

China's fight with Visa and MasterCard goes global

UnionPay, the world's largest bank card group, sets its sights on emerging markets



In just 15 years, UnionPay has become the largest bank card group in the world by value of transactions © Reuters

APRIL 24, 2017 by: **Don Weinland** in Hong Kong and **Gabriel Wildau** in Shanghai

For Myanmar's first generation of bank customers, there is little difference between a Visa card and one from China's state-controlled card-payment monopoly, UnionPay.

With only 2 per cent of the Southeast Asian nation's 53m people carrying plastic in their wallets, UnionPay's rapid push into the frontier market will make its red, blue and green logo one of the first that Burmese youth see when opening an account or applying for a credit card at a local bank.

Myanmar is ground zero for the group's attempt to steal global market share from companies such as [Visa](http://markets.ft.com/data/equities/tearsheet/summary?s=us:V) (<http://markets.ft.com/data/equities/tearsheet/summary?s=us:V>) and MasterCard (<http://markets.ft.com/data/equities/tearsheet/summary?s=us:MA>). The same goes for countries such as Indonesia, Malaysia, Kazakhstan and even the Democratic

Republic of Congo — all spots where local banks have started issuing the Chinese company's cards to an increasing cohort of non-Chinese customers.

“For many people in emerging markets, this will be the first card they come in contact with,” said Neil Katkov, senior vice-president at finance consultant Celent in Tokyo. “That’s a big shift from when Visa and MasterCard were the only game in town.”

The recognition of Chinese brands, especially in finance, is very low abroad

Simon Lee, Chinese University of Hong Kong Business School

In just 15 years, [UnionPay \(https://www.ft.com/steam/organisationsId/ODcwMmEzNmYtYjVkJNyoOYjgoLThNGQtODI4YzFmNzcxZmJi-To4=\)](https://www.ft.com/steam/organisationsId/ODcwMmEzNmYtYjVkJNyoOYjgoLThNGQtODI4YzFmNzcxZmJi-To4=) has become the largest bank card group in the world by value of transactions, taking a 37 per cent chunk of the \$21.6tn global payments market in 2015, according to a report from London-based

payments consultant RBR.

But the company's grip on the market is based almost entirely on China, where its status as a de facto monopoly has drawn the country into a [years-long clash \(https://www.ft.com/content/6a71b148-0764-11e5-a58f-00144feabdco\)](https://www.ft.com/content/6a71b148-0764-11e5-a58f-00144feabdco) with the World Trade Organisation.

Excluding its business in China, UnionPay claims just 0.5 per cent of the global market, compared with Visa's 50 per cent and MasterCard's 31 per cent.

Experts watching the group say it has a clear government mandate to take on Visa and MasterCard outside China.

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“This is an effort to expand China's financial influence globally,” said Simon Lee, an assistant dean at the Chinese University of Hong Kong Business School. “The recognition of Chinese brands, especially in finance, is very low abroad. Companies like this are trying to change that.”

[UnionPay \(https://www.ft.com/content/e8efbdoc-1069-11e7-b030-768954394623\)](https://www.ft.com/content/e8efbdoc-1069-11e7-b030-768954394623) declined to comment and MasterCard would not discuss the



(<https://aca.st/234b81>)

Chinese rival's strategy. Visa did not respond to a request for comment on the matter.

UnionPay's first rollout into global markets saw it chasing after newly rich Chinese tourists armed for the first time with credit cards. Luxury shops in

Europe such as [Louis Vuitton](http://markets.ft.com/data/equities/tearsheet/summary?s=fr:MC) (<http://markets.ft.com/data/equities/tearsheet/summary?s=fr:MC>) and [Burberry](http://markets.ft.com/data/equities/tearsheet/summary?s=uk:BRBY) (<http://markets.ft.com/data/equities/tearsheet/summary?s=uk:BRBY>) were among the first merchants to accept the

cards in western countries, hoping to attract the burgeoning wealth of independent Chinese travellers.

The group's payment terminals are now ubiquitous and more than 41m merchants in 160 countries accept the cards, the company says, making it one of the most widely accepted payment providers.

Since launching UnionPay in 2002 with a consortium of state-owned banks, China's central bank has blocked the domestic expansion of Visa and MasterCard and granted the Chinese company free rein over one of the world's largest payments markets.

In 2012, the World Trade Organisation ruled that China had [unfairly discriminated](http://www.ft.com/content/fd631de4-cf67-11e1-a1d2-00144feabdco) (<http://www.ft.com/content/fd631de4-cf67-11e1-a1d2-00144feabdco>) against foreign payment companies, a major victory for the US, which brought the complaint. Since then, Chinese regulators have dragged their feet on opening the market, only recently announcing they would allow foreign players to establish their own payment clearing businesses this year.

“Increasingly, China UnionPay is competing on a global scale. They will need to play along with the global rules,” said Alfred Shang, a financial services partner at Bain & Co in Beijing, who has advised multinational payment companies on their China strategy. “They are trying to strike reciprocal rules with other payment networks around the world, so they need to be seen as playing by the rules.”

UnionPay's global ambitions are not restricted to developing countries such as Myanmar.

In a span of just five years, the company says more than 68m UnionPay cards have been issued in 40 foreign countries, including advanced economies such as Singapore and Japan.

In Russia, UnionPay is tipped to link up directly with the country's payments system as the authorities seek ways to reduce the impact of possible future western sanctions.

Despite enjoying the direct backing of the Chinese government and the luxury of a captive home market, UnionPay's global battle will not be won easily.

New technology and the availability of better data are changing how the global payments market operates, and new entrants such as UnionPay will have to provide something new in terms of pricing, service, technology or scale, Mr Shang said.

“UnionPay's global expansion comes at a time when the entire market is ripe for disruption, so they need to consider their business model carefully,” Mr Shang added. “If they just play a ‘me-too strategy’ with Visa and MasterCard, there's really no point.”

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