THE CHINA UNIONPAY BRAND AND THE
CHINESE DIASPORA

Steve Worthington

Asian Business and Economics Research Unit
Discussion Paper 43, 2007

ABSTRACT
This paper discusses how the Chinese diaspora has influenced the internationalisation of a new brand emerging from mainland China. This brand is the YinLian acceptance marque of ChinaUnionPay (CUP), a plastic card payments organisation, created by the Chinese government and positioned as an alternative to the more widely known payment card acceptance marques of American Express, MasterCard and Visa. Initially established in mainland China, the YinLian acceptance marque is now being promoted by CUP in countries outside of China, particularly those where the Chinese diaspora is concentrated and/or where outbound tourism from China makes them a popular destination.

The concept of ‘guanxi’ is central to the development of trust in the Chinese culture and it is this relationship that is underpinning the internationalisation of the YinLian acceptance marque, as Chinese card holders are being encouraged to trust their CUP brand, in preference to that of the ‘foreign’ acceptance marques. Research conducted in China and reported on in this paper validates the desire of affluent Chinese who do travel overseas to use payment cards in preference to cash and this can only assist in the internationalisation of the YinLian marque. Some pointers for further research are given, in what is an ever developing situation and attention is drawn to the need to understand the cultural differences that characterise the Chinese approach to marketing.
INTRODUCTION

The dictionary definition of diaspora is, ‘any group of people dispersed’ and this paper discusses how the dispersion of the Chinese throughout the Asia Pacific region, is being used to assist the internationalisation of the hitherto domestic only ChinaUnionPay (CUP) payments card acceptance marque, in direct competition to the more widely known acceptance marques of American Express, MasterCard and Visa. Building the CUP brand into a worldwide acceptance marque, is one of the key priorities for China’s financial services planners.

China itself has a population of 1.3 billion, but in addition to this there are an estimated 30 million Chinese living outside of China. The first major emigrations from China took place between the 14th and 16th centuries and later on the western colonial powers used Chinese as labourers in South East Asia and the Americas. Indonesia and Thailand have the largest number of dispersed Chinese, estimated at between 7-9 million in each country, whilst Singapore has the highest concentration, 3 million, or 75 percent of its population. Also an estimated half a million Australian’s identify themselves as having Chinese ancestry and it is estimated that by the year 2025, there will be two million Chinese tourists visiting Australia per year. In 2005, a total of 380,000 Chinese tourists visited Australia, spending on average $5,000.

Wherever they live, the Chinese can reflect an a continuous culture that stretches back nearly 4,000 years and they believe that China (The Middle Kingdom), has always been a world power and now that its economic strength is growing so fast, it wants to regain its rightful place – at the centre of the world. To better understand and accommodate this development, both academics and practitioners need to question the dominance of the ‘Western’ theoretical domains and to investigate other paradigms from other cultures. There has already been attention paid to the difficulties of entering the Chinese market and many studies have argued that developing relationships is a necessary precursor to success in China (Ambler, 1994; Luo, 1997; Flambard-Ruaud, 2005). A strong feature of Chinese culture is that the Chinese prefer to deal with people they know and trust and with whom they can share a process that provides mutual benefits. This is often called ‘guanxi’ and it has been identified as a vital ingredient in doing business in China (McGregor, 2005 and Kynge, 2006). Marketing has always involved relationships, be they B2B or B2C, but these need to be examined in context. In Chinese culture, guanxi is a significant factor in doing business, be that either B2B or B2C and this paper examines how such relationships have underpinned the internationalisation of a Chinese product, initially through the use of the Chinese diaspora.

It has long been recognised that maintaining personal relationships is one of the major dynamics in Chinese society, as according to Confucianism, an individual is fundamentally a social or relational being. Yau et al (2000) talk of developing these relationships as an investment, ‘just like building a bridge before crossing a river’. Their article discusses the four dimensions of a true, healthy and lasting relationship among the Chinese and these are trust, bonding, reciprocity and empathy. As regards trust, it is claimed that trust in the in-group, is paralleled by a deep distrust of out-group members and hence in an exchange situation, ‘Chinese seek to determine whether the other party can be trusted or not’ (p19). The study aimed to explain marketing relationships in the Chinese context and to elaborate on the meaning of guanxi. The managerial implications of the study, are it is claimed, not limited to mainland China, but can be extended to other countries and territories where the Chinese diaspora is significant. ChinaUnionPay is endeavouring to use the ‘trust’ that its card holders have in its brand, in its domestic market, as a ‘bridge’ to its expansion outside of mainland China. This article now goes on to describe the context of the research reported on and the results of that research.
THE CONTEXT

The product is a payment card acceptance marque which is being promoted by ChinaUnionPay (CUP). This is a new rival to the already widely accepted marques of American Express, MasterCard and Visa, but which until 2005 was only accepted within the People's Republic of China. China is already ranked second only to the USA in the number of plastic payment cards in issue, with figures from CUP for the end of 2005, revealing that there was a total of 960 million payment cards issued, 920 million of which were debit cards and the remaining 40 million, credit cards. CUP was created in 2002 by the Chinese government to improve both the issuance and acceptance of payment cards in China and to be the only electronic payment and interchange network operator in that country. CUP has subsequently created its own acceptance marque, the YinLian, to differentiate it from the existing global acceptance marques referred to above. By the end of 2005 more than 99 percent of point of sale (POS) terminals and ATM’s in China were part of the CUP network and 600 million payment cards issued in China carried the CUP YinLian acceptance marque.

The People’s Bank of China (PBOC) gave its approval in January 2004, for CUP to conduct payment card business in the special administrative region (SAR) of Hong Kong and later in that year extended this to the other SAR of Macao. CUP further increased its overseas presence in January 2005 when it initiated a card acceptance programme for its YinLian branded cards in Singapore, South Korea and Thailand and by the end of 2006, CUP had expanded its acceptance reach to 23 countries, either where the Chinese diaspora is most prevalent or where the most popular Chinese tourist destinations are. The value of transactions using CUP cards on New Years Day 2007 in Hong Kong and Macao was 220 million yuan ($US 27.5 million), an increase of 54 per cent on the previous year and testament to the success so far of this internationalisation. China is also consolidating its status as Asia's largest outbound tourism market, according to the World Tourism Organisation, with 34.5 million Chinese travelling abroad in 2006. Spending by Chinese tourists rose by 16 percent in 2006, to an estimated $US 25.3 billion and it is this spending that CUP wishes to capture on its payment cards being used outside of mainland China. One attraction to the Chinese of paying with a CUP YinLian card is that there is no currency exchange fee, even if the transaction takes place in Hong Kong or Macao, which as SAR’s still have their own currencies. These are critical markets in CUP’s internationalisation strategy, for at the end of 2006, 96 percent of CUP’s transactions took place in mainland China, whilst 3 percent were made in Hong Kong and Macao and a mere 1 percent in other foreign markets.

CUP cardholders are able to both make purchases at the POS’s which accept the YinLian marque and to withdraw local currencies at ATM’s which display that CUP marque. To date according to CUP, the growth rate of POS purchases has been much higher than that of ATM cash withdrawals (CUP, 2006); the result of a continuous increase in the number of overseas merchants who accept CUP branded cards and the increased familiarity of Chinese consumers with using their CUP cards, both domestically and in their overseas travels.

THE RESEARCH

Research conducted in 2005 with urban-affluent Chinese studying in MBA programs at Fudan University in Shanghai, examined the adoption and usage of credit cards in China, by this segment of the population (for a detailed review see Worthington, Stewart and Lu, 2007). A series of questions was put to these respondents to examine, to what extent they were early adopters of this payment card product and of particular relevance to this paper, whether they would use such cards to make purchases when they travelled outside of China.

The question posed, in an attempt to explore what payment methods were used, both of certain purchase value trigger points and in certain geographical locations was, ‘When you go shopping,
either in China or overseas, which payment method do you prefer to use?  

A table was devised which offered respondents the choice of payment method between credit card, debit card and cash, firstly for shopping in China and whether the single expenditure was above or below 100 yuan. This spending amount was chosen because it was thought to be a possible value trigger point, at which consumers decide between the three different payment options offered to them. Also the 100 yuan note is the largest denomination note printed in China and it is believe that if the item to be purchased costs more than 100 yuan, then it is perceived to be an expensive item and hence it is likely that the payment method will be by plastic card. Respondents were also asked to indicate which payment method they would choose if their spending was done overseas (including the SAR’s of Hong Kong and Macao) and for ease of currency conversion, here the value trigger point was chosen as $US30.

**Table 1**

<table>
<thead>
<tr>
<th>Purchase Value Trigger Points</th>
<th>No more than 100 yuan (Base 174)</th>
<th>Above 100 yuan (Base 169)</th>
<th>No more than US$30 (Base 159)</th>
<th>Above US$30 (Base 168)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Credit Card</td>
<td>15.5</td>
<td>72.2</td>
<td>38.4</td>
<td>83.9</td>
</tr>
<tr>
<td>Debit Card</td>
<td>5.2</td>
<td>18.3</td>
<td>1.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Cash</td>
<td>79.3</td>
<td>9.5</td>
<td>60.4</td>
<td>11.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 1 shows the responses to these questions on payment preferences. For domestic transactions under the value of 100 yuan, the majority of respondents (over 79 percent) would still pay by cash, with only 15.5 percent indicating that they would pay for their consumption by using a credit card. This result is to be expected given the background of the respondents as urban-affluent consumers, because to them 100 yuan is a very small amount and it would be quite normal for them to pay by cash. Nevertheless this result still substantiates the belief that China is currently a cash-centric, rather than card-centric society, particularly for transactions of this value. The situation is however reversed for transactions over the value of 100 yuan, with over 72 percent indicating that they would pay with a credit card and under 10 percent say that they would pay with cash. That the other 18 percent said that they would use a debit card in this situation, only adds to the evidence that for larger value domestic purchases, there is a propensity to pay with a plastic payment card.

The responses to the question about overseas spending were similar. For purchases under $US30, over 60 percent would pay in cash, however over 38 percent would pay by credit card. For purchases over $US30, the results are markedly pronounced, with over 83 percent saying that they would pay with a credit cards and just under 12 percent paying with cash. Thus from the evidence emerging from this research, it would appear that these respondents, as urban-affluent Chinese, when they do travel outside of China, use their payment cards extensively and in particular for higher value purchases.

The importance of being able to use a card holders ‘card of preference’ when they do travel and wherever they travel to, has been highlighted by research into the spending patterns of main and subsidiary credit cards (Devlin, Worthington and Gerrard, 2007). Here research conducted in Singapore (the country with the highest concentration of Chinese diaspora), showed that of those respondents who hold both main and subsidiary credit cards, the main cards were held for both the broadest range of transactions and for the largest value of transactions. Thus the results provide evidence of the advantages to credit card organisations of being the supplier of a main, rather that a subsidiary card. The implication of this for CUP is that unless their card holders use their YinLian payment cards, wherever they are, be it in mainland China or overseas, they will be forced to also carry a competing card with a more widely accepted marque, eg. American Express, MasterCard
or Visa. Thus using the Chinese diaspora to spread the acceptance of CUP cards, is an obvious first step in the internationalisation of that brand.

**CONCLUSIONS**

It is this latent demand to use payment cards overseas that CUP hopes will drive increased acceptance of its YinLian cards outside of China. This demand is more likely to be observed in countries where the Chinese diaspora is more pronounced and/or where outbound Chinese tourists are most likely to visit. Given the culture of ‘quanxi’, with its underpinning of trust with people that you ‘know’, it is therefore logical that CUP should seek to base its internationalisation strategy on a ‘relationship’ culture that has provided the foundation for business activity for thousands of years.

As the acceptance and usage of YinLian payment cards grows, further research will be required into what differentiates these CUP cards from their rivals at American Express, MasterCard and Visa and what factors influence those Chinese who do travel overseas in choosing their preferred form of payment at the POS and which payment cards, with which acceptance marques do they carry with them and use on their travels.
REFERENCES


McGregor, J. (2005), One Billion Customers, Nicholas Brealey Publishing. London
