Payments Leadership Council

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A Primer for U.S. Policymakers on Cross-Border Payments and Trade Policy Best Practices

September 2021

EXECUTIVE SUMMARY

Cross-border payments flow every day between people, banks, businesses, and settlement institutions, with transactions moving value around the world. Changes across the global economy have made the ability to send and receive payments across borders critical to more consumers and businesses than ever before. In response, the payments ecosystem continues to deliver innovative new products to provide faster, safer, and more convenient cross-border payment options. This overview of the international payments landscape will examine ongoing trends and changes, including:

- How international payments power global commerce
- The importance of market access and open competition
- The role of the free flow of data in facilitating economic growth
- The concerns around restrictive data localization protocols and requirements
- Steps that policymakers can take to ensure continuing innovation and economic growth

Powering Global Commerce: The Importance Of Cross-Border Payments

Cross-border payments play a critical role in the global economy. Even before the onset of the COVID-19 pandemic, the secular trends of globalization and digitization made clear the increasing importance of digital payments in facilitating global commerce. Online retail and international supply chains require cross-border payments mechanisms that are functional, accessible, and secure. Consumers that a few years ago may not have had access to banking or the internet are now demanding increasingly fast, safe, and convenient digital payments options.

The pandemic lockdowns have accelerated the demand for cross-border payments to facilitate the shift to e-commerce. We find ourselves in a unique moment. Consumers are more comfortable than ever before with digital payments, new entrants and business models are challenging incumbents, and governments are investigating if and how they should step into the payments space.

This report examines the importance of cross-border payments in facilitating global commerce, and the steps policymakers can take to ensure that the payments industry remains a forum where all companies can continue to create, innovate, and compete on a level playing field. U.S.-based payments leaders have played an underappreciated role in facilitating global commerce, from creating the standards that enable the global acceptance of payments cards and enable interoperability, to fostering the digital payments technologies that now enable millions of formerly financially excluded consumers to access banking. The payments industry will continue to innovate to open new opportunities, lower costs, and increase security for consumers, a process that would be greatly aided by public policy that reduces barriers to trade.

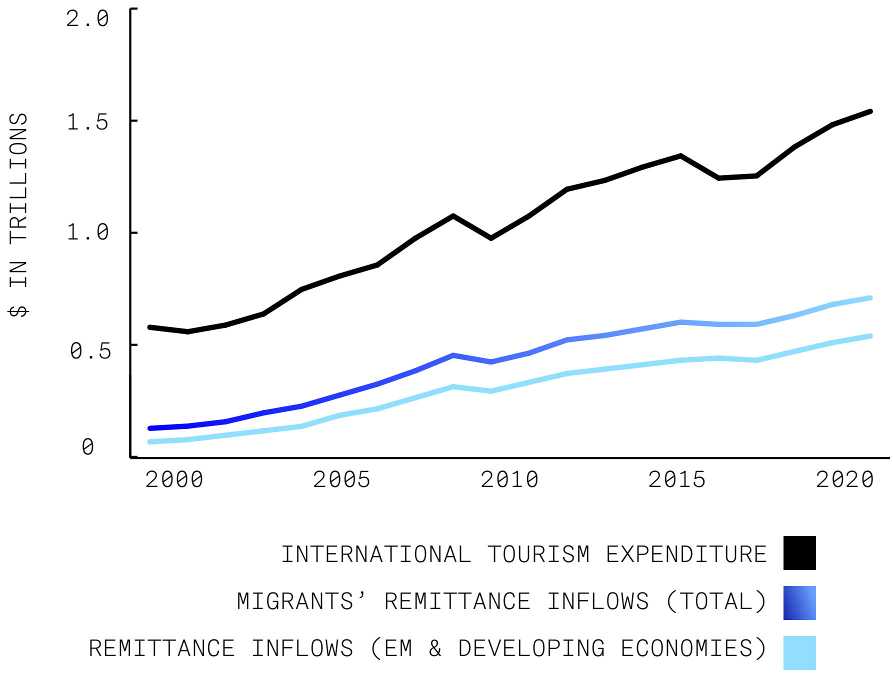
Cross-Border Payments: The Backbone Of The Global Economy

In many ways, cross-border transactions are the lifeblood of the interconnected global economy. Though their importance is sometimes overlooked, payments are both a reflection and necessary input of economic activity; the rapid expansion of cross-border e-commerce, the emergence of complex international supply chains, and the billions of dollars in remittances sent each year are all enabled by robust cross-border payments frameworks.

THE EXISTENCE OF CROSS-BORDER PAYMENTS CHANNELS, WHICH FACILITATE TRANSACTIONS ESTIMATED TO TOP $156 TRILLION BY 2022, CONTINUES TO ENABLE BUSINESSES TO PAY THEIR SUPPLIERS, TRAVELERS TO SEAMLESSLY USE THEIR PREFERRED DIGITAL PAYMENT SERVICE WHILE ABROAD, AND MIGRANT WORKERS TO SUPPORT THEIR FRIENDS AND FAMILIES BACK HOME.

Payments innovations fueled by competition make these services more accessible, efficient, and cheaper for ordinary people.

CROSS-BORDER PAYMENTS MATTER TO EVERYDAY CUSTOMERS



SOURCE:
BIS

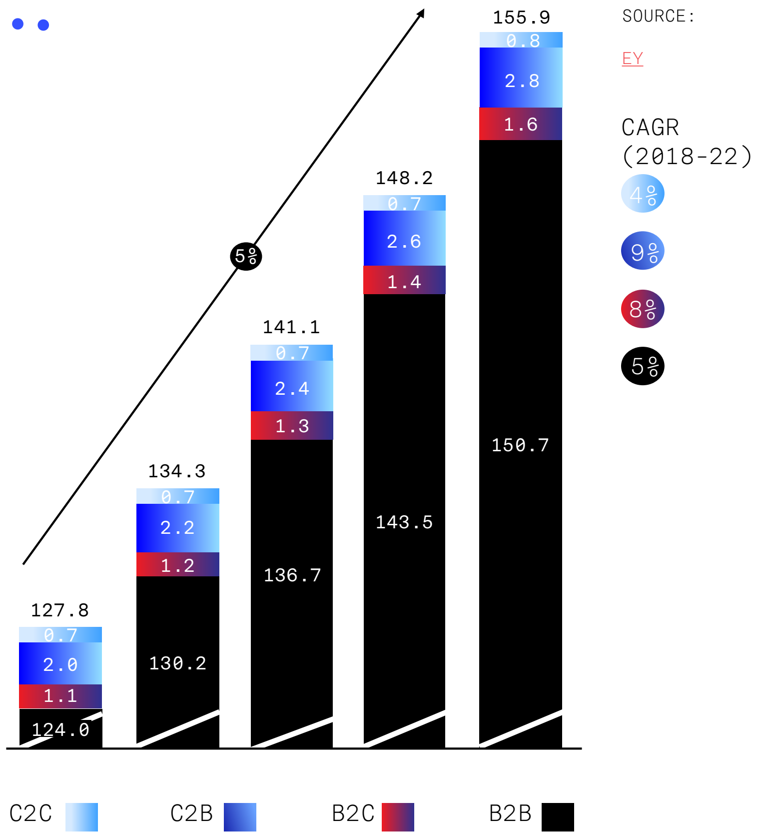
Changes across the global economy are accelerating the demand for cross-border payments. Major trends are driving this shift: increased volumes of business-driven cross-border payments, emergence of new payments technologies, the expansion of the cashless transactions in emerging economies, and the availability of digital payments tools to underbanked citizens and small businesses.

FOUR MAJOR TRENDS ARE DRIVING THIS SHIFT

1. Increased volumes of business-driven cross-border payments.
2. The emergence of new payments technologies.
3. The expansion of the cashless transactions in emerging economies.
4. The availability of digital payments to consumers that were previously underbanked.

Combined, these trends make clear that the importance of cross-border payments will only increase—and that shifting business and consumer preferences are accelerating the appetite for new, innovative means of international payment. To enable economic growth, these innovative platforms require an economic environment that is both accessible and

CROSS-BORDER PAYMENT FLOWS SPLIT BY USE CASE
IN US$



competitive.

Businesses Rely On Cross-Border Payments & Emergence Of New Technologies

Businesses are increasingly discovering that cross-border payments are an essential component of their growth. Cross border e-commerce is now the fastest growing segment of cross-border payments: Juniper research estimates that business-to-business cross-border payments will reach $35 trillion by 2022, a 30% increase over 2020, while a report from Discover estimates that 22% of e-commerce shipments are projected to be cross-border in 2022, up from 15% in 2016.

Undoubtedly, the importance of cross-border payments has been accelerated by the pandemic. Three-quarters of small-and-medium-

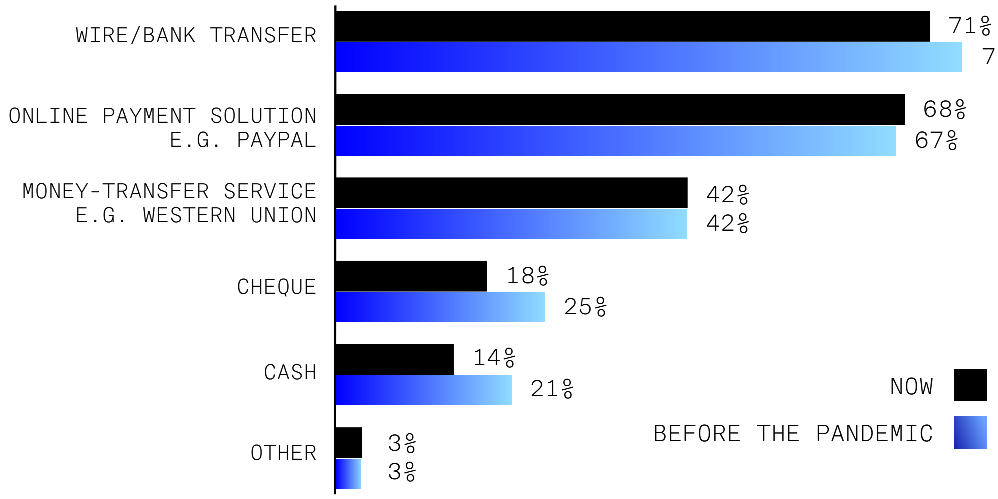
83%

OF GLOBAL BUSINESSES OF ALL SIZES FOUND IT EASY TO MAKE OR RECEIVE CROSS-BORDER PAYMENTS WHILE GROWING PROFICIENT IN CROSS-BORDER DIGITAL PAYMENTS.

sized business owners surveyed by Mastercard say that the continued functioning of global payments networks during the pandemic enabled their business to survive, as these networks facilitated continued relationships with international buyers and suppliers necessary to keep their businesses running. Businesses of all sizes are growing proficient in cross-border digital payments as 83% of businesses sampled globally found it easy to make or receive cross-border payments. This shows that cross-border payments have solidified their role in enabling prosperity for businesses around the world.

Private-sector innovators involved in cross-border payments have been showing significant progress over the years.

WAYS BUSINESSES PAY INTERNATIONAL SUPPLIERS



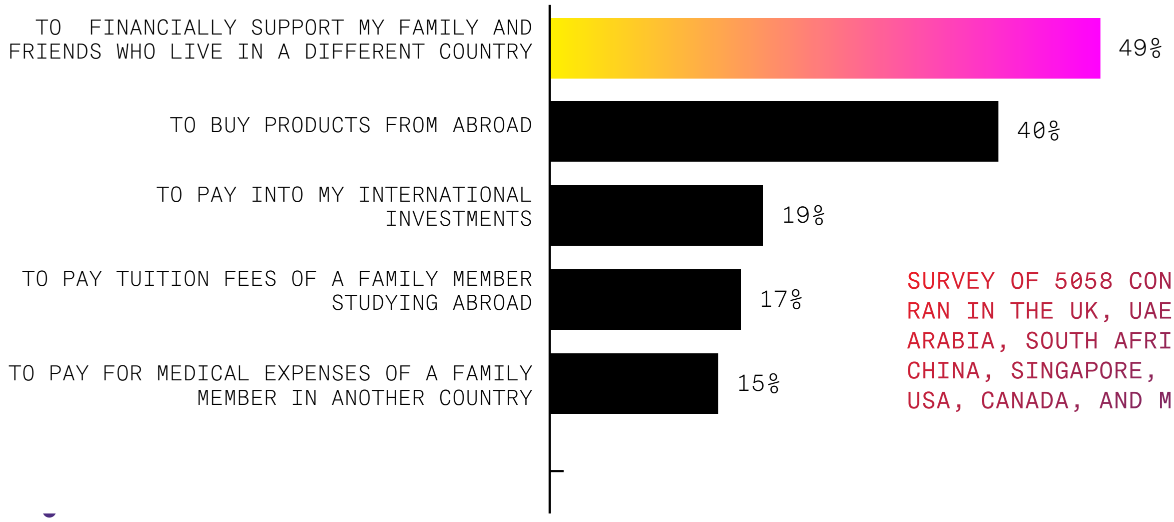
SOURCE: MASTERCARD

The emergence of new technologies leads to the growing prospect of cross-border payments and enables faster, more convenient, inclusive, and secure cross-border payments. Payments companies have certainly changed the game of global business transactions, and businesses and consumers all around the globe are enthusiastically responding to the new opportunities.

Changing Consumer Demands

The increased pace of change in the cross-border payments market is also closely related to rapidly changing consumer demands. One change is the rising value of remittances—money that is sent by migrant workers to their

CONSUMER USE CASE OF CROSS-BORDER PAYMENTS



SOURCE: MASTERCARD

SURVEY OF 5058 CONSUMERS RAN IN THE UK, UAE, SAUDI ARABIA, SOUTH AFRICA, CHINA, SINGAPORE, INDIA, USA, CANADA, AND MEXICO.

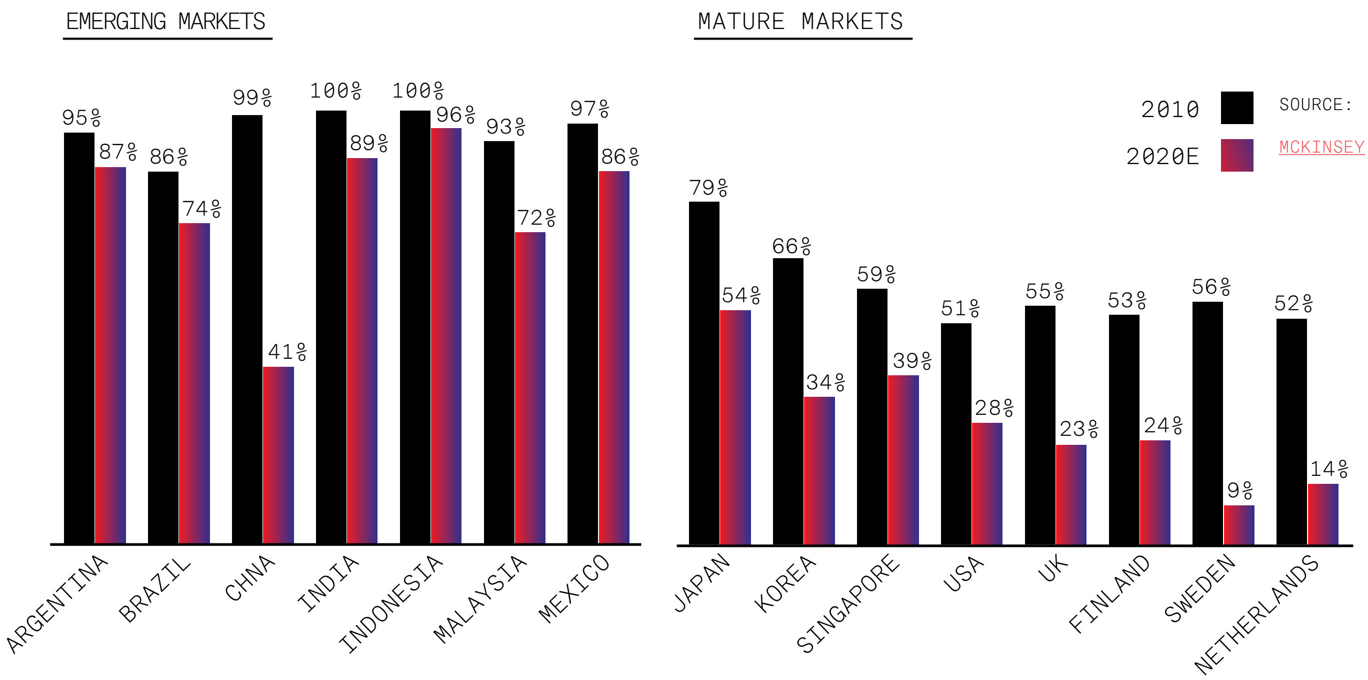
families back home.

Globally, remittances totaled $702 billion in 2020 according to World Bank data, surpassing the global sum of foreign direct investment and overseas development assistance.

Remittances are a vital source of income in many countries, accounting for 9.7% of GDP in the Philippines in 2020, 21.4% of GDP in Jamaica, and 23.4% of GDP in Honduras. More consumers are now opting for alternative payment solutions that offer faster and cheaper cross-border payment services than traditional banks. Over the last several years, digital remittances received a boost from the entry of digital-first money transfer organizations (MTOs). According to the Visa Economic Empowerment Institute, the established MTOs have seen nearly a third of remittances become digital, with the

CASH USAGE BY COUNTRY

PERCENT OF CASH USED IN TOTAL TRANSACTIONS BY VOLUME, %



pandemic accelerating digital trends greatly over the last year.

A second change in consumer preferences is the widespread shift away from cash payments, a trend that is becoming more ingrained in developing economies. In the U.S., cash payments declined to 18.6% of transactions in 2020, compared to 25.8% in 2019. ATM usage fell by 47% in April 2020 in India, while the United Kingdom saw 46% declines per month on average from March to July 2020, according to a global payments report by McKinsey. A recent European Central Bank survey on payment attitudes in Europe showed that 40% of the respondents have used less cash since the start of the pandemic, and almost 90% of them stated that they would continue to pay less with cash after the pandemic is over. As consumers continue to move away from cash, demands for faster, more secure digital payments solutions will only increase.

Improved Accessibility Of Digital Payments

As mobile phone ownership increases, more people around the world have access to banking services and digital payment solutions, a trend that is driving greater financial inclusion and accessibility. Although 1.7 billion people are still unbanked globally, Mastercard reported that two-thirds of these people have mobile phones that could help them access financial services. FIS' 2021 Global Payments Report projected that, in the coming years, the global percentage of mobile phone and mobile wallet ownership among adults is expected to increase significantly. According to Global Payments' 2021 Outlook, global mobile wallet usage at the point-of-sale is expected to rise from 22% of the world population in 2019 to 30% in 2023, while global mobile wallet usage in e-commerce is forecast to grow from 42% in 2019 to 52% in

OMNICHANNEL ADOPTION OF DIGITAL PAYMENTS HAS GROWN REMARKABLY AS THE SHARE OF CONSUMERS USING TWO OR MORE DIGITAL PAYMENTS METHODS JUMPED FROM 45% LAST YEAR TO 58% IN 2020.

2023—a high level of growth which is bringing financial security to millions of consumers that were previously locked out of financial markets.

As this globalized economy moves forward, a need for faster, cheaper, and more efficient cross-border transactions has become a necessity, which is prompting continued innovations within the payments industry. These developments call for increased public-private collaboration to ensure that enabling policies and regulations are in place to facilitate cross-border payments on a competitive basis.

Opportunities To Unleash The Benefits Of Open Market Access

Increased levels of market openness historically go hand-in-hand with better economic performance of countries at all levels of development, expanding valuable opportunities for consumers, workers, and businesses, and contributing to poverty reduction on a global scale.

The global commitment to inclusive growth has continued to give rise to innovative and secure options in cross-border payments. In return, pushing towards faster, cheaper, and more transparent cross-border payments has helped inch closer to unleashing the potential benefits of open market access.

Payments Initiatives Assist Business Of All Sizes In Leveraging Cross-Border Payments

With the continually accelerated growth of e-commerce in the wake of the pandemic, trade in digital goods and services will only become more important. Open market access allows participation from a range of payments industry players—networks, fintechs, etc.—to provide differentiated services and streamline the cross-border transaction process

NEARLY TWO-THIRDS OF U.S. AND UK BUSINESSES SAY THEY NEED HELP FROM THIRD PARTIES TO INNOVATE CROSS-BORDER PAYMENTS PROCESSES, ACCORDING TO A PYMNTS AND VISA SURVEY.

for businesses and customers who are growing more excited for open digital trade.

The combination of Mastercard and Transfast will offer applications that provide greater transparency and certainty in such cross-border transactions across more than 100 markets to tackle key challenges of higher costs, compliance requirements, and limited predictability for businesses engaged in cross-border payments,

The majority of U.S. and U.K. businesses also say that third-party partnerships are essential to adopting low-cost, real-time payments capabilities—the digital infrastructure that facilitates real-time payments, ideally, with 24/7/365 access. Investment and development of real-time payments need to be complementary to other payments types and facilitate a variety of use cases that consumers and businesses care about. The private sector has much to contribute to the development and adoption of real-time payments. To enable seamless real-time money movement, FIS launched RealNet™, a SaaS platform, that will utilize a full range of existing domestic and cross-border payment rails to simplify and complete the processing, clearing, and settlement of payments in real-time, including for corporations, insurance companies, government agencies, state lotteries, and gig workers. Visa expanded Visa Direct, a real-time push payments platform in 2021, with Visa Direct Payouts. The flexible direct payout product simplifies cross-border transactions for small businesses by streamlining the process that otherwise includes multiple networks and many intermediaries.

As small and midsize businesses (SMBs) seek to unleash the full benefits of open market trade, their needs for cross-border payments increase.

43%

OF SMBS CONDUCTED INTERNATIONAL BUSINESS IN 2020 AS COMPARED WITH 34% IN 2019.

The Mercator Report found cross-border payments made by SMBs increased sharply year-over-year, reflecting a broader potential increase for cross-border trade payments. The disruption of the small business cross-border payments has become increasingly instrumental in fostering the inclusion of small businesses in the open global market.

The SWIFT financial messaging network also plays a central role in the expansion of cross-border payments to enable communication of information on financial transactions in a secure and standardized way. SMBs always look to local financial institutions to leverage the full benefits of international transactions. Financial Messaging from Fiserv offers a cost-effective solution, enabling neighborhood financial institutions to broaden service offerings to international customers and community businesses seeking to go global. As cross-border transactions ramp up, small and midsize financial institutions have the opportunity to ride the economic upswing of an open global market and serve their communities at the same time.

Innovations And Payments Partnerships Among Global And Local Providers Inure Benefits To Emerging Markets

The share of cross-border transactions in emerging markets continues to grow, and consumers and businesses increasingly look for choice. Governments and regulators can enable choice by establishing policies that facilitate competition and innovation. Emerging markets, therefore, have even more to gain from open digital trade and innovations in digital payments.

U.S. payments companies have helped provide cross-border payment channels in these emerging markets by improving interoperability between payment methods, and by reducing the overall reliance on the established banking infrastructure. The evolution of cross-border payments and other fintech products in Latin America or Africa has demonstrated that these markets can stimulate the global expansion of businesses.

For example, the Mastercard Lab for Financial Inclusion in Africa, with funding from the Bill and Melinda Gates Foundation, seeks to impact more than 100 million people by combining Mastercard's innovation and global financial inclusion capabilities with local expertise and insight. The Lab's innovations include platforms that digitize marketplaces, payments, workflows, and financial histories for small shareholder farmers and micro retail merchants in Africa, and is now being replicated in many other emerging markets.

One prime example is Nigeria. As the largest economy in Africa, only about half of Nigerians had access to financial products and services in 2018. There is a significant prospect for cross-border payments among Nigerians, not only from tourists and students overseas, but also for Nigerian businesses looking to expand globally. To bridge the gap of cross-border payments in Nigeria as a broad effort to modernize payments, Discover Global Network partnered with Verve in 2019 to facilitate new cross-border transaction capabilities for Verve Global Card customers and provide a foundation for new payment products and solutions, including rewards and loyalty schemes.

These partnerships and new product entries provide a meaningful opportunity for underserved communities across the globe. Presently, there are 200 million migrant workers who use remittances to send financial support back to their homes. These remittances not only play an important role in reducing poverty, particularly in economies hard-hit during the pandemic, but provide a meaningful way for migrant workers to feel connected to home. Enabling migrant workers to digitally send remittances moves affordability and efficiency of cross-border payments in the right direction.

Collaborations Between Domestic And International Players Demand A Level Playing Field To Provide State-Of-Art, Secure Payments Solutions.

The G20 has made enhancing cross-border payments a clear priority during the Saudi Arabian Presidency. The group officially recognized the widespread benefits of cross-border payments for citizens and economies worldwide. Recent advances in innovations have given rise to new payments infrastructures and collaborations for cross-border payments.

However, a growing number of non-tariff barriers would deter cross-border payments innovations and collaborations. Global cross-border trade is poised to grow 5% between 2018 and 2022, much of which comes from emerging markets, whose growth is estimated at 11%, driven by open trade initiatives such as the Singapore-Australia Digital Economy Agreement (SADEA). In contrast, barriers to open market opportunities in developed markets will likely slow the growth to around 2% between 2018 and 2022.

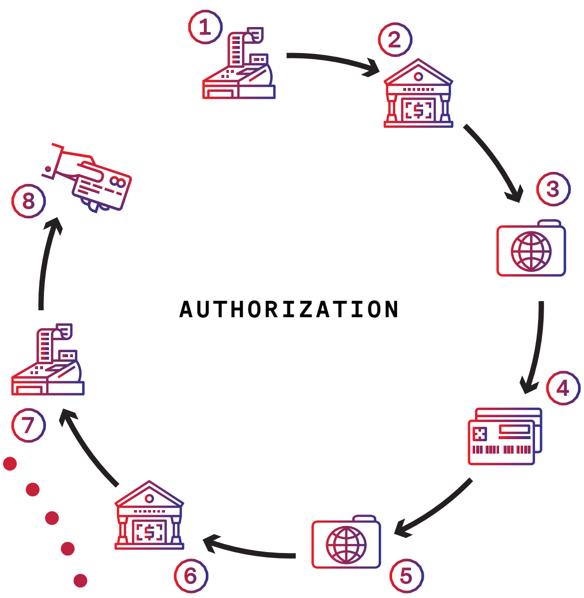
These barriers for global payments companies, such as forced data localization in India and Vietnam and the potential impact on payments of the European Union's strategic autonomy agenda, will undermine the commitment of the G20 to leverage accessible and secure cross-border payments in promoting global development, economic growth, and financial inclusion. Central banks are often a major regulator of payments, and in some cases develop tools that compete with private sector systems that can affect the entry and adoption of diverse private-sector innovations. It's critical that all parties in the payments ecosystem work collaboratively to avoid conflicts of interest and adopt a collaborative approach to payments innovations that offers consumers the most choice and benefit.

A level playing field of payment solutions will empower payments providers to collaborate across the border to build solutions based on sustainable and secure business models and needs of local communities. To achieve this, governments across the globe should bolster existing and new trade commitments on digital payments to ensure equal treatment of all payments providers under international standards, so that consumers and businesses have seamless access to diverse cross-border payments services in their respective markets.

The Importance Of Cross-Border Data Flows

Payments providers process billions of cross-border electronic transactions per year, a capability that is only possible because of the collection, analysis, and sharing of data between parties. Each step of a transaction—from initiation, to processing, to authorizing a payment—relies on data, making the free flow of data a critical prerequisite for a functioning international payments ecosystem.

Consider the example of Lucy, an American visiting the UK, using her credit card to make a purchase at a pub. Upon "swiping," "dipping," or "tapping" her card at the pub's payment terminal, a request is sent to the pub's UK-based bank (the acquirer), which forwards the credit card details to the payments network, which then requests authorization from the U.S. bank that issued Lucy's card. This bank authenticates the transaction, and a notification is sent back to the acquirer in the UK, which then sends a notification back to the terminal in the pub. Though this process covers thousands of miles and multiple countries, the free and fast flow of data allows it to be completed in a manner of seconds.



1. Cardholder presents a card to pay for purchases.
2. Merchant processes the card and transaction information and requests an authorization from the merchant bank.
3. Merchant bank submits the authorization request to Credit Card Network.
4. Credit Card Network sends the request to the card issuer.
5. Card issuer approves or declines the transaction.
6. Credit Card Network forwards the card issuer's authorization response to the merchant bank.
7. Merchant bank forwards the response to the merchant.
8. Merchant receives the authorization response and completes the transaction accordingly.

Lucy has opted into this transaction that is governed by stringent privacy policies overseeing the behavior of all parties involved. She is indifferent to where her data is stored or what jurisdictions it travels through so long as the transaction is processed quickly and her data remains secure. When data is free to flow across borders, payments companies are able to facilitate transactions in the most efficient way possible—in practice, often centralizing routes through a handful of extremely secure, reliable data centers around the world. The free flow of data is crucial to making cross-border transactions as fast, cheap, and secure as possible.

The Role Of Data Flows In Securing the Payments

Ecosystem

Data is not only important in processing transactions, it also provides a number of important functions on the back-end, particularly when it is aggregated. The scale of the data traveling across the Visa network, for example—over 138 billion payment transactions ran on its network in FY 2019—is the foundation for the AI and machine learning that keep the network safe. Thanks to vast global datasets and robust data flows, payments companies have the ability to analyze global transaction datasets to prevent fraudulent activity, saving businesses and governments billions of dollars in fraud losses each year. Payments companies continue to incorporate innovative AI and machine learning processes to identify and reduce fraud, capabilities that rely on the continued availability of cross-border datasets, which ultimately benefits business and consumers worldwide.

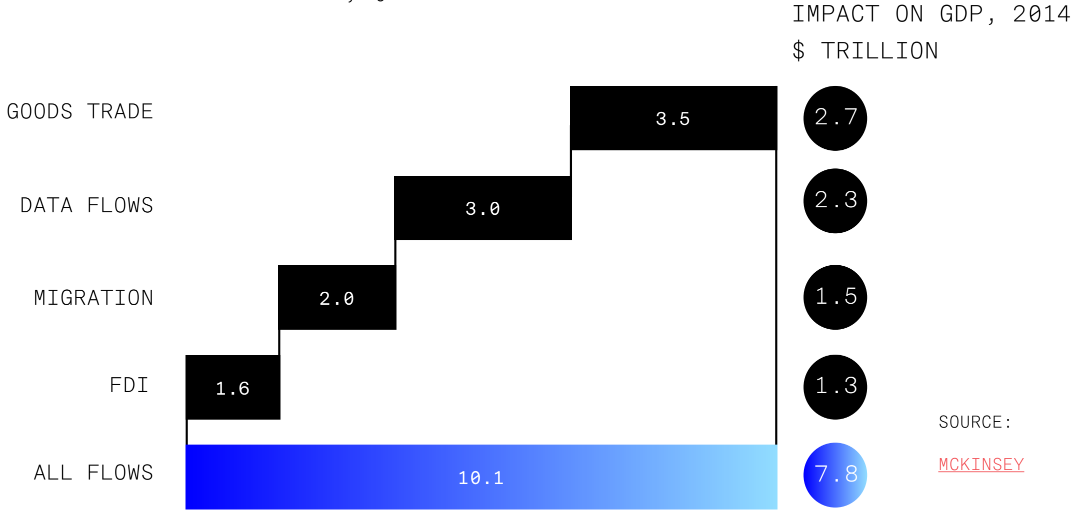
Digital Europe explains that effective fraud mitigation is a product of both real-time data analysis and training data, which requires large data sets. As the group explains, "excluding data inputs generated from intraEU transactions, or limiting the analysis to a single country or region, deprives the fraud model of the training it needs. It makes it blind to patterns of fraud which originate or spread across the EU. Innovative and effective global fraud, AML, counterterrorism financing models must capture transaction data in and across regions. Fraud and other financial crimes are borderless." American Express, for example, uses machine learning to evaluate each incoming transaction for the possibility of fraud. The scale of the data available is what enables these programs to learn so effectively, leading to substantial reductions in fraud rates and continued improvements in payment security.

The Role Of Data Flows In Driving Global Economic Growth

Data flows play an increasingly important role in fostering global interconnectedness and growth. Half of global trade in services in 2017

DATA FLOWS PLAY AN INCREASINGLY IMPORTANT ROLE IN FACILITATING FLOBAL COMMERCE

LONG TERM IMPACT ON GDP, %



SOURCE: MCKINSEY

depended on access to data flows, according to the U.S. International Trade Commission. A study from McKinsey shows that data flows alone raised world GDP by 3.0% from 2004 to 2014, while also enabling trade flows, foreign direct investment (FDI), and people flows. Accounting for all these measures, McKinsey estimates that data flows generate an even greater impact on world GDP than physical trade flows.

Data Localization Regulation: The Wrong Solution To Legitimate Concerns

The ever-expanding scale and importance of data has raised legitimate concerns from consumers and governments, most often around privacy and security, but in some other cases around the protection of local businesses. Governments, including the European Union, have responded to these concerns by implementing new data privacy laws that lay out common standards for data protection and grant consumers greater control over their personal data. Others, such as India and Vietnam, have responded with so-called "data localization" measures that impede the free flow of data across borders. While they may be well intentioned, data localization laws are the wrong solution to data privacy concerns, and impede the ability of payments companies to quickly and securely operate globally. Data restrictiveness is costly—the Information Technology and Innovation Foundation estimated that over five years, a one-unit increase in a country's data restrictiveness index results in a 2.9% decrease in economy-wide productivity.

Though they differ from case to case, these laws effectively place blocks on the secure flow of data across national boundaries by requiring data to be stored, and in some cases processed, within the boundaries of the country in which it is collected (Wu 2021). These laws come with a variety of negative consequences, including impeding innovation and economic growth, increasing costs and cyber risks for payments companies, distorting the competitive landscape, adding potential requirements to build in-country

TYPES OF DATA LOCALIZATION (VIA ITIF)

- LOCAL DATA MIRRORING. Firms must first store a copy of data locally before transferring a copy out of the country. This may also involve keeping the most updated version of the data locally.
- EXPLICIT LOCAL DATA STORAGE. Firms must physically locate data in the country where it originates. Some cases allow foreign processing of data (after which data must be stored locally).
- DE FACTO LOCAL STORAGE AND PROCESSING. Firms store data locally as stringent data transfer requirements (such as getting pre-approval for transfers and explicit consent) and legal uncertainty about data transfers, which, when combined with hefty fines and arbitrary enforcement, create unacceptable risk for firms.
- EXPLICIT LOCAL DATA STORAGE AND PROCESSING. Countries prohibit transfer to other countries.

data processing centers, reducing consumer choice, and raising questions around government control of private data.

Data localization laws place substantial hurdles in front of businesses, increasing the cost of doing business and heightening regulatory risks. Analysis from Leviathan Security Group finds that companies are required to pay 30-60% more for their computing needs in countries that have considered forced data localization laws, compared to their costs if they could go outside the country's borders.

While data localization laws are often introduced as a means to protect privacy, they are not a prerequisite to data security. Rather than ground consumer privacy efforts in rules stipulating where data is stored geographically, policymakers should instead focus on how it is stored—and whether the processes and controls used by companies are up to par. As explained by ITIF, the physical location of data storage is largely irrelevant: "[a] secure server in Malaysia is no different from a secure server in the United Kingdom. Data security depends on the technical, physical, and administrative controls implemented by the service provider, which can be strong or weak, regardless of where the data is stored." In fact, data that can be stored and processed in the cloud across multiple systems is more secure than data which can only be stored in one place.

In some cases data localization laws can actually make data more vulnerable to cyberattacks, mechanical issues, and natural disasters. Given that they require the duplication of physical, hardware, and software infrastructure across each country with data localization laws in place, localization requirements multiply the entryways into data systems that could potentially be exploited. In some cases, they may also prohibit backups to an out-of-country facility, risking the loss of data in the event of a breach or natural disaster. In developing countries, where reliable domestic data-storage facilities may not exist, localization laws severely limit the ability of data processors to operate. In regions without data localization laws in place, on the other hand, payments companies can route transactions through the fastest, safest means possible. Visa, for example, powers its global network via four data centers in the U.S., U.K., and Singapore, which are protected via physical measures such as biometric scans, multiple connections and backup power sources, and continuous monitoring. The continued safety and reliability of international payments networks, therefore, relies upon open and free cross-border data flows.

Data Localization Distorts The Competitive Playing Field, Limits Consumer Choice

Data localization measures can often distort the competitive playing field, giving local players a leg up at the expense of U.S. businesses. As described by a World Economic Forum and Visa study, data localization "discriminates against foreign firms as it makes their services more costly or complicated in comparison to local firms, while local firms are more likely to use local data storage services." The result is that it can become infeasible for U.S.-based payments companies to offer some or all of their services in that market, stymying growth, innovation, and consumer choice.

Data localization measures often benefit state-supported payment entities, raising questions around conflicts of interest. In Vietnam, for example, a planned regulation requires all credit and debit transactions to be routed through a government-run monopoly. In India, meanwhile, the Reserve Bank of India blocked American Express, Diners Club, and Mastercard from adding new customers due to alleged noncompliance with data localization rules that were rapidly implemented in 2019. The lack of transparency and uneven application of compliance rules has distorted the market, advantaging RuPay, a local payments competitor that is owned by the Reserve Bank of India. These measures present a destabilizing impact on the financial ecosystem and significantly limit choice and competition in the marketplace. Concentration on one or two networks is a potential risk to financial stability. Banks, struggling with rising costs as they upgrade their tech infrastructure for rising payments volumes, now have additional costs for migration to other networks, leading to the potential for predatory pricing and increasing the risk of monopolistic practices. The competitive process only works if it reflects "competitive neutrality"; conditions must be level between public and private sector entities.

Where Public Policy Can Step In: Fostering Growth And Innovation In Global Payments

Policymakers are increasingly aware of the impact that data localization laws have on artificially taking market share from U.S. firms in favor of domestic competitors. Lawmakers have expressed concern on a bipartisan basis that such laws represent trade barriers that unfairly disadvantage American companies; U.S. Senators John Cornyn (R-TX) and Mark Warner (D-VA), for example, have urged the Indian government to adopt a "light touch" approach to data localization laws, recognizing that the free flow of data is a critical element to deepening the U.S.-India economic relationship.

As American policymakers consider the policy changes that could help ensure that the global payments ecosystem remains secure, innovative, and competitive, payments leaders suggest the following approaches:

- **Forge new trade agreements that facilitate cross-border digital payments.** In 2018, the United States—Mexico—Canada Agreement (USMCA) established a new high-watermark for liberalization of trade in services. Ambassador Tai and bipartisan Members of Congress have acknowledged the need for the U.S. to continue to pursue both bilateral and multilateral trade agreements. An agreement with the United

Kingdom and a reset of the relationship with those countries in the Trans-Pacific Partnership should be high priorities for the USTR. The financial services and digital trade chapters from agreements, including the USMCA and the SADEA, can serve as a template for negotiations. Future trade agreements should ensure that U.S. payments companies can compete on a level playing field while collaborating with local policymakers to create policy solutions that meet the needs of all stakeholders, with consumer protection being the ultimate objective. U.S. policymakers could also actively promote data-driven studies at the national, regional, and international level on:

1. The impact of data localization; and
2. The less intrusive alternatives available to protect privacy and promote transparency over data usage, without creating barriers to cross-border digital trade.

- **Place limits on data localization and local processing requirements in new trade agreements.** USMCA serves as a gold standard when it comes to facilitating the free flow of data, removing the ability of signatories to "prohibit or restrict the cross border flow of information" if it is used for the conduct of business, and preventing requirements "to use or locate computing facilities in that Party's territory as a condition for conducting business in that territory." We urge policymakers to build upon the good work of the USMCA in forthcoming trade agreements.
- **Drive towards the convergence of transnational data privacy standards in future trade agreements.** The Asia Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules (CPBR) is a certification that companies in APEC countries can use to transfer data across borders in a manner that is consistent with data privacy standards. Expanding CBPR beyond APEC would remove many of the regulatory hurdles currently facing U.S. payments companies, ensuring both the free flow of data and the security of personal data.
- **Pass a U.S. national data privacy law.** The emergence of data as a facilitating mechanism in international trade makes data privacy a cornerstone of fostering global trade and innovation. Many of the data localization laws being implemented by other countries are, at least purportedly, being passed with the aim of ensuring that consumers' personal data is secure. Payments companies hold themselves to stringent and transparent privacy standards, but the lack of a binding national data privacy law in the U.S. undermines the prospect for regulatory certainty. The collapse of the U.S.-EU Data Privacy Shield in 2020 underscores the fragility of such agreements (the EU's General Data Protection Regulation limits the transfer of data to only those jurisdictions that have enacted "adequate" data protection rules); a national data privacy law is a common sense

solution that enjoys bipartisan support.

- **Join or launch a digital trade agreement with Asia Pacific.** The USTR should secure more digital trade agreements that support cross-border data flows and market access, such as in the USMCA with like minded allies in the Asia Pacific (i.e. CPTPP countries), or join existing digital trade agreements such as the Australia-Singapore Digital Economy Agreement or the Digital Economy Partnership Agreement.

Conclusion

Global financial connectivity is as important as ever. The changes across the world economy, especially in light of the COVID-19 pandemic, necessitate functional, dynamic, and secure international payments frameworks. The payments sector is ripe for further innovation, as the variety of new payments tools and services makes evident. Yet a variety of global barriers are hampering progress. If the right policy choices are made—including lowered barriers to trade and the allowance of data to travel freely—new payments innovations will enable lower costs, increased security, and more inclusive growth.