

# Bridging Borders III: Opportunities and Initiatives in Cross-Border Digital Payments

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## Introduction

Malaysia has a high level of digital adoption that has facilitated strong growth in the use of financial technologies (fintech) such as digital payments. The Central Bank of Malaysia (*Bank Negara Malaysia*, BNM) has instituted an Interoperable Credit Transfer Framework (ICTF) that fosters innovation and the development of other fintech services, such as digital banks and cross-border digital payments.

With the intention of expanding Malaysia's participation in global finance and digital trade, both public and private entities in Malaysia are exploring international partnerships for cross-border digital payments. This could improve Malaysia's economic growth and expand its role in the global economy.

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When considering global digital finance, there are at least four policy issues to take into account, namely digital financial inclusion, increasing risks of financial cybercrime, disruptive effects of unregulated decentralised finance and cryptocurrency, and geopolitical considerations.

In a four-part series on Malaysia's expanding fintech and digital payments space, I assess the growth and current state of Malaysia's digital adoption and use of the internet for financial transactions and consider opportunities and initiatives in fintech, particularly in terms of cross-border digital payments. This is a fast-moving and fast-growing sector rapidly introducing innovations and new technologies to consumers.

The first article presents an overview of Malaysia's digital adoption and use of fintech, focusing on the growth in digital payments from 2011–2024.

The second article reviews the contribution of BNM's ICTF and the introduction of digital banks to Malaysia's financial services landscape.

**This third article in the series explores the demand for and developments in cross-border digital payments between Malaysia and other countries.**

The fourth article discusses policy considerations around the use of digital payments and fintech in a globalised society.

## Cross-border digital payments

Cross-border digital payments are increasingly important for businesses as digital trade expands and businesses of all sizes gain access to the global marketplace.

The demand for cross-border digital payments is not limited to firms and organisations but extends to individuals as well. Malaysia has a sizable migrant work force. DOSM estimates that 2.2 million of the 14.4 million people in the labour force in 2022 are migrants, while a report<sup>1</sup> by the International Organization for Migration (IOM) puts the number of migrant workers at 5.5 million. Concurrently, the country also promotes itself as a tourist destination, with over 20 million tourists<sup>2</sup> having arrived in Malaysia in 2024.

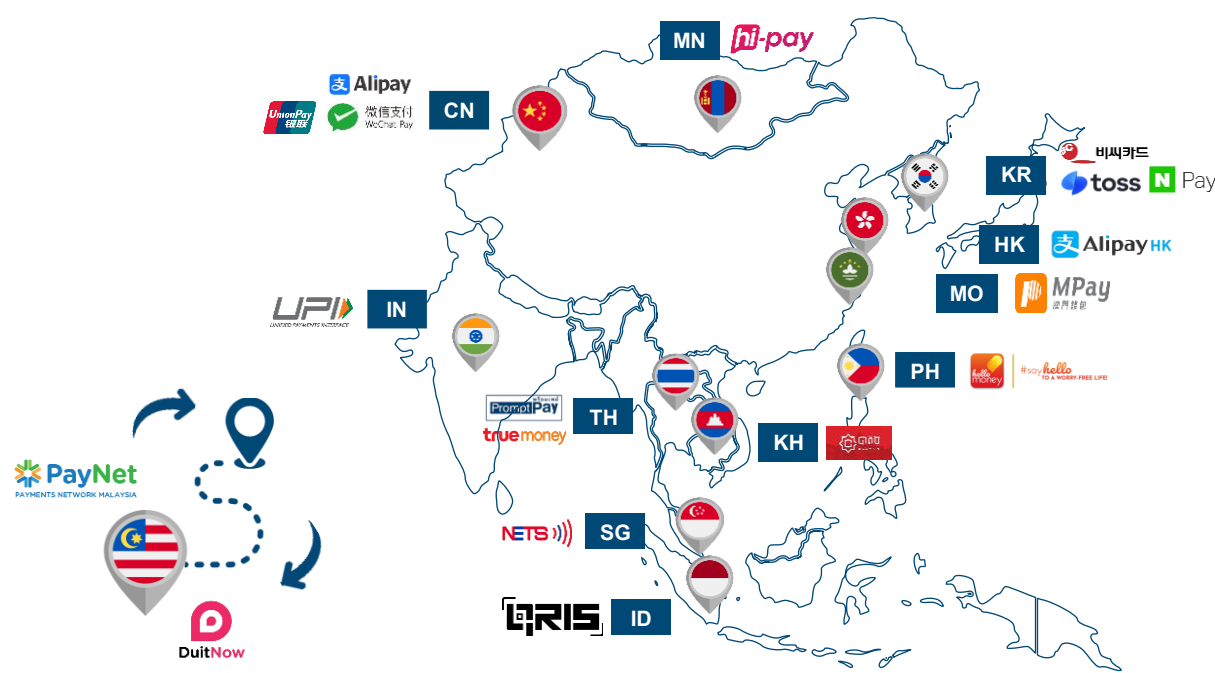
This suggests the demand for cross-border digital payments infrastructure and services is high not just at firms level but also at the individual level, both to facilitate remittances of workers to their home country and to make tourist spending more convenient. Figure 1 shows a map of selected countries with whom Malaysia is developing bilateral cross-border digital payments partnerships.

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<sup>1</sup> International Organization for Migration (IOM) (2023)

<sup>2</sup> Tourism Malaysia (2024)

**Figure 1: Map of Malaysia's selected cross-border digital payment partners**



Source: Author's visualisation, drawing on Suthiwartnarueput & Hingel (2023), TTG Asia (2023), DuitNow (2024), Fintech News Malaysia (2024)

I highlight three selected countries to illustrate different use cases of cross-border digital payments at the individual level.

First, Singapore. Singapore arrivals into Malaysia consistently comprise the highest number of tourist arrivals into Malaysia. According to a 2023 Tourism Malaysia survey<sup>3</sup>, Singapore is the third most popular destination for Malaysians after Thailand and Indonesia.

Singapore's unified QR code SGQR (Singapore Quick Response) goes one step further than Malaysia's DuitNow QR in that it consolidates multiple payment systems into a single QR code. While the Malaysian system enables multiple financial institutions and platforms to come on board the same system, SGQR allows multiple systems to be read within one QR code.

In 2023, PayNow, a Singapore payments system that adopts the SGQR, and DuitNow QR in Malaysia established a real-time payment systems linkage that enables instant funds transfers and remittances between the two countries. According to BNM, this is an "important milestone in improving the cost, speed, access and transparency of cross-border payments. [...] It is also aligned with the objectives of the ASEAN Payment Connectivity Initiative and the G20 Roadmap for Enhancing Cross-border Payments. In 2022, P2P and remittance transactions between the two countries stood at MYR7.8 billion/SGD2.3 billion<sup>4</sup>."

<sup>3</sup> Tourism Malaysia (2024)

<sup>4</sup> Bank Negara Malaysia (2023)

Second, China. The ubiquity of China's cashless payments system is well-known, with international news media reporting<sup>5</sup> how buskers and beggars accept cashless payments. Although this posed no issue for China's population, security requirements within the China digital payments ecosystem excluded foreigners who did not have a bank account registered in China. China's government has since taken measures to counter this, allowing unregistered users to perform digital payments and requiring businesses to take cash payments<sup>6</sup>.

Payment providers in China are also partnering with payment providers in other countries to enable cross-border digital payments. Touch 'n Go, an e-wallet operator in Malaysia, is one such partner. In 2022<sup>7</sup>, Touch 'n Go announced a partnership with Alipay+, operated by the Ant Group in China, to enable Touch 'n Go e-wallet users to use the app for digital payments in China. This also enabled Touch 'n Go e-wallet users to conduct financial transactions not just in China, but anywhere the Alipay+ payments system was used, including Japan, South Korea, Italy, France and Germany.

Subsequently in 2023<sup>8</sup>, PayNet and Ant Group announced their cross-border digital payments collaboration enabling "users of five leading Asian e-wallets, including AlipayHK (Hong Kong SAR), GCash (Philippines), Kakao Pay (South Korea) and TrueMoney (Thailand) [to] use cashless payments when they travel to Malaysia" and "all Malaysian mobile banking apps and e-wallets supported by PayNet to be accepted by Alipay+ merchants network globally." This collaboration was projected to promote and ease travel around Asia and more e-wallets have been added<sup>9</sup> since then.

Third, India. Unified Payments Interface (UPI) is an Indian payments system that facilitates instant funds transfers between bank accounts. It is part of the India Stack<sup>10</sup>, a collection of technology products and frameworks that make up the basis of a digital ecosystem, or digital public infrastructure, that enables identity verification, payments, and data exchange on a large scale.

UPI is an interoperable system, much like DuitNow, that has enabled digital payments across India. The system works with mobile applications like Google Pay and WhatsApp and does not charge transaction fees to end users<sup>11</sup>. Furthermore, the use of UPI data is strictly regulated. Users have access to their own data and can decide for themselves if they want to share their data but third-party payment applications cannot collect individual transaction data, which is the norm in most e-wallet apps.

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<sup>5</sup> Daily Sun (2018); Jacobs (2018); Wollaston (2018); Bing (2022)

<sup>6</sup> Kapron (2024)

<sup>7</sup> Touch 'n Go (2022)

<sup>8</sup> Paynet (2023)

<sup>9</sup> Digital News Asia (2024)

<sup>10</sup> India Stack (2024)

<sup>11</sup> Cornelli et al. (2024)

In 2024, India and Malaysia announced plans to link UPI and PayNet<sup>12</sup> in a show of digital diplomacy. No further details on the partnership are available at the time of this writing, but it is worth noting that India also recently joined Project Nexus. Project Nexus is a cross-border digital payments platform that the central banks of the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) have been working on.

## Project Nexus

Project Nexus is an initiative of the Bank for International Settlements Innovation Hub (BISIH) that provides a platform for cross-border payments. Instead of each payment system operator developing separate bilateral payments infrastructure for each country that it connects to, the Nexus platform is intended to serve as a shared platform that each operator would connect to and from there connect to all the other countries on the network. This will enhance cross-border payments by allowing people and organisations in different countries make instant payments to each other more easily, cheaply and securely.

Phase 1<sup>13</sup>, completed in 2021, involved the development of a blueprint for a model that could connect multiple instant payment systems.

Phase 2, completed in 2023, was a proof-of-concept, testing a working prototype to connect the instant payment systems of the Eurosystem (comprising the European Central Bank and the central banks of countries using the Euro), Malaysia, and Singapore.

Phase 3, completed in 2024, evaluated the model against the instant payment systems of the ASEAN-5. Indonesia participated in Phase 3 but decided to take an observer role for the time being together with the Eurosystem, leaving Malaysia, the Philippines, Singapore and Thailand to move to the next phase. Phase 3 culminated in a report<sup>14</sup> that detailed the implementation blueprint for the project, including governance and oversight mechanisms, a commercial model and the technology models for Nexus.

Phase 4 will see India join Project Nexus as the participating countries move towards live implementation. A managing entity, the Nexus Scheme Organisation (NSO), will be established in Singapore to oversee the next steps of the project.

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<sup>12</sup> Fintech News Malaysia (2024)

<sup>13</sup> Bhargava (2024)

<sup>14</sup> Bank for International Settlements (2024)

## Conclusion

As a trading nation, Malaysia stands to benefit from cross-border digital payments that will make financial transactions cheaper and faster. More efficient cross-border payments infrastructure and systems can lower the entry barriers for small and medium-sized enterprises to engage in international trade.

Besides demand from businesses, there is also demand for cross-border digital payments within Malaysia's tourism sector and from its significant population of migrant workers.

Malaysia is already engaged in bilateral partnerships with countries such as Singapore, China and India to streamline cross-border digital payments. The country's involvement in Project Nexus, a regional platform for cross-border payments, has the potential to enhance Malaysia's role as a key trade and financial centre.

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