

Press China to Keep Card Promises

American Banker | Wednesday, April 21, 2010

By Eric Grover

China, the world's third-largest national economy and the biggest exporter, has not lived up to the letter or spirit of its World Trade Organization commitments. In retail card payment systems it has flouted them. China UnionPay continues to enjoy a protected domestic card payment network monopoly and Chinese banks and CUP continue to provide all yuan card acceptance.

China was supposed to have completed a five-year implementation of its WTO commitments by Dec. 11, 2006. Its entire domestic credit and debit card market should have been open to foreign payment networks such as American Express, Discover, JCB of Japan, MasterCard and Visa, and to payment processors like First Data, Global Payments and U.S. Bancorp's Elavon. It was not. It still is not.

The Chinese card payments market has enormous potential. Chinese banks have a whopping 1.88 billion debit cards and 190 million credit cards outstanding on which cardholders made 19.7 billion purchases in 2009, up 18.1% from the prior year. There's plenty of room for growth. Half of them are inactive and many of the rest are used primarily for ATM cash withdrawals.

In stark contrast, the unprotected and fiercely competitive U.S. market has almost as many payment cards but 15 times more card purchases per capita. Unfettered access and competition from foreign payment networks and processors would increase payments innovation and value delivered to Chinese consumers and merchants and, consequently, boost use.

While Chinese FIs license and co-brand cards with foreign payment schemes such as MasterCard and Visa, it's only for use abroad, where CUP's acceptance network is thin. Similarly, joint ventures between First Data and Standard Bank, and Global Payments and HSBC, provide MasterCard and Visa acceptance to Chinese merchants, but only for cards issued overseas used by tourists and business travelers visiting China.

None of this is to suggest that America's free-trade record is as pure as Caesar's wife. Long-standing protection of domestic cotton and sugar producers, and of the

Teamsters by, in contravention of Nafta, blocking Mexican truckers carrying freight in the U.S., testifies otherwise.

U.S. retail card payments, however, are entirely open to foreign firms and ferociously competitive at every stage of the value chain. Card payment networks such as CUP; JCB; Canada's largest network, Interac; and even Europe's third-largest network, Cartes Bancaires; are free to license payment products in the U.S. and to process payments in the U.S. or abroad. RBS Worldpay of the U.K. and Moneris, a Canadian company, provide acceptance to U.S. merchants. The British banks Barclays, HSBC and Royal Bank of Scotland (the parent of RBS Worldpay) issue cards to U.S. consumers.

In the electronic payments realm China has made a mockery of its WTO commitments. Control concerns are misplaced. If for instance MasterCard captured 40% of the domestic market, those billions of MasterCard payments would be subject to Chinese law, such as it is.

Network markets for the other emerging giants — Brazil, India and Russia — are open. Why aren't MasterCard and Visa up in arms about China? They have not pressed more aggressively for a WTO action because none wants to be on the outs with the Chinese government.

China may be opening the door a crack. On March 31 Global Payments CEO Paul Garcia said he hoped to be acquiring yuan transactions in Beijing this summer. Global Payments received an imprimatur from CUP and the People's Bank of China and with their encouragement joined the Beijing Bankcard Market Coordination Committee. However, Global Payments partner HSBC still needs to join and secure the committee's blessing before their joint venture can start acquiring yuan transactions in Beijing. All well and good, but if and when it happens a single foreign firm acquiring yuan transactions in one city more than three years after all China was supposed to have been open is a far cry from WTO compliance, and is not likely to process meaningful volume anytime soon. And, there is not yet even a hint the more important payment network market will be opened up.

Chinese protectionism in its card payments market is a blatant violation of its WTO commitments. It harms Chinese consumers and merchants as well as American, European and Japanese businesses. U.S. Trade Representative Ron Kirk said the U.S. is considering bringing a WTO action. Amex, Discover, First Data,

Global Payments, MasterCard and Visa should press him to act. And the U.S. should entreat Japan and the EU to join it.

Eric Grover is a partner in Intrepid Ventures, a Menlo Park, Calif., corporate development and strategy consulting firm that specializes in financial services, technology and payments systems