

What the Age of Trump Means for Payments

By Eric Grover

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Opening China to American credit cards would be a great leap forward for both countries.

Ushering in the New Year, President-elect Trump named Robert Lighthizer, a veteran trade negotiator and “harsh critic of China’s trade practices,” to be his lead trade negotiator. Trump’s trade rhetoric has been blood and thunder. He has threatened 45 percent retaliatory tariffs against China and other trade partners that are not living up to their obligations. And there’s no better place for Lighthizer to start than payments, where China has made a mockery of its 2001 WTO commitment to completely open up its domestic credit- and debit-card market by 2006. When that deadline passed, there hadn’t been a single domestic Visa, MasterCard, American Express, or Discover transaction in China.

Trump’s “7 Point Plan to Rebuild the American Economy” declares that his U.S. trade representative will bring actions against China in this country and at the WTO, and that he’ll appoint “tough” trade negotiators. Trump’s picks of Lighthizer and of economist and trade hawk Peter Navarro, the author of *Death by China* and producer of a documentary with the same title, to lead the White House’s National Trade Council trumpet his earnestness. His commerce-secretary designate, Wilbur Ross, is also tough on trade.

On holding China to honor its pledge to open its payments market, the Bush administration was asleep at the switch. The USTR’s 2007 report on China’s WTO compliance didn’t even mention the payment-network

market. While the Obama administration filed a WTO complaint in 2010 and substantially prevailed in 2012, entering 2017 there still hasn't been a single Visa, MasterCard, American Express, or Discover transaction in China.

With 5.4 billion cards, China's protected card-network monopoly China UnionPay (CUP) is a Gargantua. The People's Bank of China's just instructed Chinese banks not to renew CUP cards co-branded with foreign networks, such as MasterCard and Visa, underscoring how the Inner Kingdom continues to thumb its nose at its 2001 trade commitment on payments. The purpose of the PBOC's move was to further disadvantage foreign networks.

China has imposed other barriers as well. To create a standards hurdle, in 2014 the central bank mandated a card-security protocol unique to China.

In April 2015, Beijing announced that it would establish a licensing regime for foreign payment networks. Seemingly wanting to be duped, Wall Street gushed over the opportunity for MasterCard and Visa, the networks sounded cautious notes of optimism, and the Obama administration responded with silence.

Finally, in June 2016 the China Banking Regulation Commission published network-licensing rules. With a straight face, the central bank declared: "In the future, there will be many bankcard brands competing on a level playing field." But that "future" was due more than a decade ago. Still trying to understand the commission's requirements, neither MasterCard nor Visa has yet applied for a license.

The longer Trump allows Beijing to deny American networks access, the harder it will be for them to win business in China.

It's not 2001, when U.S. networks would have conquered the market. It's not 2006, when there would have been fierce competition between America's global networks and CUP. Chinese banks won't issue

MasterCard and Visa cards for domestic use unless and until the American networks have close to acceptance parity in China. Serving tourists and foreign business travelers, MasterCard and Visa have roughly 5 percent of CUP's China acceptance — not nearly enough. At this point, even with genuine access it will be a long, hard slog.

That said, payments is an ideal industry for the Trump administration to fire a trade salvo at China. In most sectors, establishing trade violations entails arguments over industries' cost bases or the appropriate exchange rate, but those are not issues here. Moreover, if China sells steel below cost, American firms using steel benefit, as do American consumers. If China subsidizes microwaves and textiles, American consumers benefit. But Beijing's blocking of U.S. payment networks from the world's second-largest electronic payments market is cut and dried. No American firm or consumer profits; Chinese banks, merchants, and consumers don't benefit either. The sole beneficiaries are CUP and Beijing's regulatory mandarins.

CUP, Chinese e-commerce and mobile-commerce giants Alipay and Tenpay, and other foreign payment networks have unfettered access to the U.S. market. In stark contrast, China remains closed to American payment networks.

Beijing treated the Bush and Obama administrations as saps. Retaliating against China for flagrantly flouting its WTO obligations in payments would be righteous and, given that American Express, Discover, MasterCard and Visa are household names, it would be the perfect way for Trump to show voters he is deadly serious about punishing trading partners that do not meet their obligations.

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