EFFICIENCY AND RISK IN SMALL-VALUE, CROSS-BORDER PAYMENTS:
THE NORTH AMERICAN CASE

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ABSTRACT

Initial findings from a study of efficiency and risk involving small-value, cross-border payments in North America suggest that cross-border payment arrangements have not changed much since the adoption of NAFTA. Cross-border and local banking remain the primary methods for making small-value payments. The check, which is the predominant payment instrument in all three NAFTA economies, entails high cost and increased risk when used for cross-border payments. An electronic, bulk-payment alternative to the check and wire transfer is widely desired, but appears slow to develop. A major question is whether inefficiencies can be overcome given current technologies and banking arrangements.

INTRODUCTION

This chapter reports on work in progress on an investigation of small-value, cross-border payment needs and practices in North America. We believe that this subject is worthy of attention, as the efficiency of small-value, cross-border transactions involving individuals, businesses, and governments is an important aspect of North American economic integration. The North American Free Trade Agreement (NAFTA) is likely to lead to