

# **Opening credit card clearing in China: a two-part analysis**

Carleen Kukat

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# Opening Credit Card Clearing in China: A two-part analysis

## An analysis of governmental concerns of opening the credit card clearing industry to foreign companies and the considerations of the foreign companies

Carleen Kukat  
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### ABSTRACT

Opening a country to new credit will have many impacts on the economy. Should the Chinese government decide to open the credit card clearing industry to foreign competition there are many considerations to analyze. The primary impacts are categorized by political, economic, social, technological, legal and environmental factors. In the end, China should benefit from opening the industry if the government can keep the impacts of credit under control. Once open to foreign competition, incoming companies must evaluate their own strengths and weaknesses as well as competition before entering the complicated Chinese marketplace. Foreign companies have the resources and the talent to encourage spending and spur China into faster modernization, benefitting the country as a whole.

### INTRODUCTION

#### Credit Cards in China

##### A Local's Opinion

The Chinese government keeps a tight grasp on the distribution of credit cards. Currently, only formal employees in registered companies or government positions qualify to apply for the cards. Freelancers or small store owners, who make up the majority of the population, are unable to apply for credit cards as the government deems them unable to prove their cash flow, explains Jiajing Wang, graduate student at the University of Business and Economics (UIBE) in Beijing, China (November 2014).

Wang does not personally have a credit card, and finds he has no need for one, as it would provide no benefit over a debit card. Domestically, debit cards can provide the same services as credit cards. Online purchases for shopping, flights, or hotels have an option for individuals to pay online with a debit card. The main drawback, clarifies Wang, is that debit cards cannot be used for purchases internationally where trusted names, such as Visa and MasterCard, are required. China's transition towards an open economy, with increased international travel and foreign tastes, is increasing the use of credit cards which foreign credit card clearing companies have been unfairly excluded from. However, allowing increased use of credit cards would have an immense impact on the Chinese economy, and the government needs to consider many possibilities before opening the credit card clearing industry to foreign competition.

##### China UnionPay

The People's Republic of China has one company for the processing and clearing of credit cards: UnionPay. The state-controlled entity allowed China to realize "inter-bank, cross-region and cross-border usages of bankcards issued by associate banks," and accredits itself with the formation of an international network of banks

worldwide (UnionPay.com, 2014). The company illustrates how they have created friendly payment options for foreigners and business travellers: at present, there are 141 countries that accept cards with a UnionPay symbol.

UnionPay is held in high regard in China and gives the feeling of being more than just a company. The company undertakes obligations to assist in maintaining the economy and achieving governmental objectives. Reuter's reporter James Pomfret explains, "the card brand is often seen as an arm of Chinese state policy" (Reuters, Mar 11 2014). This may be a reason the Chinese government is protecting UnionPay by refusing to open the industry to foreign competition.

### **Credit Card Clearing in China**

Although foreign credit cards can be used within the country, foreign credit card companies must pay the state-owned UnionPay to clear payments made on their cards in China's domestic currency. China's outstanding credit card debt increased almost 62 percent in one year to 1.84 trillion Yuan (338 billion CAD) in 2013. Credit card companies cannot easily ignore the market potential and foreign companies are eager for entry. Additionally, the percentage of retail sales made a prodigious move toward bankcard use instead of cash payments, rising from 2.7 percent of payments up to 35 percent from 2001 to the third quarter of 2010 (UnionPay.com, 2014). A reason for this may be China's nascent consumer class, who are the dominant users of credit cards. In a study on the link between consumer attitudes and credit card usage, Kaynak and Harcar (2010) reveal that the emerging middle class and expanding middle age population forms a perfect market for credit card companies. If the middle-class continues its current high growth rate, the credit card industry will also increase significantly. Foreign credit card clearing operations must be feeling a vast injustice from UnionPay's monopoly.

### **The WTO**

In 2012, the World Trade Organization (WTO) warned China that UnionPay's monopoly violated obligations required as a member of the WTO, and the government needed to open their policy to allow entrance for foreign firms (WTO.org, 2013). As China is struggling to build a more open economy and progressive reputation, one would assume they would comply with WTO regulations. Nevertheless, few changes have been made and the issue is a source of friction for China's international relations. Competitors are eager to gain access to China's rich marketplace and are putting pressure on the WTO to aid their struggle (Bloomberg, 2014). This pressure from corporations may be attributed to the announcement released recently.

### **The Announcement**

On October 29<sup>th</sup> 2014, China's Cabinet announced that credit card clearing operations would be opened to foreign companies for application to operate in the country (Miami Herald, 2014). The Chinese government declared the desire to open up the market was to make the "slowing state dominated Chinese economy more efficient and productive" (ABC News, 2014). However, another fundamental reason was likely to improve international relations. The announcement was a small victory for companies such as Visa and MasterCard, who have already begun preparing for entry into China.

Nonetheless, Nasdaq reporter Grace Zhu explains, "the statement didn't set out a timeline or release further details, so the speed and scope of any move to open up China's credit card market isn't clear" (Nasdaq.com, 2014). Furthermore, the Wall Street Journal's Dinny McMahon emphasizes that the cabinet announced foreign companies can "apply". This means there is a potential for lots of red tape, a long application process, and unequal treatment (Wall Street Journal, 2014).

## **PART I: EXTERNAL ENVIRONMENT AND CONSIDERATIONS**

In addition to strengths, weaknesses, opportunities and threats the foreign credit card clearing companies will encounter in China, in order to operate in the country they also need to first be granted access to the market. The macro-environment will be analyzed first in terms of PESTLE to display the opportunities and threats in China's marketplace in a logical, comprehensive manner. PESTLE splits the macro-environment into political, economic, socio-cultural, technological, legal and environmental aspects and these sections will be reviewed in terms of the Chinese government's considerations regarding opening the market and the foreign companies looking to enter.

### **Political considerations**

The People's Republic of China has a single political party, the Chinese Communist Party (CCP), with Xi Jinping as their leader. Unlike North America, there is no opposition and little lead time necessary to implement new laws or regulations. Therefore, if Xi and the CCP decide to open the credit card clearing industry to foreign companies, it could happen almost instantaneously. Yet, it is not an easy decision illustrated by China's failure to meet the WTO's request and timeline to open the industry. The Party must consider its reputation, whether they want to instigate change at the current time, and if they are willing to sacrifice power obtained through UnionPay's monopoly.

Cheng Li of the Brookings Institution reveals, "Image clearly matters to Mr. Xi. Unlike previous presidents, he has a big team looking after it" (Economist, Sep 20th 2014). Xi has a reputation as a strong leader attempting to rule in favour of the average citizen. Opening the credit card clearing industry could have two effects on his reputation: he could be seen as a more laissez-faire leader modernizing the country and enforcing international relations, or as excessively open with a disregard for his people. A lot will depend on how the Chinese handle debt, credit and the impacts each of these have on the economy.

Overall, China's payment systems are regarded well by the population, and changing anything poses a risk to the government and the population. Increased credit use could stimulate the economy and increase domestic spending, but if people misuse credit and accrue debt, they may blame the government. Moreover, local protectionism is held in high regard, and allowing foreign companies to compete with UnionPay may be viewed as betrayal. In addition to the CCP's domestic standing, Xi should consider the country's international reputation as many countries and organizations are discontented with UnionPay's monopoly. Xi could agree to the WTO's terms and advance China's international relations, or ignore the request and contend with the ramifications.

Another political consideration is the movement of China's currency across borders and attempts to control the currency. Movements of Yuan is a predominant topic in China as alarming movements of money have appeared between Mainland China, Hong Kong and Macao. The government is attempting to crack down on the movement of the Yuan by placing limits on the quantity of cash allowed out of the country and extracted at banks outside China. New credit card clearing companies may inhibit the Chinese government's attempts at restricting the inflow and outflow of the Yuan: Teo Wee Choon, a foreign exchange strategist at Nomura, explains "[Foreign credit card processing companies] would open more avenues for abuse, more ways for people to get around the rules" (South China Morning Post, 2014). If the industry is to open, there will likely be very restrictive regulations that could make the market disagreeable for foreign companies.

Nevertheless, China is currently under the leadership of someone not afraid of change and looking to make a difference. A report in The Economist reveals: "Mr. Xi has quickly become, to all appearances, the most powerful leader since Deng Xiaoping" (The Economist, Oct 24 2014). China is facing dramatic changes as it climbs the ladder towards becoming a world leader. A strong leader in favour of opening-up policy, which Xi seems to be, is certainly an opportunity for foreign companies. Yet, there is the threat he decides the domestic UnionPay's close

ties to the government are too valuable to sacrifice to meet the WTO's demands and satisfy foreign credit card companies' desire for China's marketplace.

### **Economic factors**

There are economic factors for both the government to consider and foreign credit card companies to consider when entering the Chinese market. Economic factors for the government primarily include the impacts of increased money supply and the movement of money, whereas foreign credit card companies should evaluate the use of credit cards and the expanding middle class.

### **Credit cards and the money supply**

Opening up the credit card processing industry to foreign companies could increase the number and use of credit cards nationwide. If we look at the economy using a Keynesian economics equation where domestic production ( $P$ ) = the monetary supply ( $M2$ ) x the velocity of money ( $V$ ), we divulge that introducing new credit to an economy results in an overall increase in production (Geanakoplos & Dubey, 2009).

David Randall from Forbes reveals: "credit cards increase the amount of dollars that each household can spend at one time, thereby flooding the system with both real money (cash) and promised money (debts)" (Forbes, 2010). The new money supply in the form of credit increases  $M2$ . The increase in spending increases demand, which initiates price inflation due to the supply and demand model, followed by an expansion in production to satisfy the new level of demand. Increased production leads to greater labour demand and higher wages, which further raises product prices and overall capital expenditure. The process explained is called "demand pull inflation" (Geanakoplos & Dubey, 2009).

In addition to demand-pull inflation, the velocity of money would increase as well. The velocity of money is the number of times a unit of currency can be used in one year, something the government cannot easily control. Credit increases the velocity of money as the same unit of currency could be used multiple times and encourages consumption that otherwise would not occur (Kaynak & Harcar, 2001). For example, when a customer purchases a product or service on credit, the company they paid can use the same money to purchase something else, and so on, within the same period, essentially "creating" money.

The formula  $P = M2 \times V$  exposes that since credit increases  $M2$  and  $V$ , new credit exponentially increases production. For example, if the introduced credit increased  $M2$  and  $V$  by 20 percent, there would be an almost 50 percent increase in production. That increase has the potential to be completely unmanageable and develop into a chaotic economic situation. Any government should hesitate before flooding their economy with extra credit and potentially losing control. China's domestic production is already growing over 7 percent per year; it may not be in the country's best interests to open the credit card market and increase it even more. If the government decides the risk is too great, foreign credit card clearing companies will not be allowed access to the market.

### **Considerations for foreign credit card companies**

The Chinese economy is undergoing a period of immense change. China is still nowhere near countries like the United States in terms of quantities spent on credit, but it is catching up. The People's Bank of China publicized 1.84 trillion Yuan in unpaid credit card debt at the end of 2013, and 391 million credit cards in circulation (Barrons, 2014). Moreover, the outstanding credit card balances at the end of June this year were one-third higher than 2013 (Reuters, 2014). The growing use of credit cards and debt means growing revenue for credit card clearing companies.

China's skyrocketing gross domestic product provides another opportunity for credit card clearing companies to exploit (Table 1: Gross domestic product in China [1995-2009], App. A). Even after slowing in the last few years, China has an annual GDP growth rate of seven percent (World Bank, 2014). Furthermore, the government hopes to increase GDP even more: "By 2020 [the CCP] seeks to double not only the 2010 gross domestic product but also the per capita income that should reach \$4,000. By 2040 China is predicted to surpass the GDP level of the US and become the world's largest economy" (Economic & Political Weekly, 2013). Introducing credit stimulates spending and consumption, which in turn raises GDP. Opening the credit card clearing industry to foreign companies can support the government in achieving their GDP goals. Incoming companies should use this to their advantage in building a relationship with the Chinese government.

The increasing GDP is likely a contributor to the expanding middle class. People in the middle class usually qualify for credit cards yet tend to live outside their means if given the opportunity, making perfect candidates for credit cards (M2 PressWIRE, 2013). The rising GDP and the expanding middle class are creating more credit card users and growing the already lucrative market for foreign companies. The middle class may be expanding, but there is still a considerable income gap. Almost 70 percent of the Chinese population lives on less than five dollars a day, representing about 900 million people unsuitable for credit cards (n.d., World DataBank).

An interesting aspect elucidated by Professor Zhuang Rui is that monopolies contribute to the income gap (Professor UIBE, November 2014). China's income gap is a prevalent topic, and Rui's point begs the question why the government would keep UnionPay if its monopoly contributes to the country's inequality. Incoming companies could leverage the fact that their acceptance into China could assist in lowering the Gini coefficient.

### **Socio-cultural sensitivities**

China is undergoing a period of rapid change from an ancient civilization to a modern society. The reform has created an interesting socio-cultural state full of opportunities for western companies. On the one hand, the Chinese people are very traditional, but on the other, they admire western products and think highly of what they bring to their economy.

Tastes are swinging towards more luxury items, and people are embracing the change. New shopping malls with name brand stores are appearing throughout the country, and travel within the country has more than doubled in the last three years. Many believe much of the growth should be attributed to the growing use and acceptance of the bankcard (MarketWire, 2013).

Even still, China is a cash society. "We don't give things for nothing. It will take a lot for families to accept a number on a screen as payment," explains Jiajing Wang, graduate student at the UIBE (November 2014). Chinese preferences are changing, but perhaps not fast enough for foreign companies. Wang believes China has a long way to go before credit cards are universally accepted.

The Chinese people have been through so much turmoil and change in their lifetime they have grown weary of governmental systems and take precautions to protect their family. Juann H. Hung and Rong Qian call the unpredictable government the "weak social safety net" and attribute China's high savings rate to it (Congressional Budget Office, 2010). They record China's savings rate at 48 percent as an average from 2000 to 2008, remarkably high compared to the United States' 15 percent. One reason the Chinese take protection into their own hands results from the lack of backing for workers' contacts, explains Professor Zhuang Rui, an expert on China's economic and social development problems at UIBE (November, 2014). Many migrant peasant workers were scammed by employers with promises of money that never came. These IOU scams led to many devastated families and a lack of faith in monetary promises. The Chinese people therefore may be opposed to unfamiliar electronic payments. Besides, many people live on the money they received that day. They do not have the ability to wait till the end of the month for their Visa receipt to be paid out.

Another integral socio-cultural consideration is *guanxi*, a society based on relationships. Christopher Warren-Gash of Languatica illuminates that the Chinese only do business with those they know and trust (Forbes, 2012). UnionPay has been building relationships with clients for over ten years and foreign companies will have a lot of work to catch up. In addition, Steve Worthington reveals the strong belief in *guanxi* means many people do not have a great need for credit as lending to friends is common (International Journal of Bank Marketing, 2005). Still, many may switch to credit if made available to avoid “losing face” in front of friends.

### **Technological availability**

China’s technological infrastructure is underdeveloped in many regions. Although the larger cities boast 4G and widely available Wi-Fi, internet is still slow and non-existent in many smaller stores (Table 2: Internet usage and availability in China, the UK and Canada, App. A). Cash is the ruler in China and many inhabitants and small business owners do not have the means to purchase internet, computers, or point-of-sales (POS) machines.

Luckily, China would not need to develop solutions to lack of technology, as there are already solutions available. They could begin with the use of manual machines and move towards electronic machines when they are able to do so. The main reason manual machines became obsolete in most of the world was the extensive paperwork required to use them. This will likely be less problematic in China as wages are low so costs associated with using manual machines would be minimal.

Moreover, competition spurs innovation. The lack of infrastructure and technology is an opportunity for foreign companies to provide incentives for companies to begin accepting payment cards. To gain a competitive edge and win the loyalty of companies, foreign credit card clearing companies could subsidize internet connectivity or provide POS machines at a discounted price. It may be in the government’s best interests to open the industry to advance the country’s technological base.

### **Legal attentions**

Many legal factors must be considered when altering payment systems. Some legal considerations for the credit card system in China include new legislation and regulations, increased use of western ways of doing business, fraud, and the impacts of credit on an economy.

New legislation will need to be implemented if China moved to credit cards as their primary form of payment. The government would have to determine how much credit each company could dispense, an accurate credit rating system would need to be developed to estimate the risk of clients, as would a system to deal with fraud and with people defaulting on their payments. Another factor that should be analyzed is the different laws and regulations in each of the different economic zones, as each maintain different ways of conducting business.

Although there may be a decrease in the amount of counterfeit cash as it is used in fewer transactions, credit card fraud may become a prevalent issue. The lack of technology to process payments immediately could lead to businesses being scammed with inactive cards or businesses misusing customer credit cards.

Additionally, China has been a collective economy for over three decades. Chinese custom suggests that everything be shared equally; consequently, intellectual property rights are not widely acknowledged. This could create an issue for foreign credit card companies as they have spent years perfecting their companies and systems. These systems, such as rewards programs, business plans, and even credit card design, will not likely be protected in China and foreign companies could encounter imitation domestic firms. New laws or regulations may need to be implemented to protect the foreign companies’ intellectual property rights.

Overall, China's legal system varies greatly to what is customary in North America. China utilizes a civil law of German origin, whereas Canada uses an English common law. The use of civil law means the government will have to provide explicit rules on how to deal with issues arising from new credit card clearing companies, including bankruptcy and fraud. At the current time prior to opening the market, it is likely there are few legal issues for UnionPay as the company is government controlled. Moreover, although moving away from this system, the Chinese conduct less business with paper contracts, placing value on verbal contracts instead. This could certainly create issues for foreign companies who have strict policies and will need to convince their Chinese business partners to sign contracts, and be faithful to them, instead of honouring traditional verbal agreements.

There are many legal dilemmas the government will have to clarify and many laws and regulations that would have to be implemented should the government allow foreign companies to enter the credit card processing industry. Legal concerns are both a threat and an opportunity for foreign credit card clearing companies as they have the ability to change the profitability in the market.

### **Environmental concerns**

There are days in China's capital when it is impossible to see ten feet away clearly. Pollution is an enormous issue in China and worldwide, and anything that could add to the problem will be regarded warily.

An increase in available credit will increase spending and consumption. These increases will likely lead to more travel and money spent on unnecessary items, which means more exhaust from transportation and more waste. As explained in the  $P = M2 \times V$  equation, the expanding use of credit also increases domestic production. China's pollution largely originates from factories, and an increase in production will only add to the problem.

However, incoming companies can look at the pollution as an opportunity to advertise the promotion of environmentally friendly items. Credit may allow for less stress and worries about money, which could allow individuals the time and resources to think about the environment and favour environmentally friendly products instead of cheaper, more harmful brands.

## **PART II: MARKET ENTRY ANALYSIS**

### **Direct competition**

Where there is opportunity, there are people competing to exploit it, and the credit card processing industry in China is no exception. Incoming credit card clearing companies will face direct competition from other foreign companies and China UnionPay, and also indirect competition from other forms of payment.

Visa, MasterCard and American Express have been lobbying for years to get a foothold in China's credit card systems and provide direct competition for the local UnionPay. As of yet, they have been denied access to the industry. If they were permitted access, each foreign company would need to focus on winning the trust of the people and differentiating themselves from the many companies who are similar to them. As discussed earlier, Visa and MasterCard have already started this process and are likely to dominate the Chinese industry in the future. A more detailed analysis of UnionPay's effectiveness would be conducted if the company's financials were released to the public.

Hai Ling, division president of MasterCard in Greater China, illuminates that competition can be beneficial as it helps implement high standards and creates superior products and services (Bloomberg, 2012). China's monopoly in credit card clearing is an opportunity for other companies to enter with superior products, lower prices, better service and added options.

## **Indirect competition**

In addition to direct competition, foreign companies would also face indirect competition from other forms of payment, specifically cash, bankcards, and electronic and mobile payment services.

Ling divulges that cash is the biggest competition for credit cards: 60 to 70 percent of money being spent is cash (Bloomberg, 2012). Cash is accepted all over China and is the primary form of payment in the country. Most small stores, restaurants, and even some hotels and larger organizations will only accept cash. Since the incidence of many scandals, such as companies doling out written promises of money that were never fulfilled, the Chinese people have been skeptical of non-cash payment systems. Even cash is regarded with a critical eye, as many counterfeit bills are currently in circulation. First hand, I have encountered thirteen fake 100-Yuan bills of varying quality in just three months. However, local storeowners are very skilled at identifying the counterfeit currency. The skepticism of the monetary system is possibly a reason people may prefer to stay with one type of payment as they know they can collect the payment and utilize the money immediately.

Bankcards are also significant rivals to credit cards as they achieve a comparable convenience but prevent arrears. In China, bankcards can be used to make domestic online purchases while simultaneously avoiding the potentially debilitating effects of debt. As the Chinese are not accustomed to the availability of credit, the absence of its temptation could be a benefit to many users. However, bankcards limit users to domestic purchases, as the cards cannot be used internationally, illustrating an opportunity for credit card companies.

New ways of transferring money are surfacing every year. Electronic currency, such as Bitcoin and OKCoin, are currently available, yet acceptance of them is limited. The government has continually placed stricter restrictions on these online forms of payment to decrease attempts at cleaning fraudulently obtained money. An article in *The Economist* explains: "Bitcoin has not taken off as a means of payment in China; instead, it is mainly a speculative investment" (*The Economist*, 2014). Depending on future regulations, Bitcoin and OKCoin may be sources of competition for credit cards.

It has been said that China has the "greatest potential in the bankcard industry worldwide" (UnionPay.com, 2014). Such a fruitful market so offensively inaccessible to companies is a likely reason businesses are looking for substitutes to the government-supported monopoly. Recently, China's largest online commerce company, Alibaba, indicated an imposing partnership with Apple to launch a mobile payment service combining AliPay and Apply Pay (Miami Herald, 2014). Should this partnership occur, it could greatly reduce the need for credit cards.

## **Strengths of foreign credit card processing companies**

Foreign credit card companies have various advantages over the domestic UnionPay. The most obvious is their experience, followed closely by groundwork already in action in China.

American Express and the Bank of America (renamed Visa) have been in operation since 1958 and have entered hundreds of new countries. They have decades of history and experience, as well as many veteran employees and specialists to help them succeed in China. The major companies have well-established systems on how to manage everything from setting up new accounts, to designing successful rewards systems, to handling complaints. They also benefit from an online banking system that has been successful in over a hundred countries worldwide and will undoubtedly be effective in China as well. One report expresses there will be "transparency, ease, and security in the use of these cards" (M2 PressWIRE, 2013). Incoming credit card companies and their established systems can provide clients and the government with clear and comprehensive statistics on spending habits, enhanced security, and supplementary methods to deal with and detect theft and fraud.

Some local inhabitants do not use credit cards because they do not believe the hassle outweighs the value: “Why use credit when there is no need to? They do not provide any benefit”, explains Moqing Chen of Beijing (UIBE graduate student, November 2014). The entrance of foreign companies will vastly increase competition and potentially produce credit cards with enough benefits to entice use by a greater percentage of the population. Visa’s Chief Executive Charlie Scharf agrees: “we believe we can add a lot of value [to the Chinese marketplace]” (Reuters, 2014).

Some of the major credit cards companies will not need to start from scratch in securing the support of the locals. Even though UnionPay's symbol is visible on every card, they are not alone. Visa and MasterCard, while paying UnionPay to clear payments made on their cards, have their own credit cards in use in China. The Chinese people are familiar with the corporations’ logos and may be more accepting of the new companies’ cards because of this.

Moreover, Visa and MasterCard have made valiant efforts to be seen positively the Chinese people. Visa sponsored the 2008 Beijing Olympics and MasterCard paid to have its name on the Olympic sports center. The companies have already begun creating brand awareness in anticipation of China’s credit card processing industry opening to foreign businesses (Table 3: International credit card companies advertising in China, App. A).

## **Weaknesses**

Visa, MasterCard, American Express: none of these companies have yet participated in credit card clearing activities in China. Their lack of experience in China, with its commanding government and influential culture, could be a major weakness for the foreign companies. China has a very unique way of doing business where relationships are the key to success, written contracts take a backseat to verbal agreements, and change is regarded with a skeptical eye. UnionPay is adept at conducting business in such an environment, and the entering companies may struggle to catch up.

Even though some companies, like Visa and MasterCard, have been taking steps to build positive relationships within China, UnionPay has had over twelve years to establish its trusted reputation. It may be difficult for foreign companies to win over the contracts and customers that UnionPay has collected since it began in 2002.

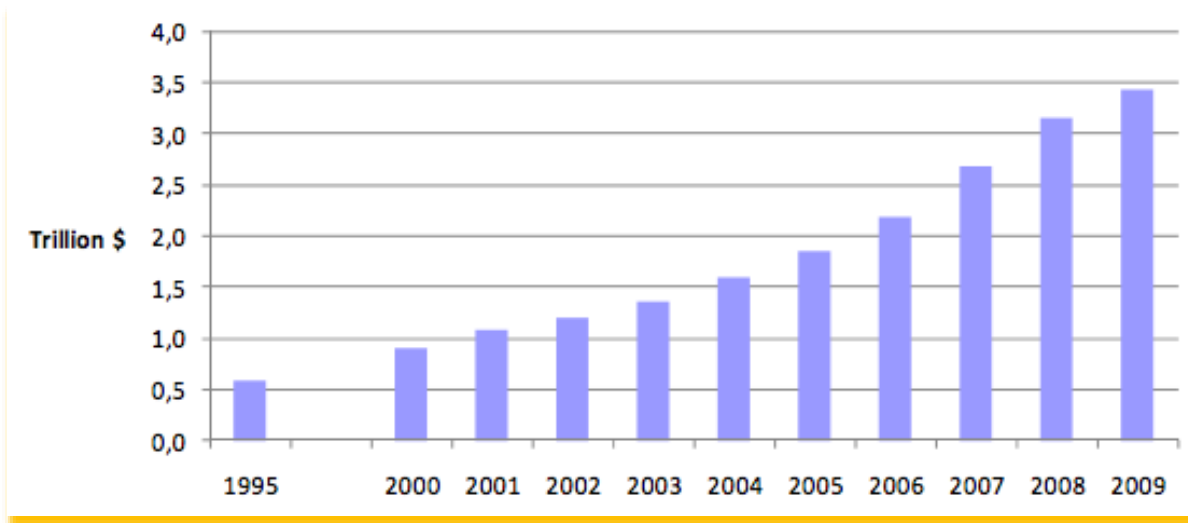
Furthermore, to capitalize on the boundless knowledge of their experienced employees, foreign entrants will undoubtedly send many of their employees overseas as expatriates. This may lead to discontented employees, as living in China is neither easy nor desired by many foreigners, and expatriation could be a weakness of the companies, as employees may not perform as expected.

## **CONCLUSION**

The CCP is in the process of deciding whether to open China’s credit card clearing industry to foreign competition. However, the government has many considerations to take into account before opening the industry. Primary governmental concern includes political and economic impacts such as reputation, money supply, and inflation. Should the government open the industry, foreign companies have many strengths and weaknesses compared to the local UnionPay and also have a complicated macro-environment to analyze. All in all, China is a vast untapped market, and the entrance of foreign credit card clearing companies could be just the motivation the economy needs to stimulate spending and support the government’s objectives.

**APPENDIX**

**Table 1: Gross domestic product in China (1995-2009)**



Statistical data. (n.d.). <http://www.stats.gov.cn/english/> Accessed Nov. 25, 2014

**Table 2: Internet usage and availability in China, the UK and Canada**

	China	United Kingdom	Canada
Internet Percent 	42.3%	81.6%	78.6%
Secure Internet Servers 	4,238	1,691	43,023
Secure Internet Servers per 1 million people 	3 per million people	206 per million people	1,277 per million people
Internet Hosts 	20,602,000	8,107,000	8,743,000

Statistical data. (n.d.). <http://www.stats.gov.cn/english/> Accessed Nov. 25, 2014

**Table 3: International credit card companies advertising in China**



Visa and MasterCard Confront China's Stacked Deck. (Nov. 17, 2014). *ChinaFile*.

<http://www.chinafile.com/reporting-opinion/caixin-media/visa-and-mastercard-confront-chinas-stacked-deck> Accessed Nov. 25, 2014

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