

Welcome to China! Foreign payment companies

The central bank has decided to permit foreign payment companies to invest in China on a level playing field with local companies. Is this a reaction to US trade protectionism talks?



Source: Shutterstock

Earlier today, the People's Bank of China announced foreign payment companies can now invest in China, as a signal of opening up the financial market. The timing of this policy is interesting as the US government is due to release a package of proposed punitive measures that include tariffs on imports worth at least \$30 billion tomorrow.

A crowded domestic market

It's a well-known fact that China has a competitive payment platforms market.

Not only are they well established on payment channels but also provide other services including social media, online shopping, and investment, which makes them highly competitive in terms of convenience and a range of services.

Foreign payment companies are likely to face the immediate hurdle of this fierce competition, and

the high bar set by domestic payment platforms, but some will still be interested to tap the Chinese market.

An opportunity for cross border payments?

But how relevant would foreign payment platforms be for locals? Here, we think the opportunity lies in the ability to make cross-border payments. The market for outbound payment platforms isn't as crowded as the domestic payment platforms, and with increasing demand for foreign goods, Chinese consumers might find it easier to use foreign payment platforms on foreign e-commerce sites.

Given that, SAFE - the regulator that monitors cross-border fund flows, needs payment platforms to ensure that no individual brings cross-border more than US\$50,000 per year and that those funds are not for overseas investments. Put simply; the US\$50,000 is solely for cross-border consumption. Monitoring this is a technical issue but has the potential of turning into a legal issue if not done properly.

So, the risk is that foreign payment platforms are more exposed to the regulations on cross-border payments that are applied to the local ones.

The opening up of this part of the market could make the US government's claim that China doesn't treat foreign companies in the same way as domestic ones less convincing. Moreover, the area of payment platforms is a well established high-tech domestic industry, so the US claim that China "forces" foreign companies to give technology to China cannot be applied here either.

The timing of this policy is interesting. Is this killing two birds with one stone? We think that's quite likely.