

# Globalization's one-way street

By Eric Grover

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At Davos Chinese President Xi extolled the virtues of globalism. Lo barely one week into President Trump's administration, Chinese financial-services and payments colossus Ant Financial is buying MoneyGram, America's second-largest money-transfer network. It underscores however that while the U.S. is wide-open for China's payments dragons, notwithstanding its 2001 WTO commitment to completely open its domestic credit-and-debit-card market by 2006 the Inner Kingdom remains closed to American payment networks such as Visa, MasterCard, American Express and Discover. Trade-hawk Trump has threatened retaliatory measures including 45 percent tariffs against China and other trading partners not living up to their obligations. Payments would be an excellent place to start.

Ant's built an impressive ecosystem providing payments, credit, a credit bureau, and wealth management and banking services to hundreds of millions of Chinese consumers and small and micro businesses. From Ant's standpoint the \$880 million price tag for MoneyGram is a steal. In one fell swoop it extends Ant's network worldwide, while U.S. payment networks can't compete in China's enormous domestic market.

Ant's e-commerce and mobile-commerce payments system Alipay - with more than 450 million active Chinese users - is building a U.S., indeed a global merchant-acceptance network. For American acquirers delivering credit-and-debit-card acceptance to merchants, offering Alipay too is compelling. And for e-commerce merchants that want to sell to Chinese consumers accepting Alipay's a no-brainer.

MoneyGram's 350 thousand agents, bricks-and-mortar, online and mobile channels, and customers and compliance across two hundred countries, will extend its reach, and for the first time give Ant a basis for building clusters of engagement with consumers outside China. The combined network will be good for Ant's Chinese users and for MoneyGram's customers.

Better yet however, for American and Chinese consumers, merchants and banks writ large, would be for U.S. and Chinese payments companies to have unfettered access to each other's markets. Alas, there still has not been a single domestic Visa, MasterCard, American Express or Discover transaction in China.

The Bush administration's 2007 report to Congress on China's WTO compliance didn't even mention the payment-network market. While in 2010 the Obama administration brought a WTO payments case against China, substantially prevailing in 2012, the Inner Kingdom remains closed to U.S. payment networks.

Under Presidents Bush and Obama payments was a one-way street, with China paying no consequences for denying American networks access. President Trump, USTR nominee Robert Lighthizer, White House trade adviser Peter Navarro and Commerce-Secretary designee Wilbur Ross are less likely to turn a blind eye to China's making a mockery of its WTO obligations.

However, given the protected growth of card-network Gargantua China UnionPay, and e-commerce and mobile-commerce payments behemoths Alipay and Tenpay, if and when U.S. card-payment networks get access to China it will be a long, hard slog to establish commercial viability.

Beijing won't make it easy.

In November, 2016 the People's Bank of China instructed Chinese banks to stop co-branding China UnionPay-badged cards with foreign networks such as MasterCard and Visa. Historically Chinese banks often co-branded cards for cardholders travelling abroad to ensure they enjoyed maximum acceptance. While it's making progress, UnionPay's acceptance outside China still lags MasterCard's and Visa's. Abroad payments on the co-branded cards were processed on MasterCard's and Visa's networks while inside China they ran over China UnionPay's rails. The central bank's move was intended to further disadvantage foreign networks in China.

In theory a licensing regime for foreign payment networks has been in place since the central bank and Banking Regulatory Commission announced network rules in June, 2016 – a decade after China was supposed to be open. Neither Visa nor MasterCard however, have yet applied as they're trying to understand the requirements. For a decade and

a half the “requirements” have remained elusive. In stark contrast, China’s payments dragons UnionPay, Alipay and Tenpay don’t need to jump through hoops to operate in the U.S.

While the Trump administration seems more focused on traditional manufacturing, there is no more egregious case of America’s “partner” China flouting its trade obligations than in payments. The Trump administration should bring China to account.

*Eric Grover is principal at Intrepid Ventures.*