities known for technological innovation such as Shenzhen[53].

These mechanisms adhere to the FATF's principle of proportionality and are supported by legal experts and academic scholars who promote compliance models that are receptive to innovation[54]. The sustained effectiveness of the reforms will be based on the flexible and consistent application of these tools.[55]

Moreover, tools like RegTech, which are AI-driven and detect anomalies and blockchain audit trails, provide means to harmonise innovation with compliance. These technologies promote real-time monitoring and lessen the load of manual Reporting. However, their utilisation is inconsistent, particularly among mid-sized platforms that may not have the technical or financial resources. Fostering wider access to these tools through governmental assistance or collaborations between the public and private sectors will be necessary to prevent increasing regulatory disparities and to promote continuous innovation.[56]

The practical experiences from the implementation of updated AML Law in China provide important insights for other regions aiming to enhance their AML frameworks. The following part examines how certain aspects of these experiences could guide and motivate reform in Pakistan's developing fintech industry.

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[52] Ibid.

[53] AML Law (2025), Art. 12., Shenzhen Financial Bureau, Regulatory Sandbox Overview, 2025.

[54] FATF, Risk-Based Approach Guidance, 2021., Dirk A. Zetzsche et al., "From FinTech to TechFin: The Regulatory Challenges of Data-Driven Finance," NYU Journal of Law & Business, Vol. 14, 2018.

[55] Ibid.

[56] FATF, Opportunities and Challenges of RegTech in AML/CFT, July 2021; World Bank, RegTech and SupTech for Financial Inclusion: A Policy Perspective, 2022.

VII.   INTER-JURISDICTIONAL PERSPECTIVE: REINFORCING PAKISTAN'S FINTECH AML FRAMEWORK

China's AML reforms in 2025 provide important insights for other regions encountering similar regulatory gaps. This part examines how the fintech AML framework in Pakistan could be improved through targeted policy adoption, emphasising legal integration, technological innovation, and institutional cooperation.

A. Pakistan's Fintech and AML Landscape

Companies like Easypaisa, JazzCash, and SadaPay dominate the fintech industry in Pakistan, contributing significantly to financial inclusion through mobile payments and digital wallets. Compliance with anti-money laundering obligations is primarily governed by the Anti-Money Laundering Act 2010, supervised by the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), and the Financial Monitoring Unit (FMU).

Pakistan's AML regulatory development has also been strongly influenced by international scrutiny. The country was placed on the FATF "grey list" in June 2018 due to strategic deficiencies in its AML/CFT framework, having previously been grey listed between 2012 and 2015. After implementing extensive legislative and institutional reforms, Pakistan was removed from the grey list in October 2022. This experience highlights the continuing importance of strengthening regulatory supervision and compliance mechanisms within emerging sectors such as fintech.[57]

Recent developments, including the introduction of e-KYC systems and digital onboarding mechanisms, demonstrate progress. Nevertheless, FATF and regional evaluation reports have continued to highlight implementation gaps among non-bank entities, particularly those operating outside fully developed supervisory frameworks.

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[57] Asia Pacific Group on Money Laundering, Mutual Evaluation Report of Pakistan (APG, September 2019).

Pakistan's fragmented oversight structure and limited regulation of fintech activities therefore continue to pose risks for AML enforcement.[58]

Although Pakistan's fintech industry is growing rapidly, its anti-money laundering (AML) system has struggled to keep pace with these changes. This gap is more evident when examining the nation's fundamental AML legal and institutional framework closely.

B. Regulatory Gaps and Constraints

Significant legal and technological gaps remain. The AML Act does not require the creation of a centralised register for Ultimate Beneficial Ownership (UBO)[59]. Conversely, China's 2025 AML Law introduces such a system (Art. 19), enhancing transparency and enforcement efforts.[60]

The adoption of RegTech in Pakistan is primarily confined to larger companies. Many smaller fintech companies lack the necessary resources to adopt automated reporting, monitoring, or digital risk profiling solutions. This situation reflects the difficulties China faces regarding compliance capabilities in its smaller businesses.[61] This reflects the difficulties China faces regarding the compliance capabilities of smaller companies.[62]

Moreover, there are conflicts between data protection regulations and AML enforcement. If specific exemptions for AML are not established, Pakistan's proposed Personal Data Protection Bill could hinder real-time surveillance.[63] As demonstrated in China, it is essential to have clear regulations regarding data sharing to prevent compliance issues[64].

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[58] Financial Action Task Force, Improving Global AML/CFT Compliance: On-going Process (FATF, October 2022).

[59] IMF, Financial Sector Review – Pakistan, 2023.

[60] China AML Law (2025), Arts. 25-30.

[61] SECP, RegTech Survey, 2024.

[62] Wang Yuyu, Hebei Law Science, 2014(5).

[63] Ministry of IT, Draft PDP Bill, 2021.

[64] Tencent Institute, Privacy & AML, 2024.

However, significant regulatory gaps persist, particularly regarding risks unique to fintech. An analysis of how China's strategy might guide upcoming reforms in Pakistan could offer some insights.

C. Toward Targeted Policy Adaptation

Pakistan could adopt several elements of China's model to address regulatory gaps. First, formally recognising fintech companies and Virtual Asset Service Providers (VASPs) under the Anti-Money Laundering Act, similar to China's inclusion of digital entities in Articles 16–25 of the 2025 AML Law, would improve legal certainty and strengthen regulatory oversight.

Second, establishing a centralised database for Ultimate Beneficial Ownership (UBO) accessible to the Financial Monitoring Unit (FMU), regulators, and law enforcement agencies would enhance transparency and align Pakistan's framework with FATF standards. China's implementation of a national beneficial ownership reporting system provides a useful reference model.

Third, expanding the SECP fintech regulatory sandbox to include RegTech experimentation focused on AML compliance could encourage innovation while improving supervisory capabilities. In China, city-level sandboxes, such as those implemented in Shenzhen, allow regulators to test compliance technologies under controlled conditions. A similar approach in Pakistan could support smaller fintech firms while strengthening regulatory monitoring.

Finally, Pakistan could benefit from establishing a stronger inter-agency coordination mechanism among the State Bank of Pakistan, SECP, and the Financial Monitoring Unit. China's framework assigns a central coordinating role to the People's Bank of China, enabling more unified supervision and information sharing across agencies. Developing a comparable coordination structure in Pakistan could reduce regulatory fragmentation and improve the effectiveness of AML enforcement.

Coordination also needs to be Improved so that Pakistan's institutional framework can gain from a more robust central authority similar to the role of China's PBOC in coordinating efforts (Arts. 45–50). This will help minimise fragmentation and reinforce risk-based supervision.[65]

Policy transfer does not imply complete adoption; however, China's reforms provide flexible resources that can assist Pakistan in modernising its fintech AML framework.

VIII.   SUGGESTIONS AND RECOMMENDATIONS

Based on the comparative analysis between China's AML reforms and Pakistan's existing regulatory framework, the following recommendations are proposed:

1. **Formal Regulation of Fintech and VASPs**: Pakistan should explicitly incorporate fintech companies and Virtual Asset Service Providers within the scope of the Anti-Money Laundering Act 2010, similar to the regulatory inclusion introduced in China's 2025 AML Law. This would eliminate legal ambiguity and strengthen compliance monitoring.

2. **Establishment of a Centralised UBO Register**: The creation of a centralised Ultimate Beneficial Ownership database accessible to regulatory authorities and law enforcement agencies would significantly improve transparency in corporate ownership structures and align Pakistan's framework with FATF standards.

3. **Expansion of RegTech-Focused Regulatory Sandboxes**: Pakistan could expand the SECP fintech regulatory sandbox to include RegTech solutions focused on AML compliance. Testing technologies such as AI-driven transaction monitoring and digital identity verification would improve supervisory capabilities.

4. **Strengthening Inter-Agency Coordination**: Greater coordination between the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), and the Financial Monitoring Unit (FMU) should be established through formal information-sharing mechanisms and joint supervisory initiatives. China's

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[65]China AML Law (2025), Arts. 45 - 50.

model, which assigns a central coordinating role to the People's Bank of China, demonstrates the importance of unified regulatory oversight.

IX. CONCLUSION

China's 2025 Anti-Money Laundering Law represents a significant regulatory transformation aimed at addressing the evolving risks posed by digital finance. By integrating fintech platforms and Virtual Asset Service Providers (VASPs) into the AML framework, strengthening supervisory powers, and encouraging the adoption of technological compliance tools such as RegTech and data-driven monitoring systems, the reform enhances regulatory oversight and transparency within China's rapidly expanding digital financial ecosystem. Nevertheless, practical challenges remain, particularly regarding consistent enforcement across regions and the need to balance regulatory control with financial innovation.

From a comparative perspective, Pakistan faces several similar challenges, including fragmented regulatory supervision, limited technological infrastructure, and gaps in legal coverage for emerging fintech actors. In light of these issues, this study suggests several policy measures for Pakistan's regulatory authorities. These include formally incorporating fintech platforms and VASPs within the Anti-Money Laundering Act, establishing a centralized Ultimate Beneficial Ownership registry to enhance transparency, expanding regulatory sandboxes to encourage RegTech innovation, and strengthening coordination among key institutions such as the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan, and the Financial Monitoring Unit.

However, direct policy transfer between jurisdictions should be approached cautiously. Differences in institutional capacity, technological readiness, and legal traditions mean that China's regulatory model cannot be replicated wholesale. Instead, Pakistan should pursue a context-specific adaptation strategy that integrates international best practices while addressing domestic regulatory realities.

Future research could further explore the empirical impact of China's AML reforms on fintech compliance and financial crime detection, as well as examine how emerging technologies such as artificial intelligence and blockchain analytics may reshape AML enforcement in developing digital financial markets.

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