



**BELT AND ROAD
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Hong Kong's role in promoting Digital Silk Road development

As the Belt and Road Initiative spanning land and sea routes gains global momentum, Hong Kong's role as Asia's pre-eminent digital hub grows exponentially, supported by government policy.

Infrastructure such as roads, ports, rail and power plants, together with trade, are among the key aspects of the Belt and Road Initiative. But it is the Digital Silk Road – its virtual dimension and information highway – that is emerging as the frontrunner in Belt and Road development, particularly when one looks at the pace at which virtual technology is advancing global connectivity.

With data and information regarded as the “new oil”, digital science and technology such as trade finance, artificial intelligence (AI), cloud computing and data storage all increase Belt and Road countries' ability to communicate across borders, reduce risk, simplify contracts, track goods and promote e-commerce and payments in real time.

Dr Lee George Lam, Convenor of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee's Digital Silk Road Working Group, outlines in an interview how government support for innovation and technology, together with the city's physical attributes including internet connectivity (Hong Kong has one of the fastest internet speeds worldwide), and stable power supply, in addition to its strategic position in the Guangdong-Hong Kong-Macao Greater Bay Area, are adding to the growth of new creative digital solutions in Hong Kong.



Dr Lee George Lam, Digital Silk Road Working Group, HKTDC Belt and Road Committee

REAPING INNOVATION REWARDS

Hong Kong's government actively encourages innovation and technology and the development of greater digital

connectivity through learning institutions and its key innovation hub, the creative digital community Cyberport.

With more than 1,300 companies and start-ups in residence, Cyberport is now the largest fintech cluster in Asia, and an established centre of excellence for digital technology, development and innovation. Cyberport's investor network includes 100 tech funds ranging from private equity to venture capital, family offices and super angels. More recently, Lam is seeing the emergence of a new wave of younger entrepreneurs, capitalising on the growing demand for e-sport and digital entertainment. “Hong Kong is inclusive and open-minded and has all the success factors similar to the heyday of Silicon Valley for attracting talent.”

Lam says being open to attracting global talent is an important part of Cyberport's success. “I think the

success of Hong Kong depends on how well we attract the best in the world and their families to settle here. We have all the conditions to do that. Many experts have English as their working language. Hong Kong has that as well.”

To date this strategy has worked well. Cyberport is now home to a skilled workforce from close to 50 countries. This international workforce contributes unique technological expertise including cyber security skills from Israel, blockchain solutions from New York, fintech systems from London, AI and big data expertise from France and anti-hacking technologies from Russia.

POSITION AND EXPERTISE

Lam believes Hong Kong’s worldwide reputation and free port status all add to its unique position as the best international data hub for the Belt and Road. “We are a special administrative region with a unique

‘one country, two systems’ governance framework.” He says this framework, together with Hong Kong’s common law system, provides a long list of benefits including the protection of intellectual property, privacy and commercial contract rights.

Hong Kong’s highly-regarded professional services are another reason for its digital dominance in the region. “We can attract a lot of data operators to store and manage data from here. We are the largest data centre in the region, although we don’t advertise it a lot.”

Hong Kong’s strategic position within the Greater Bay Area and the Belt and Road Initiative, together with its proximity to Shenzhen’s tech firms means it contributes to both Digital Silk Road businesses and communities along its path through blockchain, fintech, information sharing and communications technology. But he warns Hong Kong will need to continue to invest in digital systems including

telecommunications towers, satellite systems and fibre optics to maintain its regional lead.

Hong Kong’s status as a free port, professional services with global expertise, digital forensic services, cloud computing facilities, e-arbitration abilities, and data security are, according to Lam, key reasons for Hong Kong’s dominance as a regional headquarters for fintech. “It takes years to build a highway but digital connectivity is faster and easier and in most case much less expensive,” he says.

For Lam, the Digital Silk Road is one filled with promise. “One estimate has it that by 2050, 80% of the world’s GDP will be in the Belt and Road region. I’d like to propose that 80% of that is actually due to the digital economy because the world is moving into digital. The Digital Silk Road is as important as the physical Silk Road and, in the future, it will be even more important,” Lam says.

Building global trade connectivity through digital partnerships

As Asia's digital transformation gathers momentum, the Hong Kong Monetary Authority recently joined forces with banks to launch eTradeConnect, a large-scale blockchain-based trade finance platform.

The Hong Kong Monetary Authority's (HKMA) Fintech Facilitation Office (FFO) takes a market driven approach to digital transformation projects, as it endeavours to encourage innovation involving cross-border transactions – a vital move for the long-term success of both the Belt and Road Initiative and Guangdong-Hong Kong-Macao Greater Bay Area development.

One of its recent successes combines trade finance and blockchain with world-first innovation.

Banks procedures are complex when it comes to dealing with trade matters and transactions, so sharing information within and between banks is challenging. Linking Asian banks to counterparts in Europe adds even more complexity. Now the HKMA, as part of its fintech innovation, has facilitated the development of a blockchain-based platform with the ability to efficiently deliver trade finance across borders.

The HKMA initially began working with seven banks with bases in Hong Kong (Australia and New Zealand Banking Group, Bank of China, Bank of East Asia, DBS Bank, Hang Seng Bank, The Hongkong and Shanghai Banking Corporation and Standard Chartered Bank), to see if a blockchain platform would help share information among banks.

By digitalising the trade process, the HKMA and banks aimed to increase efficiency in documentation, reduce labour and handling costs and eliminate

human errors created during the traditional processing method.

Bolstered by the projects' early proof of concept success, Agricultural Bank of China, Bank of Communications, BNP Paribas, Industrial and Commercial Bank of China and Shanghai Commercial Bank also joined the project, bringing the consortium to 12 member banks.

TRADE FACILITATION

In late October 2018, the HKMA officially announced the launch of eTradeConnect, a blockchain-based trade finance platform and Hong Kong's first large-scale multi-bank blockchain project to increase banking digitalisation and reduce fraud. At the same time, the Hong Kong Trade Finance Platform Company Ltd., the operator of eTradeConnect, signed a memorandum of understanding with Europe-based platform we.trade to trial connecting the two entities, effectively forging a direct link between Asian and European trade.

"It's a very good time to connect as

BENEFITS FOR STAKEHOLDERS

Buyers & sellers



- IDENTITY VALIDATION
- REDUCED COSTS
- INCREASED TRUST
- EASIER FINANCING
- AUTOMATIC RECONCILIATION

Regulators



- STANDARDISED DATA

Banks



- REDUCED COSTS
- TRANSPARENCY
- FRAUD REDUCTION
- INCREASED TRUST

Logistics



- DIGITALISED DOCUMENTATION
- MONITORING
- SHORTER APPROVAL PROCESSES

Source: Hong Kong Monetary Authority

we share very similar ambitions. we.trade is the biggest consortium of blockchain trade finance in Europe (supported by 14 banks) and our platform serves similar products. We are the biggest consortium in Hong Kong and they are the biggest in Europe, so if we work together, we can connect more customers and sellers from both sides while learning from each other, which will enhance our platform's capabilities," says the FFO's Chief Fintech Officer Nelson Chow.

Roberto Mancone, Chief Operating Officer of we.trade, regards this strategic partnership as a world first: "we.trade and eTradeConnect are 'world first' ready – platforms already in production that can license and onboard clients and facilitate cross-continent trades." He points out that we.trade is already providing cross-border trade in Europe and, since it is no longer in proof of concept stage or in a testing environment, is ready to be distributed via banks to commercial clients.

Mancone says we.trade decided to partner with HKMA because of its reputation in the financial environment and its support for eTradeConnect. "We believed it was a very good fit to show to the world how two investments, while maintaining their independent path, can



Nelson Chow, Hong Kong Monetary Authority

foster the creation of a 'network of networks'. It allows two platforms to become available to commercial clients in 14 European countries and commercial clients in Hong Kong, and to have a seamless trade journey through their respective innovative solutions offered by their banks, we.trade and eTradeConnect," Mancone says.

Chow says the blockchain platforms also give clients greater security as buyers and sellers using this platform

are KYC (Know Your Customer) verified by banks.

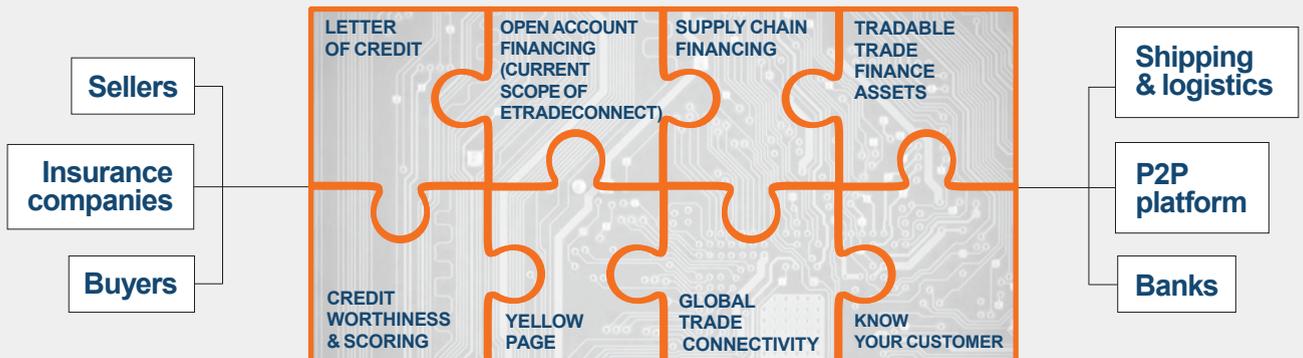
While not directly linked to the Belt and Road, Chow says eTradeConnect has the potential to benefit those who trade along its route. "Hopefully, this platform will benefit small- and medium-sized enterprises (SMEs) along the Belt and Road. By reducing risks for these banks, hopefully, they may be more willing to provide finance to SMEs, to encourage liquidity and trade – although it's not our primary objective."

FINTECH HUB

Projects like eTradeConnect are just one of a number of fintech projects undertaken by the HKMA. Chow has also been responsible for promoting the development of fintech ecosystems in Hong Kong in addition to encouraging the city's further development as Asia's premier fintech hub, since 2016.

Other initiatives involving the HKMA include talent development for students at learning institutions and collaboration with both Cyberport and the Hong Kong Science and Technology Parks Corporation. The HKMA and the Monetary Authority of Singapore are jointly building a global trade connectivity network, using cross-border digital ledger technology, to connect trade platforms.

VISION OF A TRADE ECO-SYSTEM



Source: Hong Kong Monetary Authority

Global data centres leverage Hong Kong's advantages

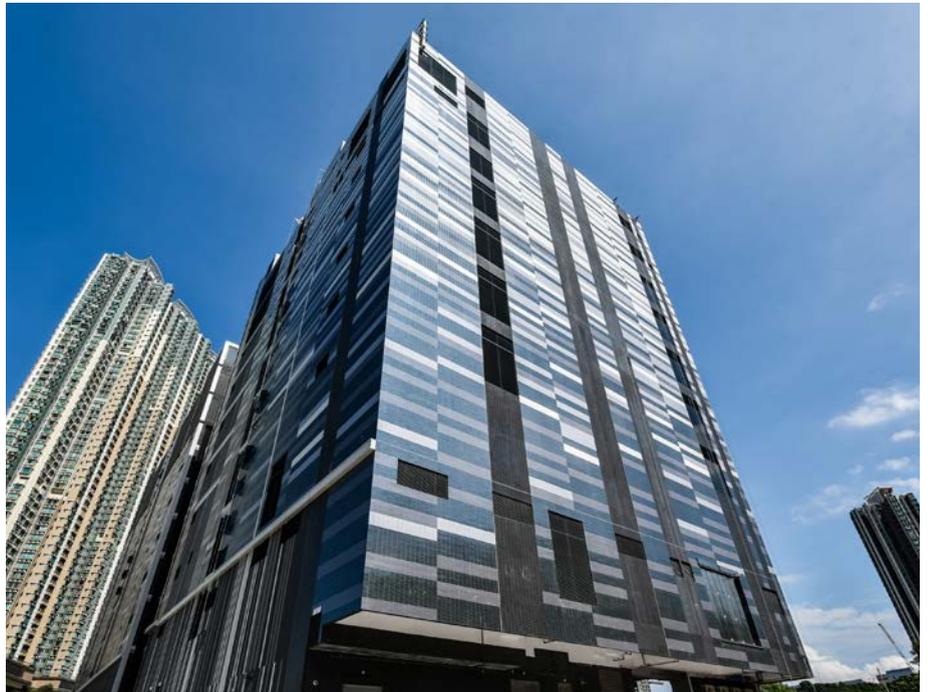
Hong Kong's unique position as a gateway to Mainland China and the Asia-Pacific region means the city offers dynamic opportunities for companies servicing a growing demand for data, storage and connectivity.

Hong Kong is home to around 40 data centre providers and more than 50 data centres, making it the dominant internet hub in the region. Internet giants relying on data centres here include China Mobile, Microsoft, Alibaba and Tencent with the Tseung Kwan O area now hosting the largest data centre cluster in the Asia-Pacific region.

One of the top global operators in this sphere, Equinix, operates five International Business Exchange™ (IBX®) data centres in Hong Kong. It sees the city's unique position and comprehensive IT infrastructure as a key selling point.

Samuel Lee, President of Equinix Asia-Pacific says Hong Kong government initiatives such as the Smart City Blueprint as well as its budgetary and policy support are all driving the city's digital transformation and addressing the increasing demand for data storage.

"Hong Kong was the perfect choice for Equinix to kick off our operations in the Asia-Pacific region, and continue to expand our footprint to serve customer needs. It's one of the world's freest economies, driven by its principles of free and open trade. As a leading financial hub, the city has a geographical advantage being in close proximity to the massive and prosperous Mainland China market, as



Samuel Lee, Equinix Asia-Pacific

well as having an established communication network to regional and global markets," Lee says.

RISING DEMAND

Benefits from the cloud service sector are huge. According to US IT hardware firm Cisco Systems, Asia's mobile data is set to double that of North America and Western Europe combined by 2021. Driven by the region's rapidly growing middle class, cloud traffic in Asia is likely to expand at a compound annual growth rate of 31%.

With such massive volumes of data, cloud storage is a convenient solution. Data centres are big business; business consultancy Frost & Sullivan predicts the market in the Asia-Pacific region will generate revenue of around US\$31.95 billion by 2022. In addition, a study by market intelligence firm IDC reveals that digital transformation could contribute an estimated \$9 billion to Hong Kong's GDP by 2021.

Lee says the company's recent Global Interconnection Index report reveals Hong Kong is expected to see the fastest interconnection bandwidth

growth in the Asia-Pacific region, with a 55% compound annual growth rate, due to the city's thriving and diverse business ecosystems, including financial services, cloud, IT and enterprises.

Such a buoyant outlook is reflected in the company's growth. Last year it rolled out Equinix Cloud Exchange Fabric™ (ECX Fabric™) capabilities across Asia-Pacific that allows, for example, a Hong Kong-based company using its ECX Fabric™ to access cloud service providers in Australia. This year, Lee expects the company will expand ECX Fabric™ connectivity globally, meaning regional companies will be able to connect to companies in Europe and the US.

CASE STUDY IN CONNECTIVITY

Data centres like Equinix are opening

doors for increasing connectivity and services with Mainland China and other regional markets. One example is the global financial portal Investing.com. By using Equinix IBX® in Hong Kong, Investing.com is able to ensure its audience in Mainland China gets fast and responsive access to dynamic content, interactive charts and investment tools, by shortening the distance between its applications, data, consumers and partners.

But setting up data centres is expensive and suitable land for purpose-built operations in Hong Kong is in short supply.

To succeed, Lee believes companies must be agile, innovative and customer centric. "Infrastructure plays a critical role in addressing the growing demand for better digital

services. While companies can take advantage of Hong Kong's sophisticated business infrastructure and advanced ICT development, they also need to ensure they have the infrastructure required to support the continuously evolving technological landscape," Lee says.

Many operators have resorted to renting premises but space remains an issue that Hong Kong will need to address. Room to grow is a critical decider in where these centres will be located along the Digital Silk Road. As reported by CBRE research, more than two-thirds of new data centre supply over the next four years will be constructed in places like Mainland China and India, so Hong Kong will need to keep this challenge top of mind.

Innovative Hong Kong: breaking new ground in digital payments

From non-banking cross-border transactions in real-time to data storage, Hong Kong's innovators are breaking new ground along the Digital Silk Road with one tech-savvy local company finding success with instant payments.

One of the most significant achievements of the Digital Silk Road is the rise of cross-border transactions in real-time – after all, trade, commerce and infrastructure rely on timely payments.

Many regional and global banks are already working with instant cross-border payment platforms but those in the non-banking sector – individuals and MSMEs (micro, small and medium enterprises) – do not necessarily have access to banking platforms, and are therefore at a disadvantage when it comes to global money transfers.

A dynamic Hong Kong company, the TNG Fintech Group (TNG) is making a name for itself for its innovative mobile e-wallet that specifically caters to the non-banking sector.

The company delivers funds in multiple currencies and across borders instantly, at fraction of the cost of bank fees. Now it has moved to a new stage, having recently applied for a virtual bank license with the Hong Kong Monetary Authority (HKMA) to further expand its range of transfer, exchange and payment services it offers.

MEETING NEEDS

TNG's e-wallet by-passes the need for ATMs and bank branches. "The key point is we operate in real-time. We are providing financial inclusion to



Alex Kong, TNG Fintech Group

individuals and MSME financial services to the unbanked," says TNG's Founder and Chairman Alex Kong. "TNG aims for frictionless global money

transfer – right now that's an area where there's a lot of friction."

He says more than half of the countries along the Belt and Road have some sort of capital controls and many people in those locales do not have bank accounts. For instance, 70% of Vietnam's population does not have a basic bank account and more than one billion people in Asia remain unbanked. TNG's e-wallet currently services customers in 14 Belt and Road countries.

HONG KONG AND BEYOND

Launched in late 2015, TNG's e-wallet operates 24/7 from 400,000 locations worldwide. Hong Kong's close to 400,000 foreign domestic helpers are early adopters of its e-wallet services and the company now claims to have a 70% share of this market. The mobile instant payment service includes cross-platform instant messaging and mobile calls and it is also able to

connect to any bank worldwide.

Kong says signing up via a mobile phone is easy, but security is important. Users of TNG's services are required to undergo three layers of the Know Your Customer (KYC) security process.

Having now moved beyond cross-border money transfers, TNG also functions as an e-money infrastructure provider (e.g. Transferwise) and recently acquired Malaysian payment firm Trangolo.

As a fintech provider, the company offers software that enables customers to join a Global Ewallet Alliance that includes PhilIPurse (the Philippines), INDompert (Indonesia), XIN Wallet (Singapore), Sehat Wallet (Malaysia), WalleTHAI (Thailand), Vina Wallet (Vietnam), Asan Wallet (India), Sinha Wallet (Sri Lanka), Walle TAKA (Bangladesh),

NewaLETA (Nepal) and WalletPAK (Pakistan).

Since the product was launched last year, 30 companies and the largest bank in the Philippines, Banco de Oro, have also signed up with TNG.

SPEAKING FROM EXPERIENCE

Kong says being based in Hong Kong provides a number of natural advantages.

He points out that a licence to operate here adds to global credibility with regulators. "Hong Kong's good financial framework, regulations and legal system makes it very clear about what you can and cannot do and control. Management and compliance are very strict. This gives no room for mistakes and better consumer protection. Being a global financial centre also makes it easier for us to

hire financial talent – although it's more expensive here than in other places."

But he says newcomers to this space need to be aware they are entering a highly competitive market, which offers limited prospects for new operators providing the same service.

"If you are offering different services, then there is a lot of room to establish yourself, as Hong Kong is probably the freest financial centre in the world. Once you are here you can work with different financial services on the open application programming interfaces. In the very near future people won't need to conduct banking at a branch or the bank's online platform. They can carry out their banking transactions through a third party. This is where others can seize their opportunity. Hong Kong is competitive but it's also open to opportunities for those who can see them," Kong says.

How Hong Kong's innovators use lawtech to resolve cross-border issues

Given its massive scale spanning from Asia to the Middle East, Europe and Africa, any cross-border project or trade along the Belt and Road faces enormous complexity. Now, Hong Kong's legal services are exploring technology to simplify contracts.

Whether it is trade finance, cross-border transactions or complex contracts involving infrastructure, any move to speed up and simplify business flows benefits the bottom line.

In the six years since the Belt and Road Initiative was unveiled, much attention has focused on big infrastructure projects. Now the Digital Silk Road's rapid adoption is dramatically changing the way business is conducted, helping to reduce costs and risks, in addition to finding workable solutions to new challenges in global trade.

Not all of these solutions are being nurtured within fintech hubs, corporate incubators or even via smart start-ups.

Hong Kong's professional services are internationally recognised as a neutral forum with connections, expertise and knowledge. Their ability to span 'one country, two systems' in law is a major drawcard in Hong Kong's development as a deal-maker for Belt and Road projects.

The city's robust legal services sector includes more than 10,000 lawyers representing approximately 900 firms. Many of these are able to operate across multi-jurisdictions and have multi-disciplinary skills. Nearly



Nicholas Chan, eBRAM Centre

1,500 are registered foreign lawyers representing 31 jurisdictions, and more than 80 firms in Hong Kong are top-tier international partnerships.

Recently an innovative group of

Hong Kong professionals with legal and IT expertise have volunteered their services to create the eBRAM (electronic business-related arbitration and mediation) Centre to streamline legal processes. This unique non-profit organisation was founded by the Law Society of Hong Kong, the Hong Kong Bar Association, the Asian Academy of International Law and the research and development arm of Logistics and Supply Chain MultiTech R&D Centre (LSCM).

THE RISE OF LAWTECH

Protecting business interests with contracts or arbitration requires all parties to clearly understand their obligations, as well as taking into account local, and in many cases, international legal requirements. The process is time consuming and costly to all parties particularly if processes are delayed or when disputes arise.

By combining artificial intelligence (AI), machine learning, big data, blockchain, cloud storage and smart contracts, eBRAM's developers hope

to create an electronic platform that is both secure and cost-effective, which can also cut through bottlenecks in contracts and arbitration.

With a background in both computer science and law, Nicholas Chan, Chairman of eBRAM Centre and Partner at Squire Patton Boggs, says the two disciplines are remarkably similar. "A good contract is one that doesn't have ambiguities, and computer programs must be defined like a legal document."

ADVANTAGES FOR ASIA

Chan is confident that the eBRAM platform will improve cross-border collaboration and facilitate trade more effectively than traditional methods. "Time is money and lawyers charge by time. But we can do a better job using lawtech," Chan says.

In deals involving Belt and Road projects, eBRAM aims to:

- Facilitate deal-making and cost-effectively prevent disputes across parties and jurisdictions
- Serve as an international platform for dispute resolution
- Use technology to prevent disputes where one of the parties is not

located in Hong Kong

- Protect personal data and confidentiality
- Provide domain-specific language translation technology
- Harmonise rules of engagement in international business deals

BREAKING LANGUAGE BARRIERS

One specific challenge that those doing deals along the Belt and Road will need to overcome is language. According to Chan, there are more than 1,000 languages and dialects used in Belt and Road countries. This leaves plenty of scope for legal documents to become "lost in translation" or for disputes to arise about specific legal terminology.

Using AI, the platform's developers are building capacity for machine translation using legal domain-specific language capabilities based on translation by professional human legal translators. The aim is to produce an independent voice to provide official translations for cross-border disputes in order to reduce misunderstanding and costs, and increase accuracy.

SUPPORTING MSME GROWTH

Lawtech may also help boost the number of micro, small and medium enterprises (MSMEs) involved in international trade. Chan says more than 97% of the corporations in Hong Kong and the Asia-Pacific Economic Cooperation zone are MSMEs. Although they are responsible for around 35% of international trade, uncertainty of outcomes and the cost of resolving cross-border disputes are significant impediments to further growth in this sector, and therefore their participation in the Belt and Road Initiative.

According to Chan, around 35% of MSME disputes are unresolved and the average value of disputes is US\$50,000.

Currently, the platform is still in its internal testing stage, but eventually Chan would like to see users pay for the services it will provide.

"We're proud of what we are doing as we're doing it for the greater good. We want to establish Hong Kong as the lawtech centre of the world. If we can help people, we can help businesses thrive across economies," Chan says.

Connecting businesses to Belt and Road opportunities in different sectors



The 12th Asian Financial Forum was attended by more than 3,300 financial and business leaders from around the world

Recent HKTDC events helped global businesses and investors seize Belt and Road and Guangdong-Hong Kong-Macao Greater Bay Area opportunities.

ASIAN FINANCIAL FORUM, 14-15 JANUARY 2019

Last month, more than 3,300 financial and business leaders from around the world attended the two-day Asian Financial Forum (AFF) co-organised by the Hong Kong Special Administrative Region (HKSAR) Government and the Hong Kong Trade Development Council (HKTDC). Themed “Creating a Sustainable and Inclusive Future”, the forum examined the current economic

environment and gauged the views of participants through real-time polling on issues such as the global economy, investment opportunities, and the challenges brought about by technology and innovation, and helped participants explore business and investment opportunities through the 700 one-on-one meetings arranged during the AFF Deal Flow Matchmaking Session.

The AFF featured a panel discussion entitled “Risk Management along the Belt and Road” which detailed the linkage between risk management, insurance and the bankability of Belt and Road infrastructure projects.

Dominic Samengo-Turner, CEO of Jardine Lloyd Thompson Asia, said syndication is an increasingly attractive option for insurers – with international insurers supporting Chinese insurers.

Nic Nicandrou, Chief Executive of Prudential Corporation Asia, advised

insurers to capitalise on Belt and Road opportunities: “Insurers have three roles to play: as long-term investors complementary to banks and governments, as promoters of policy engagement to help alleviate risks and standardise governance, and as trusted partners and a gateway for other investors from beyond Asia.”

BUSINESS of IP ASIA FORUM, 6-7 DECEMBER 2018

The eighth edition of the Business of IP Asia Forum (BIP Asia Forum), jointly organised by the HKSAR Government, the HKTDC and Hong Kong Design Centre, brought together more than 80 intellectual property (IP) experts from leading global companies to share their insights on a range of industry topics and discuss the advantages Hong Kong offers for exploring new business opportunities. Delivering the opening

address at the forum, Carrie Lam, Chief Executive of the HKSAR, said: “The Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development will give rise to immense opportunities for Hong Kong. They certainly include serving as an Intellectual Property trading hub for the Asia-Pacific region.”

A session co-organised with the International Trademark Association, entitled “Secure the Trust of Your Brands along the Belt and Road”, had customs officials from Hong Kong, Laos, Sri Lanka and Malaysia discuss how businesses can protect their brands along the Belt and Road.

Guy Fong, Customs Group Head of Intellectual Property Investigation (Operations), Hong Kong Customs Department, said: “With the

development of the Belt and Road Initiative, the volume of trade and shipment via Hong Kong is bound to increase. Our department reinforces close collaboration with cross-border enforcement agencies, right owners and logistics companies to exchange intelligence and to effectively combat counterfeit goods. This contributes to a secure and favourable business environment for brand owners who want to enter the market in or through Hong Kong.”

DIGITAL SILK ROAD WORKING GROUP

A Digital Silk Road Working Group was set up under the HKTDC Belt and Road Committee, expanding the committee’s scope and complementing the work of the

existing International Market, Chinese Mainland & ASEAN, Professional Services, SMEs & Younger Generation, and PR & Communications Working Groups.

With Dr Lee George Lam, Non-Executive Chairman-Hong Kong and ASEAN Region and Chief Adviser of Macquarie Infrastructure and Real Assets Asia, as convenor, the Digital Silk Road Working Group aims to promote Hong Kong as the hub for big data computing, innovation and technology, digital trade financing, digital marketing, smart city development and e-arbitration for Belt and Road countries, by engaging industry players, investors and users related to innovation and technology sectors in Hong Kong and around the world.