

Statement of
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Opportunities to Expand U.S. Trade
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Chairman Reichert, Ranking Member Pascrell, distinguished members of the Subcommittee, my name is Demetrios Marantis, Senior Vice President and Head of Global Government Relations for Visa Inc. Thank you for inviting me to speak about the importance of Asia-Pacific trade to U.S. jobs and exports. I have spent most of my career on this topic – as a congressional staffer, then a USTR official, and now in the private sector. It is always an honor to testify before this Subcommittee, which has demonstrated tremendous leadership on many issues important to those whose livelihoods are impacted by international trade.

For almost 60 years, Visa has facilitated the growth of global commerce through electronic payment services (EPS) technology. Visa is not a bank, and does not issue cards, extend credit or set rates and fees for account holders on Visa-branded cards and payment products. Rather, we connect more than 3 billion Visa cards and millions of merchant locations worldwide through a global network of approximately 16,300 financial institution partners and VisaNet, one of the world's most secure, reliable and interoperable global payment networks. Today, VisaNet processes more than 160 billion transactions a year, and we are continually developing advanced analytics and fraud detection technology to ensure consumers and businesses can transact seamlessly and securely, with trust and confidence.

Visa is a major U.S. exporter, operates in more than 200 countries and territories, and employs thousands of talented people – primarily in high-skill positions – across the United States. To grow our business, and extend digital commerce to parts of the world previously excluded from its many benefits – we need free trade, open markets, and the ability to compete on a level playing field internationally just as we do in the United States. The world-leading role of the U.S. payments industry – and the well-being of our workers, their families, and our customers – depends on it.

Worldwide, there are tremendous opportunities to help economies thrive through the increased use of electronic payments. A Visa-commissioned report released today projects that increasing digital payments adoption in 100 cities around the world could result in net benefits of \$470 billion, which takes into account time-savings for consumers, increased sales revenues, and more efficient revenue collection. Visa also

estimates that Asia-Pacific economies stand to gain more than \$6 trillion by shifting from cash and checks toward credit, debit, or prepaid forms of digital payment¹. For example, in India, the volume of digital payments increased dramatically when Prime Minister Modi removed 86 percent of bank notes from circulation². In the months that followed, Visa was proud to work with the Indian Government and other domestic and international payment networks to introduce Bharat-QR³ or, as translated “India QR”—an interoperable and low-cost acceptance solution to help accelerate India’s transition to electronic payments.

Visa is working across the Asia-Pacific region to help bring state-of-the-art payment security and innovation to as many people as possible. In emerging markets such as Myanmar, Visa partners with governments, financial institutions, and merchants to enable electronic payments and bring unbanked populations into the formal financial system. In maturing markets such as Thailand, Visa has facilitated the adoption of QR code (Quick Response barcode) payment standards that will allow more small- and medium-sized enterprises – engines of economic growth – to accept electronic payments.

Several Asia-Pacific markets are highly advanced in certain key payment categories. For example, Australia has one of the highest rates of contactless transactions in the world⁴; China has pioneered popular new forms of mobile payment⁵; and South Korea has the highest overall rate of payment card usage globally⁶. Visa’s new Innovation Center in Singapore is a key hub for our collaborative work with governments, clients, and partners in all of these areas, as we seek to leverage Visa’s

¹ Visa analysis of data from Oxford Economics, The Nilson Report, Euromonitor, Haver Analytics, The Bank of Thailand, Reserve Bank of Australia, Federal Reserve, and Statistics New Zealand. Available at http://s1.q4cdn.com/050606653/files/doc_presentations/2017/Investor/2017_Investor_Day_CLARK_web.pdf

² Martin Wolf. “India’s Bold Experiment with Cash.” The Financial Times. February 21, 2017. <https://www.ft.com/content/e3f2aaa8-f77d-11e6-bd4e-68d53499ed71>

³ Visa website. “About Bharat QR-mVisa.” <https://www.visa.co.in/pay-with-visa/featured-technologies/mvisa/about-mvisa.html>

⁴ Visa analysis of VisaNet data for Australia.

⁵ “The Rise of China FinTech.” Goldman Sachs Group, Inc., 2017.

⁶ According to the Korea Credit Finance Association (CREFIA)’s data, payment card penetration is approximately 88 percent. CREFIA’s figure is based on private sector card spend and private consumption expenditure.

open Application Program Interfaces (APIs) and develop scalable solutions for the Asia-Pacific region.

Despite the tremendous capacity for growth and change across the Asia-Pacific, in many of these markets, there are still steep challenges to fulfilling the potential of electronic payments to drive economic growth and financial inclusion. Foremost among the obstacles is the lack of a level playing field for payment providers, which is often due to trade barriers and other forms of regulatory discrimination. In several cases, U.S. trade policy tools have played a critical role in helping to address market access and other discriminatory trade barriers facing U.S. EPS suppliers. For illustrative purposes, I will highlight three examples from Vietnam, China, and South Korea.

Vietnam is the most urgent. A rapidly deteriorating situation now threatens to shut U.S. companies out of the domestic electronic payments processing market. We are grateful for the strong bipartisan support from members of the Ways & Means Committee, including efforts from Chairman Reichert and Ranking Member Pascrell, for their leadership in highlighting concerns with Circular 19. For those unfamiliar with Circular 19, it is a regulation written by the State Bank of Vietnam (SBV) that grants a de facto monopoly on domestic payment processing to the state-owned National Payments Corporation of Vietnam (known as NAPAS). The Office of the U.S. Trade Representative and both the current and previous Administrations have raised this issue repeatedly with the Vietnamese government. Despite substantial dialogue between both governments and industry, state-owned NAPAS is now pressuring Vietnamese banks and sending them written instructions to prepare for processing all domestic transactions, including Visa and Mastercard-branded payment cards, over the NAPAS network. If implemented, this regulation will fundamentally threaten the ability of U.S. payments companies to operate in Vietnam.

Establishing NAPAS as the sole connection point between all banks and any other payment network would skew the playing field. It would reduce the speed, security, and reliability of services that U.S. EPS suppliers can currently provide to their customers in Vietnam. It would disrupt longstanding existing commercial relationships.

And, it would create a single point of failure that would dramatically increase cybersecurity risk.

More broadly, giving NAPAS an advantage over U.S. companies that have done business in Vietnam for many years sends a negative signal about Vietnam's commitment to open and fair trade with the United States. These actions would also appear to run contrary to Vietnam's vision to privatize state-owned enterprises, introduce more competition in the market, and further integrate Vietnam with the global economy.

To ensure a level playing field for U.S. EPS suppliers, such blatant discriminatory treatment should not be allowed to occur in Vietnam or elsewhere in the region. As APEC Chair this year, Vietnam should be a champion for fair and open trade, not shutting established suppliers out of its market. Given the consistent message from both Congress and the Administration, we remain hopeful that the SBV will act to suspend and revise Circular 19 before President Trump's upcoming visit to Vietnam for the APEC Leaders Meeting in early November.

In China, Visa has been operating since 1979 but is limited to processing cross border transactions. In other words, unlike its Chinese competitor, China UnionPay, U.S. EPS suppliers cannot process domestic transactions. The United States government challenged China's restrictions on foreign suppliers processing domestic payments and won a World Trade Organization (WTO) case in 2012. After the WTO decision, both Congress and the Administration maintained a focus on China fulfilling its WTO obligations, and in 2015, China created a licensing process to open up the domestic market.

This year, the Administration placed EPS domestic market opening at the top of the U.S.-China bilateral trade agenda. As part of the 100-Day Action Plan following President Trump and President Xi's first meeting in April, China affirmed its commitment: "By July 16, 2017, to issue any further necessary guidelines and allow wholly U.S.-owned suppliers of EPS to begin the licensing process. This should lead to full and prompt market access."

With appreciation for the joint efforts of both governments to open China's domestic EPS market, Visa was pleased to submit a bank card clearing institution (BCCI) license application to the People's Bank of China (PBOC) in July 2017. Our application is currently with the PBOC. We look forward to consideration of our application in line with the Chinese Government's public commitments to market opening and the guidelines for BCCI applicants. Looking ahead, we would also appreciate more transparency and a time-bound process for any National Security Review of our application, if one is required.

South Korea is an important market for U.S. EPS suppliers as it has the world's highest rate of payment card usage. For many years, Visa has worked with our local Korean clients and partners to offer the latest in payment technology and value-added services. However, since 2008, Korean financial authorities have required Korean financial institutions issuing payment cards to offer and operate a local brand card product (for use only in Korea) with identical benefits/services for each U.S. brand card product (such as Visa or Mastercard) introduced in Korea. For example, if a U.S. credit card brand partners with a hotel chain or airline company to offer a reward card, a comparable local card must also be offered. In addition, regulators have mandated that the annual fee for domestic cards for cardholders must be less than that for foreign brand cards. Following introduction of these provisions, the market position of U.S. card brands in Korea dropped sharply and has kept falling as local brand cards are being issued increasingly more than foreign brand cards.

The U.S.-Korea Free Trade Agreement (KORUS) has been a useful tool to address level playing field concerns related to regulatory discrimination against U.S. EPS suppliers in South Korea. In 2014, South Korean financial regulators suspended a policy that would have dramatically reduced the ability of U.S. EPS suppliers to compete after the U.S. government brought concerns to the attention of the Korean government through the KORUS Financial Services Committee. Unfortunately, despite this constructive dialogue, the government preference for domestic over U.S. payment card networks puts companies like Visa at a competitive disadvantage.

Concerns about regulatory discrimination against U.S. EPS suppliers have been raised in the Office of U.S. Trade Representative's National Trade Estimate (NTE) report for the past several years and it remains a top priority on the bilateral trade agenda. Restoring the ability for U.S. EPS suppliers to offer creative card products on market-based terms would help level the playing field and enhance the potential for increasing U.S. exports of EPS to South Korea.

Beyond Vietnam, China, and South Korea, the U.S. EPS industry faces level playing field challenges in other large and growing markets such as Indonesia, Thailand, and Bangladesh that are similar in nature to those mentioned above.

I hope this testimony helps to illustrate the tremendous opportunities in the Asia-Pacific region, and the need to overcome challenges with the partnership of Congress and the Administration. Similarly, I hope that achieving a positive outcome for U.S. electronic payment service suppliers in Vietnam will send an important signal about the beneficial effects of sustaining free and fair trade across the region. We look forward to working with the Committee to strengthen trade relationships throughout Asia-Pacific, and to help further expand U.S. exports of electronic payment services in support of Visa workers and their families in communities across the country. Thank you.