European Institute for Asian Studies

Event Report

FinTech – Unlocking Asian Landlocked Countries

EIAS Briefing Seminar

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FinTech is based around two pillars: digital development and innovative financial services. The FinTech revolution is driven by exponentially fast digital developments. FinTech is all about innovation, interaction, and financial interconnectivity between people. The smartphone revolution is a prime example. Even the poorest, illiterate communities suddenly become globally connected and digitally literate.

The purpose of the Conference was to explore how European FinTech can contribute its expertise, and collaborate in the development of FinTech in landlocked countries throughout Asia. This can help them economically leapfrog and bring Asian landlocked countries to the forefront of this innovative technology.

Welcome speech by
Mr Axel Goethals, CEO, European Institute for Asian Studies

Mr Axel Goethals opened his welcome speech by explaining how financial technology – or FinTech – is rapidly changing the financial services industry. FinTech, according to Mr Goethals, is about innovation, but also about connecting people through financial digitalization.

Mr Goethals sees the industry evolving towards a network where several FinTech centers can blossom, regardless of geographical barriers. Big companies no longer need to be geographically condensed in one city, Mr Goethals noted, rather, a worldwide web of FinTech hubs will develop. This de-territorialization of the financial sector offers great opportunities for landlocked countries, as natural comparative advantages are irrelevant to this sector.

In order to develop the financial services sector in landlocked countries, digital, IT, and hard infrastructure needs to be put in place. This would offer great investment opportunities in and of itself.

Further Mr Goethals noted that while the Asian continent has been the ultimate frontrunner of FinTech applications, landlocked developing countries have remained unaffected by this. With over a billion Asians still left unbanked, enormous opportunities lie ahead. In order to get these people financially interconnected, large-scale, visionary enterprises have to be initiated where the public and private sector combine their forces, Mr Goethals continued. In order to emerge as the next FinTech hubs in Asia, landlocked developing countries have to invest heavily in financial and technology infrastructure.

Throughout the 20th century, the Grand Duchy of Luxemburg managed to develop from being a small, poor landlocked country, to one the richest countries of the world. With this being achieved through an intense focus on financial services, Luxemburg could serve as an example for small landlocked countries in Asia. Mr Goethals would like to see the success story of Luxembourg replicated by landlocked countries in Asia. This way, the

FinTech Revolution is a natural fit for landlocked countries to leapfrog to new forms of financing, modernizing the countries along the way.

Mr Goethals underlined the importance of this development happening according to the regulatory frameworks of landlocked countries, and in compliance with all OECD Model Tax Conventions and Double Tax Agreements already in place.

If the innovativeness of FinTech can be coupled to the strengthening of the regulatory framework, a new synergy can be developed through the introduction of regulatory technology – RegTech – within the governmental policy and regulations to focus on the challenges that are posed by technology shifts like FinTech. Mr Goethals stressed that innovation and regulation can go hand in hand, mutually forging a 21st century economy that works for the entire region. By combining forces, LLDCs can collectively manifest a strong voice to foster international regulations and legal frameworks that will work for small countries just as much as for big ones.

Mr Axel Goethals concluded his welcoming remarks by addressing the global initiatives that are currently making waves with regards to FinTech – the Bali FinTech Agenda being the prime example of this.

Keynote Address by
Mr Odbayar Erdenetsogt, Executive Director, International Think Tank for LLDCs (ITT-LLDC)

Mr Odbayar Erdenetsogt opened his remarks by stating that this event was the first conference the International Think Tank for Landlocked Developing Countries has ever participated in Brussels.

The ITTLLDC is the international organization for all landlocked developing countries within the UN. In total there are 32 landlocked developing countries in the world. Sixteen are located in Africa, two in South America, four in Europe and ten in Asia. Whereas all these countries have different histories and cultures, they all face similar challenges. The

most obvious challenge is the lack of sea access, but they also have small market sizes and are dependent on few natural resources. The share of global trade captured by LLDCs only accounts for 1.2 per cent. This is mostly due to the long time and high cost for importing and exporting when compared to coastal economies. Mr Odbayar Erdenetsogt illustrated this by demonstrating how landlocked countries spend 6.2 per cent of their GDP on transport.

Mr Erdenetsogt pointed out that the comparative time to import and export goods is significantly different. Where it costs transit countries 21 days to export and 26 days to import goods, it costs LLDCs 41 days to export and 49 days to import. This is also reflected in the comparative number of documents needed to trade. Where transit countries only need seven documents on average to export and 8 to import, LLDCs need eight and ten respectively. In short, Mr Erdenetsogt summarized that LLDCs have to pay a higher price in money, time and administration to participate in world trade.

The idea of establishing an international think tank to tackle all the common problems of LLDCs originated in the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Cooperation, held in Almaty, Kazakhstan in 2003. At this conference, LLDCs realized that all research concerning developing countries was done by international organizations and high-cost consulting companies. LLDCs came to the conclusion that they needed their own think tank to solve their problems themselves. An intergovernmental organization was set up and in 2009 the International Think Tank for LLDCs was officially launched.

In 2009 there was a special resolution at the General Assembly, which welcomed the establishment of the International Think Tank. This resolution showed the support of the UN towards initiatives to help landlocked developing countries.

The Vienna Programme of Action of LLDC has been another milestone for LLDCs. In Vienna, Austria – also a landlocked country – a programme was put forward to address

the needs and challenges landlocked countries are facing for the period 2014-2024. The key priorities listed by this programme are infrastructure and economic transformation.

The International Think Tank for Landlocked Developing Countries provides reports and research for landlocked developing countries in all fields of study. The think tank has its own brain pool of researchers to serve the needs of these countries, Mr Odbayar Erdenetsogt noted.

Mr Odbayar Erdenetsogt continued by elaborating on the multilateral agreement for the establishment of the International Think Tank for Landlocked Developing Countries, that effectively made the ITT-LLDC a multilateral organization with its headquarters in Ulaanbaatar, Mongolia. Mongolia has been one of the initiating countries for the think tank and is also very active at the United Nations in terms of LLDCs. Nowadays the International Think Thank has 30 members.

Thus far the ITT-LLDC organized sixteen seminars, workshop and lectures; eight launching events and high level luncheons; it participated as a panelist and made presentations in eighteen international events and workshops; and produced a total of eleven papers.

ICT is one of the key research areas of the think tank, Mr Odbayar Erdenetsogt noted, and therefore FinTech can be a topic to discuss in the future. Mr Odbayar Erdenetsogt stated that FinTech development in LLDCs could facilitate trade and easy access to financial services, making the lives of those in many rural areas much easier. Bridging the digital gap should be one of the priorities for LLDCs, according to Mr Erdenetsogt.

Mr Erdenetsogt went further by underlining the importance of research and evidence based analysis.

Mr Erdenetsogt continued his remarks by stressing the importance of common positioning with public and private organizations, but also with other think tanks. The

goal of the International Think Tank is to work together to overcome the common challenges of LLDCs.

The ITT-LLDC conducts high quality research and provides cost and benefit analyses of infrastructure projects on the basis of IDE-geographical simulation models. The Belt and Road Initiative's megaprojects are transforming Asia and therefore the impact of these projects has to be measured in landlocked countries.

Mr Erdenetsogt concluded his remarks by giving some information about the workings of the ITT-LLDC, which is based in Ulaanbaatar, Mongolia, in the UN house. The think tank has a permanent staff of six people, supported by a team of 25 researchers.

Presentations by LLDCs

H.E. Mr Od Och, Ambassador of Mongolia to the European Union, Belgium and Luxembourg

His Excellency Mr Od Och opened his remarks by repeating the challenges of landlocked countries already listed by Mr Erdenetsogt. The most important challenge for landlocked countries is the lack of sea access and the high transport costs for goods to enter and leave the country.

High shipping costs have a significant impact on food prices in landlocked countries. This is why the country needs agreements with neighbouring states to obtain access to the sea.

His Excellency pointed out that Mongolia is the second largest landlocked country in the world, only behind Kazakhstan.

In the United Nations Convention on the Law of the Sea landlocked states are given the right to access to and from the sea, without taxation or traffic through transit states – making sea access a natural right.

His Excellency stated that the establishment of a vibrant financial sector in Mongolia is a long term economic objective of the country. In order to obtain this objective, a renewed focus on digital infrastructure needs to be implemented and more significant reforms than have been taking place in the traditional sectors.

H.E. Mr Od Och concluded by saying that he looks forward to the development of FinTech and ICT-infrastructure as an opportunity to connect landlocked countries of the Eurasian landmass – in the spirit of the Belt and Road Initiative.

H.E. Mr Lok Bahadur Thapa, Ambassador of Nepal to the European Union, Belgium and Luxembourg

His Excellency Mr Lok Bahadur Thapa opened his remarks by underlining the strategic significance of Nepal. Being located between the two most populous countries in the world, most Nepali think of their country as being small, however, His Excellency noted, Nepal is bigger than 102 countries in the world. On the point of demography, Nepal has a relatively youngpopulation of 29 million. The combination of being strategically located and having a growing, young population, makes Nepal well placed to experience an economic boom in the near future.

Politically, Nepal is reaching an important juncture in its history by becoming more stable again. Reminiscent of this are the changes to the Nepalese constitution made in 2015. The country has held fifteen years of regional, local and provincial elections. Nepal now has a stable government with the support of a two-thirds majority in the parliament. The new moto of the country is now 'Happy Nepali, prosperous Nepal'.

In terms of economic growth, His Excellency Mr Lok Thapa continued, the Nepali economy has seen a continuous growth of around six per cent as a result of the renewed political stability. This has allowed the Nepali economy to not only focus on surviving, but on thriving, allowing it to live up to its full potential. The primary goals of Nepali economic policy have been reviving its agricultural sector, developing its hydropower, developing human resources, promoting tourism, as well as putting a new focus on the

information technology sector. As revenue of the primary sector has been naturally declining over the years, the share of the secondary and tertiary sector in the economy is growing.

However, H.E. Mr Lok Thapa noted, as a landlocked developing country, Nepa is facing some structural constraints. These include the cost of transportation, supply side constraints, ascribing for market access conditions, inequality, and limited capacity. Nonetheless, H.E. Mr Lok Thapa believes that reviving a strong service sector could be a primary driver to unlock the further growth potential of Nepal.

Since the eighties Nepal has been modernizing its economy. Financial technologies were naturally introduced in the country. Many private banks have been very much willing to use financial technology applications in the development of their financial services. Due to the great amount of remittances flowing into the Nepalese economy, money is travelling from foreign countries to the rural heartland of Nepal. Financial institutions in Nepal are all increasing their services based in FinTech.

Up to today, His Excellency noted, there are about 150 banks and financial institutions and about 6000 local branches of these institutions spread throughout Nepal. More and more people are accessing financial services, with FinTech developments being a main driver of this development. Thus, we are likely to see an exponential rise in financial activities in Nepal.

It is worth noting that the percentage of mobile customers in Nepal is around 111 per cent of the population. Modern financial services like e-wallet and e-commerce increased this number even further as more and more people are accessing financial services through their mobile phones. About six million people in Nepal use mobile banking, and this number is still increasing. FinTech can make financial services more reliable, open for a larger public, and more competitive.

Besides great opportunities for financial transactions, developments in financial services can also create a wider array of job opportunities for young people, answering the needs of a young and growing population.

Investment in the information technology related sector in Nepal is growing exponentially. The government is therefore doing its utmost to digitalize the public sector. His Excellency referenced the examples of the introduction of national ID-cards and digital passports.

There is another factor that created an impetus for FinTech development in Nepal, H.E. noted, being the incremental inflow of remittances. At this moment, Nepal depends largely on remittances, with around 30 per cent of the GDP is from remittances. About 56 per cent of the population benefits somehow from the inflow of remittances. This, according to His Excellency, demonstrates how important it is to use FinTech in order to better relay remittance finance to the people. H.E. Mr Thapa finds it particularly important to reduce the cost of remittances through the use of FinTech.

Similarly, since more than 80 per cent of remittances received in Nepal are consumed and do not add long term value to the economy, there is a need to look for creating incentives to channel remittances towards investments. FinTech can play a role in this process, His Excellency noted.

H.E. Mr Thapa believes that there are ample opportunities for FinTech to be applied in landlocked developing countries like Nepal. H.E. stated that LLDCs would like to learn from the experiences of developed countries in this field. However, His Excellency stated, we should not be oblivious to the gaps and challenges that the development of the financial services sector poses. With over thirty per cent of Nepali's still being out of reach of financial services there is still a long way to go.

His Excellency Mr Lok Thapa concluded his remarks by calling upon his European partners and companies to look into opportunities for investing in FinTech. H.E. finally stated that

being landlocked does not necessary mean that a country is *'brain-locked',* or *'technology-locked'.*

H.E. Mr Dilyor Khakimov, Ambassador of Uzbekistan to the European Union, Belgium and Luxembourg

His Excellency Mr Dilyor Kakhimov opened his remarks by stating that there is a lot of untapped potential of landlocked countries. Given that Uzbekistan is the most populous country in Central Asia and one of only two 'double landlocked' countries in the world – along with Liechtenstein – it becomes obvious how crucial the development of transregional connectivity is for the country.

H.E. Mr Kakhimov continued by touching upon the significance of the Belt & Road Initiative and the European Strategy for EU-Asia Connectivity to Central Asia and landlocked countries throughout Asia. For these countries especially, it is important to transform their capital market into a modern, integrated economy.

Next, His Excellency raised a recent study by the World Bank, which showed that on average it costs USD 3040 to export a standard container of cargo from a landlocked developing country, whereas it would only cost a coastal state USD 1268. It is important that Uzbekistan focuses its infrastructure projects not only on north-south relations but also on west-east connectivity. Given the liberalization and modernization of Uzbekistan initiated by President Shavkat Mirziyoyev, an improved investment environment has arisen.

His Excellency pointed out that Uzbekistan is not only looking at train and railroad connectivity, but also on digital connectivity. When it comes to FinTech, His Excellency Mr Dilyor Kakhimov is optimistic. In the global financial economy, FinTech operates over large distances, giving landlocked countries the opportunity to develop their financial inclusion. In line with this development, digital transformation has been one of the focal points of Uzbekistan.

Last June, the Competence Center for Blockchain Technologies was established at the Mirzo Ulugbek Innovation Center, partnering with the FedEx Institute of Technology of the USA. The goal of this initiative, H.E. Mr Kakhimov stated, is to create a joint platform for an integration partnership between traditional financial institutions and innovative companies in the field of financial technologies. Such cooperation would facilitate the joint introduction of innovative digital products in the financial markets of Uzbekistan, and the development of effective solutions for the use of technologies such as blockchain, open data and others.

The legal basis for FinTech is being developed with the purpose of removing parts of the the regulatory barriers, H.E. continued. In Uzbekistan, the introduction of blockchain technology was legislated by presidential decree. Foreign banks highly appreciated such advantages as reducing the level of fraud, errors, costs of document circulation, maintaining the level of competitiveness, and simplifying the procedures for processing transactions.

Panel Discussion

Mr Gwilym Jones, Head of Brussels Office, European Bank for Reconstruction and Development (EBRD)

Mr Gwilym Jones opened his remarks by stressing the strong presence of the EBRD in Central Asia. The EBRD has worked for many years in this region across many sectors. The SME sector especially is of great importance for the FinTech sector, as it is very entrepreneurial and is developing from the bottom up. The track record of the EBRD in the ICT sector is also very long. Overall, Mr Jones stated that to date, EUR 4.3 billion has been spent in Central Asia, across social media, mobile, IT and others sectors.

Mr Gwilym Jones continued by welcoming the focus on FinTech as a major new opportunity. Mr Jones found it particularly interesting to see that the World Bank and the IMF launched the Bali FinTech Agenda in October this year. This Agenda touched upon various aspects of FinTech development and truly demonstrated its potential.

FinTech, Mr Gwilym Jones stated, means a great regiment of things, ranging from cybersecurity, to mobile finance, to data analysis, to blockchain, crowdfunding platforms, and many more. Of course, the opportunities are incredibly large for the countries where the EBRD is operating. Reducing costs, increasing competition, and efficiency are three of many factors that are broadening access to financial services for people in landlocked countries.

While there is certainly a lot of *hype* around FinTech, Mr Gwilym Jones noted, it is clear that its growth potential is hard to dispute. Particularly in emerging markets – as these in Central Asia – the penetration of banking services is typically rather low. While these opportunities in the field of FinTech do come with risks, which need to be spotted and mitigated, still the opportunity is there. Through the EBRD's courtesy work and legal reporting, the governments that the EBRD is supporting are increasingly aligned with the financial service sector in these countries.

This is the way the EBRD likes to work: combining the practical investment and knowledge of the sector with policy and legal assistance. The big picture is that Central Asian countries are embracing new technologies.

Mr Gwilym Jones touched upon Georgia, which implemented the first blockchain based land registry, as an example of a Central Asian country leading the way in updating public governance. Kazakhstan was also mentioned, in light of its recent ambitious project of transforming Astana into a financial centre. In Tajikistan, loan officers travel the country using their mobile apps to see farmers and to look at the land parcels, observing what is on and consecutively sending information back to a data centre where this information is processed and used to provide information to predict next year's harvest. As we can see, a lot of countries in the region are really trying to up their game.

While the challenges in Central Asia remain, they should be seen as part of the opportunity, as these challenges are part of what makes the region 'low hanging fruit'. The levels of financial market penetration are very low, leaving half of the population

unbanked. In order to make financial services commercially viable, FinTech operations need to take off. This, according to Mr Gwilym Jones, can happen in two ways. This can either happen through existing market actors, or through new actors. Most of the time, these changes happen through new actors, rather than through traditional banking institutions, which are generally slower in adapting to new mechanisms. This is why there needs to be a very big focus on supporting entrepreneurs, who are the main drivers of this technological revolution in finance.

Of course, there needs to be infrastructure capacity in place in order to lay the foundations of these changes. Mr Jones stated that more investments are needed to build this infrastructure in Central Asia. Especially in terms of broadband access, a lot of work is yet to be done in order to make online banking services viable throughout the region.

But there is also reason to be optimistic, with numerous encouraging stories evident in the region. Telecom operators in Kyrgyzstan and Kazakhstan are currently developing apps to allow for online payments, while local banks are opening online banking facilities. Local banks are also using FinTech to make their institutions more efficient.

The region, however, needs more investments. These investments need to happen through regional cooperation, which would send the right message to investors. The example of the economic reforms put in place by the Uzbek government was hailed as a major impetus for regional initiatives, and also as a way to make the region more attractive to investors.

These encouraging developments need to be accompanied with donors that work with governments. In order to provide the right funding, the EBRD is working closely with the European Commission and the EIB. Mr Jones gave the example of the SME support programmes that the EBRD is setting up. These programmes combine advice with investments, and could therefore be of great benefit to infrastructure development in the region.

The EU's External Investment Plan was mentioned as a major plan that will eventually scale up the guarantees to do more and take a higher risk. One of the programmes that came along with this External Investment Plan is the Digital Transformation Programme, jointly put forward by the EBRD and the EIB. This plan entails a roadmap to implement broadband infrastructure and support ICT services providers.

Mr Gwilym Jones concluded his remarks by stating that the EBRD stands ready to support entrepreneurs and governments in the region with, for example, its venture capital facility to leverage further investments towards Central Asia. The EBRD is also looking to increase its focus on infrastructure investments. Lastly, Mr Jones finished, the EBRD is currently employing a legal transition team that will continue to work with the governments to assist them with adapting to cutting edge developments in technology.

Dr Pascal Kerneis, Managing Director, European Services Forum (ESF)

Dr Pascal Kerneis opened his remarks by stating that the development of financial services in landlocked developing countries is of great interest to the European Services Forum. Dr Kerneis emphasized that FinTech today is not an international sector. FinTech companies are usually still very localized and are therefore regulated on a very local basis. If landlocked countries want to unlock their growth potential in FinTech, they need to look at several things.

Firstly, landlocked countries need to develop their infrastructure web. The software of financial technology requires hardware – hard infrastructure – to develop as well. This in turn needs heavy investment. One of the most important infrastructure developments that needs to be focused on are IT terminals. Additionally, data centres and educational facilities need to be developed to enhance the pool of expertise in financial services.

Secondly, Dr Kerneis pointed towards regulations. FinTech can only be developed if financial services are properly regulated by the governments. This way the financial risks can be mitigated and financial stability can take the upper hand. Within legislators there is always debate whether FinTech companies should be regulated as financial institutions

or technology firms. How to deal with this distinction is at the crux of the matter of regulating this sector. Banking secrecy, consumer protection, cyber security and money laundering legislation need to be put in place in order to develop a thriving FinTech sector.

Dr Pascal Kerneis noted that the EU put forward its Action Plan on FinTech in March last year. Some exploratory work has been done within the EU institutions to enhance this development. However, before wanting to change the direction of FinTech, Dr Kerneis noted that it is important to first assess the situation.

In order to unlock their FinTech potential, landlocked developing countries need to assess the situation both domestically and internationally. Dr Kerneis reiterated the calls for support for the SME sector in landlocked developing countries. A strong IT policy needs to be put in place in order to help the FinTech startups in the region.

To attract foreign financial investors to their markets, landlocked developing countries need to gain the trust of the sector. The first thing that needs to be done is for all LLDCs to become members of the WTO. As not all LLDCs are WTO members, this should be at the top of the to-do list. For those countries that have already entered the WTO, the GATT agreements are an important route to further liberalizing their financial services sector.

Finally Dr Kerneis pointed to two initiatives that are currently taking place in Geneva under the WTO umbrella, these being: the e-commerce initiative and the initiative to improve domestic regulations on services. By joining the WTO and eventually participating with these initiatives, LLDCs could have a voice to form the future environment of FinTech. However, if these countries fail to participate with these initiatives, they are going to miss the boat. Given the fierce competition between developing countries to become the next beacon for financial services, it is necessary for LLDCs to send a signal towards investors.

Mr Olivier Duron, Prudential Affairs Officer, Febelfin

Mr Olivier Duron opened his remarks by stating that while Belgium is unlike Asian landlocked countries, landlocked countries can learn a lot from Belgium as it is a very densely *banked* country. The Kingdom of Belgium has more bankers per citizen than almost any country in the world.

In recent years, Belgium has learned some key building blocks to further develop its financial sector. The first lesson is that a strong infrastructure needs to be put in place in order to let its financial sector thrive. A second building block relates to regulation, which has to be created so that there are incentives for financial players to invest in R&D and software development. This is also reflected in a beneficial taxation environment for expats. As FinTech requires a lot of high-tech skills, not all these skills will be found within the borders of the country. Thirdly, Mr Olivier Duron noted, it is necessary to increase the supervision over the financial sector by the government. As financial services are traditionally heavily regulated, Mr Duron stressed the importance of regulators taking up the responsibility of enforcing these regulations adequately. This supervision should not be considered a matter of restriction, but rather a matter of guidance to let the financial sector flourish.

Leading FinTech hubs established their expertise through the establishment of regulatory sandboxes. These sandboxes functioned like technical environments in which small startups can join in close cooperation with the regulator to discuss how they can mutually benefit. This way, the regulatory environment can help SMEs grow through the initial stages of development.

Lastly, Mr Olivier Duron stressed the importance of education. Universities in LLDCS need to set up programmes that are suitable for creating professionals at home that are

capable of handling data, AI, and recent software developments. This is necessary in order for them to be of value for the global supply chain of financial services.

Q&A

During a compelling Q&A session, a question was asked concerning how foreign direct investments could be attracted towards the FinTech sector in LLDCs. Mr Gwilym Jones noted that he saw the use of guarantees, like the EBRD has been doing for the past years, as the main means to invite FDI.

Dr Kerneis noted that even though startups are essential to the development of FinTech in LLDCs, they are only one aspect to a much wider challenge. Financial technology has been improving a lot over the past fifteen years. Dr Kerneis said that FinTech is just the latest example of this long evolution within financial technology development. In order to attract foreign direct investments, a stable economic environment for financial players needs to be set up, including a strong legal framework. Whereas FinTech is a global development, it is also always entrenched in the domestic market. Later Dr Kerneis pointed out the importance of setting up data centres within LLDCs in order for data to be managed domestically. As financial services heavily rely on data flow, LLDCs need to improve this data flow through an adequate data management regime. China, India, Indonesia and Vietnam are currently taking big steps in setting up these data centres and Dr Kerneis believes that LLDCs will be unable to benefit the FinTech Revolution without setting up their own centres.

Report by Victor De Decker

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