

# Where Should Trump Start on China Trade Policy? Visa and MasterCard

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President-elect Donald Trump has suggested he wants to impose 45% retaliatory tariffs on China and other trading partners if they cheat on their obligations. To find examples of cheating, he could do worse than to look at China's payment card market.

The People's Bank of China's recent directive to Chinese banks not to renew China UnionPay cards cobranded with foreign networks, such as Mastercard and Visa, forcefully reminds us that China isn't living up to the letter or spirit of its 2001 World Trade Organization commitment to completely open up its domestic payment card market by 2006.

China played the U.S. Trade Representative, as well as both the Bush and Obama administrations, for fools. The central bank's directive aims to further disadvantage foreign networks.

Payment networks and processors created and domiciled in the U.S., for the moment, rule the roost. But they only have footholds in China, the world's second-largest electronic payments market.

By administrative decree in 2002, the PBOC established China UnionPay – which is owned by banks, the largest of which are state-controlled – as a national card-network champion. The central bank requires that payment cards processing renminbi transactions be cleared through CUP. Moreover, the PBOC establishes system rules and price controls. Both the current and previous chairmen, as well as the current vice chairman of CUP, are all PBOC alumni.

Yet it took a while for U.S. officials to speak up about China's payment card protectionism. The USTR's 2007 report on China's WTO compliance didn't even mention the payment network market. U.S. networks didn't complain

because they feared retaliation and believed that playing nice could earn preferential access.

In 2010, the U.S. finally brought a WTO action against China for flouting its 2001 payment card commitment. In 2012, the U.S. substantially prevailed and China said it wouldn't appeal. Nevertheless, there still hasn't been a single domestic Visa, Mastercard, American Express, Discover or JCB transaction in China.

Trump should act early in 2017 to direct tariffs towards China's foreign payment card policy. U.S. card leaders – Visa, Mastercard, American Express and Discover – are household names. Doing so would therefore be a high-profile way to make the point with American voters and the Chinese government that he was serious about fair trade policy and about responding to countries that do not honor their obligations.

The payment network industry is also the perfect sector in which to retaliate. Unlike other industries where disputes with China are over industries' cost bases or the appropriate exchange rate, which are almost always subject to debate, China's exclusion of U.S. payment networks for the last decade and a half is black and white.

In stark contrast to American networks trying to compete in China, CUP and Chinese e-commerce and mobile commerce titans Alipay and Tenpay have unfettered access to the U.S. market. CUP and Alipay are building U.S. acceptance. No Washington regulator has instructed banks not to issue CUP cards.

Just as open and fierce payment network competition benefits American consumers, merchants and banks, it would be good for Chinese consumers, merchants and banks, albeit not CUP.

In November 2014 the PBOC established a standards hurdle for foreign networks, mandating "PBOC 3.0" – a security protocol performing the same function EMV does in the rest of the world.

In April 2015, China announced it would establish a licensing regime for foreign payment networks to compete for domestic transactions. Wall Street hailed Mastercard's and Visa's revenue opportunity. Finally, in June

of this year, the China Banking Regulation Commission announced 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 the "future" was due more than a decade ago. Neither Mastercard nor Visa has yet applied for a license.

The Chinese government is still stonewalling. The longer Trump lets that continue, the harder it will be for American networks to win business in China.

If and when foreign networks obtain genuine access to China's domestic payments market, huge competitive challenges will remain. It's not 2001 when US networks might well have conquered the market. But without access, foreign networks have no chance in China. Even with unfettered access it will be a long, hard slog for them to match CUP acceptance in China and persuade banks to issue and promote their products for domestic use.

China has flagrantly ignored its payments trade obligations. If the Trump administration wants to compel fairer trade policies, the electronic payments market would be a good place to start.

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