ONE BELT, ONE ROAD: BRINGING FINTECH TO THE DEVELOPING WORLD
CHINA’S VISIONARY ONE BELT, ONE ROAD INITIATIVE IS POISED TO BRING ENORMOUS INFRASTRUCTURE BENEFITS TO SOUTH EAST ASIA, INDIA, ARABIA AND EUROPE – BUT WILL IT ALSO BRING OPPORTUNITIES FOR THE FINTECH INDUSTRY? FNZ’S GABRIEL GOH UNPICKS THE POLICY.

The visionary ‘One Belt, One Road’ (OBOR), also known as the Belt and Road Initiative (BRI) was first proposed in 2013. China’s President Xi Jinping unexpectedly included it in the Communist Party’s charter in 2017, reflecting his ambitious desire to cement his legacy in leading China to take a global leadership role in the world.

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THE SCALE OF THE CROSS-BORDER INITIATIVE IS STAGGERING:

- **68 COUNTRIES**
- **4.9 BILLION PEOPLE**
- **PREDICTED AGGREGATE ECONOMIC VALUE OF TRADE AMONGST THESE COUNTRIES OF US$28 TRILLION, REPRESENTING ABOUT 40% OF GLOBAL GDP**
- **SPENDING TO BRIDGE THE INFRASTRUCTURE GAP, CONNECTING RAILWAYS, PORTS, OIL PIPELINES, BRIDGES, TELECOMMUNICATIONS AND FIBRE OPTIC NETWORKS TO ACCELERATE ECONOMIC GROWTH.**

THE DIGITAL SILK ROAD

Most Belt and Road countries have had limited economic growth thanks to inadequate infrastructure and governments with a reputation for quashing competition. OBOR’s significant investment in physical infrastructure will facilitate development of technological infrastructure, improving communications, payments and cloud services and increasing increase both physical and digital connectivity.

As the leader of OBOR, China has an opportunity to set the pace of adoption and deployment of fintech within the region. Based on user adoption, Chinese fintech companies outperform global competitors. For example, at the end of 2017 China’s WeChat Pay provided a digital-stored credit wallet to 600 million users, while ApplePay provided mobile payments to 127 million users. WeChat Pay clearly benefits from a large domestic user base and growing international presence in 15 countries and 12 currencies (source: SCMP).

BUT IS THE INFRASTRUCTURE DRIVEN-APPROACH OF ONE BELT, ONE ROAD COMPATIBLE WITH FINTECH GROWTH?

OBOR is a clear example of globalisation through massive infrastructure to facilitate economic and cultural benefits along affected countries. There is no doubt there are complementary opportunities for those developing economies to use fintech innovation, adapting new technology to provide services.

For example, from a mobile money perspective, Africa resembles the situation in China 20 years ago. Most consumers use cash and there’s a relatively high number of people without bank accounts. This has prompted the adoption of mobile payment services like Vodafone’s M-Pesa to transfer and remit money without using a bank account, becoming an unlikely social enterprise along the way.(consider expanding an overview of M-Pesa’s social enterprise roots a bit more).

Meanwhile WeChat recently partnered with Standard Bank, Africa’s largest lender by assets, to launch services in Ghana, Nigeria and South Africa, becoming Africa’s fastest growing social communications platform (source: HuffingtonPost) in a relatively short period of time. Customers can make seamless P2P payments by scanning QR codes and pay for utilities and other services. These positive social impacts of fintech could be brought to all of the countries lining OBOR. And as fintech takes hold in emerging markets, we may see disruptive digitally-driven financial services becoming the new norm, characterised by cross-border and cross-cultural inclusion.
One Belt, One Road

China has experienced unprecedented growth, going from an inward-looking agricultural country to a global manufacturing powerhouse. One Belt, One Road creates a land and maritime link to China's developing neighbours and beyond and their demand for Chinese-made products and materials.

How to read this map
Projects completed and planned Jan 2015
- Gas pipelines
- 130 pipelines
- Economic corridors
- Railway connections
- Silk road economic belt
- Maritime silk road of the 21st century
- oil and gas pipelines
- Ports with Chinese engagement

CHALLENGES AND HEADWINDS

While China’s silk road investment will build the infrastructure and fintech’s disruptive and enabling abilities will lead to growing economic development, there are still significant challenges to overcome.

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The greatest headwind may be governments and regulators of developing economies, who may adopt different approaches to manage regulation. For example, they could choose to set up a sandbox space (like Hong Kong and Malaysia); adopting a wait and see fast-follower approach; or drive innovation by encouraging fintech innovators to partner, rather than disrupt.

SOME COMMENTATORS FEAR THAT GOVERNMENT AND REGULATORY PRESSURES COULD BECOME A BLOCKER, LIMITING FINTECH’S POTENTIAL ALONG THE BELT AND ROAD. UNDERSTANDING THE SYSTEMS AND CONDITIONS AT PLAY CAN BRING ABOUT INNOVATION, FOR EXAMPLE:

- Kazakhstan’s government has ambitions to transform the country into a fintech hub for Central Asia, establishing the AIFC freezone in Astana and has already demonstrated their commitment by becoming the second government (after Japan) to support a regulated crypto market.
- Saudi Arabia has established a $100bn technology investment fund with Japanese SoftBank Group under the Vision Fund after announcing technology was a key pillar of their economic plan (source: FT) as part of the strategic ‘Saudi Vision 2030’.
- Hong Kong’s unique geopolitical position as China’s most cosmopolitan city combining its expertise as a modern financial hub with efficient infrastructure, regulated markets, and established common-law system with a deep understanding of Chinese business practices, culture and a highly educated talent pool make it well-suited to promote fintech initiatives along the belt and road.

OPPORTUNITIES - ISLAMIC FINANCE:

OBOR runs through a number of Muslim countries; Islamic finance is an important potential area for innovation. Malaysia and Indonesia are examples of operating models (including ‘financing’ and ‘settlement’) that have enabled banks to develop while remaining Sharia-compliant.

In this context, Indonesia sits among the low and middle-income countries. In 2013, its GDP was US$888.3 billion and total population was 250 million. Import and export of manufacturing and machinery transportation equipment accounted for the largest proportion. The infrastructure projects in OBOR can promote the further development of trade with the two countries.

As well as activities like deposits, loans, payments and card services, traditional commercial banks operate economic entities that work with other banks or provide financial services; for example, leasing and investment companies, stock exchanges and insurance (while complying with Sharia doctrines for the temporary settlement of bad debts that can be revoked after a certain period of time).

But Islamic commercial banks may not operate along traditional lines. When it comes to foreign exchange transactions and the Indonesian rupiah, their commercial banks comply with the Indonesian Rupiah and Foreign Exchange Transaction Restriction Law developed by the Indonesian Central Bank in July 2003. This stipulates that, as well as complying with the relevant waiver provisions and providing relevant documents, offshore banks can’t lend to non-residents and Indonesian rupiah funds can’t be transferred to offshore bank accounts.

The Central Bank also does not allow the rupiah to trade offshore. To curb market exchange rate volatility, the Indonesian Central Bank will intervene in the market, usually when the demand for the U.S. dollar exceeds supply. It also sells US dollars through the state-owned banks and will occasionally directly order commercial banks to reduce speculative transactions. (Source: Business Consultation Office of the Chinese Embassy in Indonesia)

OPPORTUNITIES – INDIVIDUAL SUITABILITY AND LOANS

Legacy banks have shown that they too are ready for fintech adoption.

Hong Kong and Singapore, traditional gateways to Greater China and South East Asia, appear to be primed for expanding fintech opportunities across the OBOR initiative. Most recently, both countries’ central banks agreed to develop a cross-border blockchain trade financing platform to go live in 2019 (source: Reuters).

When assessing individual suitability for loans, it’s common that uncertain credit risk factors require a higher return, making funding more expensive. In turn, interest rates on loans and financing become higher. This creates a slope where loans are needed by SMEs and individuals to help grow the economy, but are difficult to obtain or afford. Fintech has a tremendous opportunity to tackle this issue, applying big data to evaluate loan approvals and score individual credit risks.

Hong Kong and Singapore have the experience to cope with the development of services now widely used in China, which faced a similar situation a decade ago, where lack of a centralised credit scoring database spurred the need for innovators like Ali Baba’s Sesame Credit or Ping An’s Lufax to fill this market gap.
WILL OBOR HARM HONG KONG?
Many countries hope to grab a share of the opportunities the new silk road brings. As the traditional gateway to Asia, will OBOR harm Hong Kong? What opportunities can Hong Kong – always committed to fintech development – find in OBOR?
Russia, Malaysia, Indonesia and other countries have relatively close trade links with China, typically exporting or importing superior products. Kazakhstan and Hungary have great room for development, which China can capitalise on through trade and finance.

GLOBAL REMITTANCES ARE RISING
In the past five years, the total amount of global remittances has increased by around 25%, soaring from US$460 billion in 2010 to US$580 billion in 2014. (source: World Bank, 2010-2014). While this is a good thing for the global economy, the cost of expenditure cannot be ignored: remittances cost 7.68% in the second quarter of 2015 - based on 2014 figures, that would be worth about $44 billion. (source: World Bank, 2015)

REMITTANCES FLOWS ARE LARGE & GROWING

BITCOIN BREAKS FOREIGN EXCHANGE RESTRICTIONS
Bitcoin-based remittance companies like Bitspark operate at low cost and fast speed, using blockchain technology to incur very low (0.0002 BTC or 0.049 US dollars) or even zero-dollar costs to do business, with charges as low as 1% (source: Wong, 2014). As an intermediary, Bitcoin uses technology to solve the inconvenience of the system. If real-time settlement isn’t adopted, the company risks future bitcoin price fluctuations – even so, it’s believed that this is a big part of the future for remittances.

Within developing and economically backward economies the credit business has been slow to develop and has encountered bottlenecks. The high cost of borrowing has hindered development and made the economic environment stagnant, due to the traditional bank credit approval mechanism and the inconsistent economic conditions for SMEs and individuals. The development of credit business is hampered by factors like the development of information technology.

Traditional bank credit decision making focuses on an applicant’s personal information, salary level, financial status, and past credit history. Traditional decision-making mechanism is relatively complete, but the information that comes out if it is very simple. As society develops alongside information technology, people’s attributes become more diversified and credit standards should change accordingly (source: Baer, 2013).

Traditional credit mechanisms generally apply to countries with developed financial systems where people have relatively complete archived information, stable work, shelter, and actively participate in financial activities, all of which create retrospective financial credit records. In countries with relatively underdeveloped economies, population information management is lacking, and job income is not stable. Where banking coverage is low, so too is understanding and participation in financial activities. China’s banks have great difficulties in credit evaluation.

The basic rules of financial services tell us the greater the risk, the greater the required rate of return. With too many uncertain or unknown factors, credit risks from SMEs and individuals in areas with weak economic activities are relatively large: so too are interest rates on lending. This again helps create negative cycle—a loan is needed but it is difficult to obtain or afford one.

Financial technology can help meet this challenge. Big data credit scores have become popular and in Europe companies such as Kabbage and Kreditech use big data to evaluate loans. Hong Kong also has this type of start-up – for example, DemystData is a creative company in this area.

In conclusion, Hong Kong is well positioned to continue its role as an international financial hub to provision financial services, including those resulting from fintech innovation developed on the mainland and in region across the OBOR.
Gabriel Goh – Head of Research and Development, Asia-Pacific

Gabriel leads the R&D function at FNZ for the Asia-Pacific region. He is responsible for innovation and new product design enhancing FNZ’s core platform in new markets to support the strategic growth of our business in region.

Gabriel joined FNZ in 2011 and has extensive experience in the solution architecture and implementation of FNZ platforms across a diverse range of propositions to market. He is familiar with the platform operating models across the jurisdictions we operate in globally, having based in London, Sydney, Wellington, and presently in Hong Kong.

Gabriel holds a BCom in Accounting and Finance from the University of Auckland, and is completing an MBA at the Hong Kong University of Science and Technology.