Do Visa and MasterCard Have a Chance in China?

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A ripple of excitement ran through the payments industry when China's government announced it will at long last allow foreign card-payment networks to process domestic transactions. Visa and MasterCard share prices surged upon the news. Investment bank Jefferies estimated that MasterCard and Visa could generate $1.1 billion in additional revenue from China's domestic market by 2025.

But all this celebration is premature. It's wishful thinking that these companies will easily be able to capture a percentage of the humongous China market.

China is the second-largest card payments market in the world, with only the U.S. ahead of it. Growth is explosive. But while the U.S. market is open and fiercely competitive, China's domestic market is closed. E-commerce payments are competitive in the country, but national champion China UnionPay enjoys a card network monopoly.

The Chinese government's announcement suggests that Visa, MasterCard, American Express, Discover and JCB could by the summer of 2016 start competing to process domestic card transactions. But recall that in 2001, China promised to open up its domestic credit- and debit-card market by 2006 as a condition for access to the World Trade Organization—a commitment it flagrantly flouted. In September 2010, the U.S. filed a WTO complaint against China failing to fulfill its obligation. In 2012, the U.S. prevailed and China announced it wouldn't appeal. However, there has yet to be a single foreign card network transaction in China. No one should be surprised if China stonewalls further.

Even if China's new licensing requirements do create a level regulatory playing field for foreign networks, they still face significant competitive hurdles.

UnionPay has achieved domestic dominance in the country and could easily insist that its co-branded cards continue to run over its network inside China rather than MasterCard or Visa's. Moreover, foreign networks would have to achieve near-parity in domestic acceptance before Chinese banks will entertain dropping UnionPay. To do that, they'll have to persuade Chinese acquirers providing card acceptance to push their products alongside UnionPay. That will be harder than it seems at first blush, since the largest acquirer, China UMS, is itself owned by UnionPay.

Another issue is that building merchant acceptance takes time. In 2006, Discover started partnering with U.S. acquirers to provide Discover along with MasterCard and Visa. It took almost a decade in Discover's home market to get within spitting distance of acceptance parity.

Moreover, attempts to challenge payment network monopolies in Canada and France further suggest that Visa and MasterCard have a tough road ahead.

Until 2009, the bank-owned Cartes Bancaires enjoyed a domestic card-network monopoly in France. As in China, all cards were co-branded and functioned as MasterCard or Visa products outside of France. But unlike in China however, MasterCard and Visa have long enjoyed acceptance parity with the domestic monopolist. In 2009, the domestic market cracked open a sliver. Goliath retailer Carrefour issued the first MasterCard in France not co-branded with Cartes Bancaires. Now the national network Cartes Bancaires is ever so slowly losing share to the global networks.

In Canada, Visa, MasterCard, and Amex are the primary credit networks. But for years, bank-owned Interac enjoyed a debit-network monopoly. While MasterCard and Visa have established debit toeholds, Interac still dominates debit and remains Canada's largest payment network by transactions.

By any measure, China will be more difficult for MasterCard and Visa to penetrate than Canada and France.

Chinese consumers, merchants and banks will be better off with card network competition and more payments innovation. But payment network investors shouldn't bank on seeing material growth from China anytime soon.

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