EXPERT

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SPECIAL REPORT

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COVER DESIGNED BY KIRILL RUBTSOV

PEOPLE IN THIS SPECIAL REPORT

ROBERT LAWRENCE

"If there's a shutdown in one country, it cannot supply key inputs to a second country, then those shocks reverberate throughout the supply chain. So, I do think those who invest in supply chains will be much more wary of reliance on them for sources of supply. This is going to make it more difficult for the emerging countries who would like to use export growth and export processing zones to contribute to international trade. All this is likely to enhance de-globalization."

KAIRAT KELIMBETOV

"AIFC key objective is to attract investments to the country and the region as a whole, creation of a developed financial services market, capital market, and this is what we are working on now. All that will undoubtedly contribute to creating favorable conditions for doing business in Kazakhstan. And our country has been the leader among the EAEU countries in this regard for quite some time."

АНТОН НОВОДЕРЕЖКИН/ТАСС

HERMAN GREF

"All sectors of the economy have either already been subject to a hard reset, or will be subject to it in the nearest future. As of today, structural technological changes or technological leaps are relevant for only about 5 percent of the traditional economy, which means that more than 90 percent of companies have not yet started this process. This offers enormous opportunities for enterprises and entrepreneurs in all sectors without exception."

MASOOD AHMED

"For the next few months, maybe for the next year or two, we will see a degree of risk aversion in capital markets. This will be a time when capital will look for safety more than for high returns. But that capital is not just sitting in rich countries. And it is looking for safe haven."

MARC UZAN

"We are dealing with an economic crisis of such dimensions that it affects everything. We know that we're going to go through something bigger than the Great Depression. We see already the unemployment numbers in the US, but also emerging markets are getting affected. For the moment, emerging markets do not have the same fiscal or monetary capacity as the advanced countries. And they are facing multiple shocks: commodity shock, tourism shock, manufacturing shock."

MICHAEL MAINELLI

"Whereas most of the people you talk to in financial services think it's all about some kind of next generation derivative, I am not so sure that's the case at all. The startups are trying to eliminate traditional silos and give consumers and businesses control. Thus, pondering commercial and financial futures, I look to more direct delivery of the nitty-gritty of what people really need from trade and finance, and what they don't need is some other kind of mortgage derivative, triple-square, or whatever."

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Office address: Ul. Pravdy, 24 (NGK), 6 Floor, Moscow, 125866 / Mailing addres: PO Box 33, Moscow, 127137. Email: ask@expert.ru / Website: www.expert.ru / Office Secretariat — +7 (495) 789-4465, Fax +7 (495) 228-0078, Editor-in-Chief, Director General, Art Director, Deputy Editors-in-Chief, Academic Editor. Departments: Economics, Politics, International, Companies and Management, Markets, Innovations, Culture and Society, Information Service, Industry, Regional Inserts, Layout, Re-Write, Photo Archive, Designers, Printing — +7 (495) 789-4465.Administrative Departments: Marketing, HR, Legal — +7 (495) 789-4465, IT — +7 (495) 228-0080, Accounting — +7 (495) 609-6625 / Subscription matters + 8 800 200 80 10 (toll-free for calls within the Russian Federation) or +7 (495) 789-4467, e-mail: podpiska@expert.ru. Please call toll-free at 8 800 200 8010 with regards to cases of refusal to subscribe, unavailability of The Expert at the points of sale, delivery delays and other operational problems.

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Director General Mikhail Neliubin
Executive Director Dmitry Vasiliev
Publisher Alexander Poptsov
Retail Distribution Director Vladimir Fedorov
Production Director Vladimir Kotov

Commercial Department:
Commercial Director Irina Pshenichnikova

Commercial Division
Tel: +7 (495) 510 5645 adv@expert.ru;
Elena Levakova, Anna Khoromanskaya, Anna Chernysheva

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"Expert Online"
Editor-in-Chief "Expert Online"
Mikhail Rogozhnikov
Editorial Director Dmitry Avdienko

Regional, Industry and International Projects Group
Tel: +7 (495) 637-9472, maslov@expert.ru
Head Sergey Maslov
Senior Manager Yulia Gnezdilova

"The Expert" Analytical Center
8 800-222-40-01
acexpert@acexpert.ru
Director Dmitry Tolmachev

Region and County Inserts Editor-in-Chief
Olga Vlasova

"The Expert North-West" (St. Petersburg)
8-800-707-1189
Director General Kristina Muravieva
Editor-in-Chief Dmitry Glumskov

"The Expert Urals" (Yekaterinburg)
+7 (343) 345-0342; (343)345-0372
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+7 (383) 363-2335
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"The Expert South" (Rostov-on-Don)
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The world of new finances for the post-crisis economy

Any economic crisis forces public and private sector actors in all countries to seek innovative ways to restart the economy, and this alters their 'business as usual' approach. Now, more and more economists are saying that the traditional reaction of countries — flooding their finance and banking systems with liquidity, as in previous crises of 1998 and 2008–2009 — may alleviate the immediate symptoms of an economic malaise but will not be able to cure the disease itself. The simple reason is that banks have become hostages to companies that have gone bankrupt and cannot be saved by any loans. And once ruined, these banks will be appropriated by investment funds.

Against this background, many economists are turning their attention to international financial centres (IFCs), which have long ago evolved from a simple triangle — stock exchange-bank-insurance company. They are now development institutions, generating the latest technologies for the world's next technological model. At the same time, in addition to long-established IFCs that exist as urban agglomerations — such as London or New York — with numerous banks, insurance companies, stock exchanges and a multitude of other organizations, more and more local financial centres emerge. For this reason, and because we believe that if their full potential is realised, IFCs may turn into a locomotive of the global economic recovery, we decided that these institutions deserve a separate study. Also, we see that the fragmentation of the global economy today is one of the main trends in the emerging new world order, and we think that Eurasian Economic Union (EAEU) — a new macro-region that has confidently arrived to the world stage — is set to play a particularly significant role in this recovery.

But in order to understand why the role of international financial centres is so important in restoring the global economy, it is necessary to understand the nature of the current crisis caused by the pandemic. According to the second law of economic forecasting, a crisis occurs later than it was predicted, but earlier than it was expected. This is exactly what happened now. But the question remains: why neither the equally deadly outbreak of SARS in the early 2000s nor the much more formidable Asian flu at the end of 2010 became detonators of global economic shocks, and SARS-nCov-2 was able to strike the world in the heart? So far, only possible hypotheses are being contemplated and the real answer will probably come much later. The first and obvious one, besides the scale of the pandemic, is the high concentration of production in China that has intensified in recent decades. The country was forced to temporarily shut down enterprises, which disrupted global technological supply chains. High-tech companies around the world were left without components, pharmaceutical companies without substances and so on. While China was fighting the coronavirus by itself, the world calmly watched on, viewing with disbelief grim forecasts of virologists who said that increased population mobility would spread the infection quickly across the globe. Which ultimately ended up happening. Now everyone had to shut down production, bringing down the economies of even the leading powers. The shutdown of enterprises caused a collapse in demand for energy resources whose prices collapsed to levels not seen since the 1990s. This in turn dealt a painful blow to oil-dependent countries. So, one of the possible answers to why SARS-nCov-2 has had such a devastating impact on the world economy is that over the last few decades the economy has become more globalized and interdependent. The second possible answer may be that, according to macroeconomic forecasts, the world inevitably had to face a long recession — it exhausted the opportunities for growth based on the existing technological order, whereas a new order has not yet fully emerged. But the pandemic changed things and instead of a sluggish depression caused an economic disaster, which in terms of its consequences is comparable to the Great Depression of 1929. Because of that, many of the experts with whom we spoke agreed that the current crisis would be deeper than all the previous ones, but it will be over much faster than a regular recession.

EAST NEWS (2)

Now the governments of all countries are trying to fight the fire with budgetary and borrowed liquidity: for people who found themselves out of jobs (and other people too) they are issuing subsidies, for enterprises that stopped production they are providing almost interest-free credits and are writing off tax debts, or are suspending rental payments, etc. In the worst case, a drop in production and lack of resources may delay structural reforms, leading to lower forecasts for growth in the medium term. And therefore there is a third answer to the question about the depth of the current crisis: we have not learned the lessons from the 2008 upheaval. At that time, the banking system, flush with unsecured liquidity, rather than bringing money into the real economy continued to trade in futures and indices. As a result, the system itself went out of balance due to huge amount of bad debts. The buy-out of assets by governments and funds did not really result in a complete recovery of the banking system. For this reason, economists are now looking with concern at traditional government measures to mitigate a pandemic. And that includes monetary policy. Many countries have lowered the interest rates, and the United States (USA) has reduced these rates to zero in the hopes to accelerate economic recovery. But prominent economists have repeatedly warned that this can have an unwelcome effect: cheap money corrupts the private sector, distracting it from the need to look for more efficient investment projects and ultimately multiplying the 'bad debts' of unstable companies. Perhaps only China has learned a lesson from the previous crisis. Originally, it launched a multitude of projects around the world under its Belt and Road Initiative, and in recent years started to look closer at their economics and as a result, abandoned a few construction projects.

Lack of trust in the banking system, understanding the impasse caused by cheap money and, as a result, a feverish search for new tools for growth after addressing the most acute economic and social challenges caused by the pandemic draw our attention to the growing role of international financial centres. Over the past decades, they underwent significant change due to globalisation. Now many IFCs are transforming themselves into development institutions, bringing together hundreds and thousands of organisations by providing structured ecosystems. They incorporate everything — regulatory regimes, financial instruments and technologies, in-depth competencies in different segments of the economy and management, acceleration of new technologies and a multitude of services. Around them, new digital and financial technologies mature much faster and expand to the entire economies of countries and regions where the IFCs are located. IFCs increasingly attract the latest digital and financial technologies, acting as accelerators and instruments for the Fourth Industrial Revolution (4IR) and a new world technological model. It comes as no surprise that, according to McKinsey, one-third of the growth of foreign investment in the world since 2007 could be attributed to IFCs. Robust reformatting of financial market leaders, such as London and New York, and the emergence of new regional financial centres in recent decades are both part of the new process of financial globalisation. These developments reflect the interest of many countries in participating in this process. A growing number of developing countries are creating their own IFCs to participate in the global redistribution of liquid capital, which is vital for investments in the real economy. Many countries are also introducing the latest digital and financial technologies that are necessary to realize tangible effects from the transition to a new post-industrial world. Moreover, increased competition among IFCs will certainly increase their effectiveness. For example, Ireland's IFC in Dublin attracted more than a thousand international companies in a short period of time by offering favourable terms. And a bold regulatory approach allowed Dublin overtake London in terms of Eurobond issuance. In response, London started to more actively support the creation of new financial technologies. Last year, the Monetary Authority of Singapore (MAS) received the annual Central Banking Award as the best central bank in the world precisely for its efforts to "turn the state into a centre of financial technologies." This suggests that the IFCs are increasingly becoming not only points of attraction for capital, but also drivers of the new economy.

Finally, we could not help but take note of how global geo-economics has changed in recent decades. To avoid the costs of a unipolar world order, regional alliances such as the European Union, ASEAN, former NAFTA and the completely new EAEU are gaining greater significance. The main question for us is to what extent the Eurasian Economic Union, a new macro-region, will contribute to strengthening the economies of its member states — Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. The most obvious opportunities for growth include joint efforts to create a single trading space, as well as improvements to the regulatory framework to accelerate trade and to modernise industry. At the international level, a policy of openness and alignment between the EAEU and China's Belt and Road Initiative (BRI) has been announced. The development of transit transportation infrastructure will not only allow the members of the Union to directly benefit from the growth of trade with the rest of the world, but will inevitably lead to an increase in the industrial production along new routes, as well as the emergence of many service companies resulting in significant GDP growth in member states. Now, of course, the question arises how soon after the pandemic China will be able to resume its projects in our countries? Most experts agree that China will not curtail the majority of these endeavours because of large investments already made, and also because new trade routes to Europe, the Middle East and Africa will be vital for its own economic development. And then it will be up to us — how quickly we can reduce trade barriers and focus on our own infrastructure projects that can become part of the BRI. From this point of view, creation of the Astana International Financial Centre (AIFC) in Kazakhstan — assembled as a toolkit from best global practices — seems quite logical. In our macro-region, there has never been anything like this (even Moscow has not yet managed to create a full-fledged IFC involving a pool of multinational companies and international financial institutions). The fact that the Shanghai Stock Exchange and the China Development Bank, as well as the Silk Road Fund, became AIFC participants and partners gives hope for a more productive participation of the entire EAEU in China's megaproject. If so, we can expect that our region will successfully fit into new global trends — the fragmentation of the global economy and the development of the latest technologies through the IFC. ■


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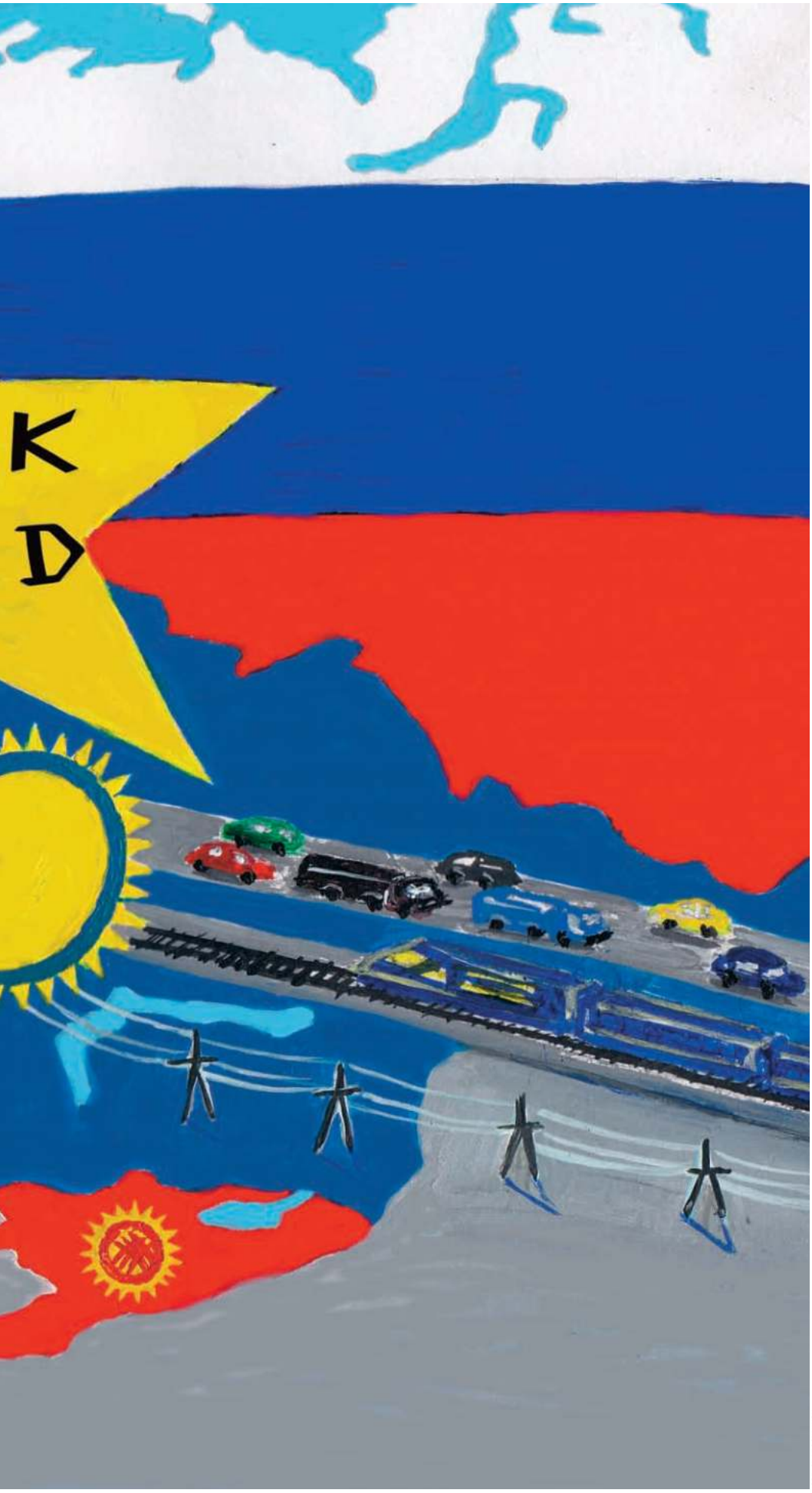


IGOR SHAPOSHNIKOV

Greater Eurasia changes the world

The shift of the centre of economic gravity from West to East is fundamentally changing the world's geo-economic setup, and the developing countries need to make sure that they do not fall behind in aligning it with their own development agenda. The countries of the Eurasian Economic Union (EAEU) have joined in a regional alliance in order to minimize the impact from external economic shock waves, including trade wars that are painful for everyone. The new union is becoming a noticeable player in the region covering Europe and Asia, and its gradual eastward movement in general, as well as cooperation with China's Belt and Road Initiative in particular, promise a future increase in the economic power of the member states. With the development of a new centre of power, the role of Greater Eurasia will increase, from the borders of Europe to the island states of Asia. This will help alleviate the crisis of globalism, and digitalisation will reduce the manipulation of consumer behaviour through open commodity markets. ■

Ivan Derzhavin

The spectre of globalism

Having reached the peak of globalisation-driven economic growth, the world's largest economies are faced with competition from developing countries. The liberalisation of the economy is now presenting a threat to the very authors of the rules of world trade, and these authors themselves are now violating these rules

EAST NEWS

Trade wars, more frequent mutual sanctions, exclusion of entire countries and large companies from the market, growth of protectionism, violation of all possible rules of the world trade, and finally, Brexit — everything speaks of the decline of the 30-year era when globalism flourished, and the beginning of a transition of the world economy towards a new polycentric model of development with a growing influence of regional alliances. Along with digitalisation promoted by the world's leading financial centres, this shift in the world arena will mark the beginning of an era of transparent trade borders inside economic alliances and, in time, between them, as well as fair exchange rules along with authenticity and sanctity of national interests, with the consumer at the centre of it all. However, the coronavirus has temporarily obfuscated these plans for a period of time, but countries will set new boundaries between themselves, which is understandable in a crisis. It is possible that the pandemic will re-direct the world from regional economic integration to self-isolation lasting for a while. Or at a minimum, it will lead to a more deliberate approach to integration with greater consideration given to the countries' own interests.

But how did globalism — once considered civilization's saviour and something that united the world in an accelerated growth — turn out to be a scary spectre with a scythe in its hand, and at times just a parody of itself? Formally, the global economy has continued to grow: in 2011–2017, at an average annual rate of 2.8 percent, and recently at about 3 percent. According to one view, this crisis was caused by the slowdown of growth of the largest economies. After these economies had reaped the main benefits of free trade, they are now suffering from the very rules that are providing growth opportunities to developing countries and are increasingly depriving leaders of excess profits.

The history of world trade goes back to the time of the first documented transactions of sale; written contracts were first recorded by historians in Babylon, in 3000 BCE. From that point on, the notion of "word" became central to the whole system of trade. A "merchant's word" carried enormous weight, and it was a matter of honour to keep it at all costs. The first elements of a global trade framework appeared at the end of the nineteenth century, when the imposition of protective import duties by industrial countries restrained the industries of developing countries. The tendency for self-isolating economically by protective duties intensified during the Great Depression of 1929, and the world economy came to a standstill. Now most economists agree that the crisis caused by the pandemic is already comparable in its severity to the Great Depression: just like then, many countries chose to isolate themselves from each other in order to find their own ways to come out of the recession. But almost a hundred years ago, the world was able to get back on its feet precisely because of the globalisation of world trade and industry. The efforts of multinational companies and financiers from the United States and Great Britain in 1944 resulted in the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, or the World Bank) designed to support developing economies. The third pillar of the global trade governance from 1947 was the General Agreement on Tariffs and Trade (GATT), signed by representatives of 23 countries. For the first time, this Agreement provided for reasonable tariff restrictions on goods with the gradual abolition of import duties, mutual concessions and free access to national markets. The mechanisms of the IMF and the IBRD contributed to improving the investment attractiveness of countries and stimulated the growth of their economies. At the same time, in 1961, the Organisation for Economic Cooperation and Development (OECD) was created with a mandate to make recommendations to member states (37 as of now) to improve their investment climate and to streamline regulation of domestic markets. In 1995, after half a century of liberalisation efforts by developed countries, the World Trade Organisation (WTO) was formed. It inherited the GATT rules and became the de jure and de facto regulator of world trade, with its governing bodies including a ministerial council, a council, commissions and a dispute resolution body. Now the WTO unites 164 member countries, including most of the former Soviet republics. The creation of this organisation is viewed as the quintessence of globalisation, having opened access to vast markets for transnational corporations and banks. Let us recall the rapid expansion of world trade when first the

BASIC PRINCIPLES OF THE WTO:

- **Equal rights**. All WTO members are required to grant all other members the Most- Favoured-Nation trade (MFN) regime. The principle of MFN means that in all cases preferences granted to one of the WTO members automatically apply to all other members of the organisation.
- **Reciprocity.** All concessions resulting in easing bilateral trade restrictions should be reciprocal, eliminating the "free rider problem".
- **Transparency**. WTO members must fully disclose their trade rules and have bodies responsible for providing information to other WTO members.
- **Existing obligations.** The countries' trade obligations are governed primarily by the WTO bodies, and not by relations between countries. And in case of deterioration of the terms of trade in any country and in a particular sector, the disadvantaged party may demand compensation in other sectors.
- **Safety valves.** In some cases, the government may introduce trade restrictions. The WTO agreement allows members to take measures not only to protect the environment, but also to support healthcare, as well as animal and plant health.

Ivan Timofeev, Program Director, Russian International Affairs Council

Indeed, the economic power of the US often tempts its politicians to impose sanctions against different countries. So far, the world has no choice but to put up with such a unipolar policy: the main investments and cheap loans are connected with the United States, and for many countries the dollar is both the reserve currency and the primary settlement currency. Therefore, many nations are trying to go along with such a policy without hurting business. Even China's business, as we see, is very careful and tries to comply with trade restrictions issued by the US. But the same happens with the American business: it also does not want to lose the enormous Chinese market and therefore follows the restrictions of the Chinese government. In principle, the Chinese business is trying to be very careful. The American companies, by the way, also do not want to lose the Chinese market. And they view any political steps with great caution.

countries of the former USSR opened up, followed by the entire "communist camp", including a growing China. Thanks to the WTO rules and large-scale trade liberalisation, international financial centres started emerging as points of gravity for investments and increasingly noticeable players in the global economy.

But even with the primary focus of globalisation institutions being on development, this process went through certain growing pains. Strengthening the economic power of transnational corporations and financial institutions, and their search for sources of extra profits in a close alliance between private and public sectors in many countries, led to the infringement of the interests of developing countries and to unfair competition. The anti-globalisation movement emerged as a reaction to all of it. Historically, the anti-globalisation movement originated in Mexico precisely as a national struggle against transnational corporations which extracted raw materials while paying dismal salaries and providing intolerable working conditions. Later, a more serious international alliance of anti-globalists appeared in Paris: in 1998 several French publications, public associations and trade unions came together under the Association for the Taxation of Financial Transactions and for Citizens' Action, or "ATTAC-France" (a 0.1 percent "Tobin tax," named after Nobel Prize laureate James Tobin, applied to financial transactions around the world, will feed all hungry and homeless). Everywhere the movement began to grow, attracting mostly informal and marginalized individuals.

In part, the new UN sustainable development agenda alleviated these tensions: now all transnational corporations (TNCs) and major state-owned enterprises (SOEs) have, in one way or another, programs to reduce harmful emissions, closed loop waste-free production systems and programs to preserve the environment in countries where they operate. Having realised that things are not so bad, the anti-globalists retreated into the background, partly transformed into the movement of alter-globalisation, which is now professed by the same ATTAC. These new anti-globalists have decided that the world will inevitably live according to global laws that are advantageous for everyone. In the end, there is always cheap credit in the world financial market, economies of scale are reducing production costs, localisation of globalists is creating taxes and jobs, infrastructure is being built, no one encroaches on national labour laws, and it is prestigious to work in international companies even among the anti-globalists themselves. Therefore, in the end, the alternative globalists limited themselves to presenting an invoice to the transnational corporations, the World Bank and the IMF. ATTAC is talking about debt write-offs for developing countries, new rules of international credit, a ban on restricting sovereignty, replacing the IMF and the World Bank with a democratic system of regional banks, prohibiting the destruction of non-Western civilizations, taxes on financial speculators and wage increases in underdeveloped countries. But since they do not have a real organising force, this agenda remains only on their posters around international economic forums. However, this alter-globalist agenda is now reflected in economic decisions of national governments and requirements to TNCs. A recent example is the acquisition of one giant of globalisation, Monsanto, by another, Bayer.

Marc Uzan: "We're going to go through something bigger than the Great Depression"

During the pandemic, the world faced a crisis of multilateral relations, and the breakdown of production chains made many countries think about revising the existing supply chains and bringing the entire production cycle onshore, to reduce dependence on other countries. Economists around the world are thinking about how the global economy will recover and how geopolitical relations will develop after the crisis. Will the economy get re-started in the same synchronised fashion as it stopped? Where can global production be concentrated in the future? Will the current crisis further the de-globalisation process? **Marc Uzan**, Executive Director and Founder, Reinventing Bretton Woods Committee, answered these and other questions.

— How do you think the global pandemic will affect the economy? How will the economy look after the pandemic and, most importantly, how long will it take to recover?

— A lot of people try to compare this crisis with earlier ones: the crisis of 2000, or the Great Depression in the 1930s. But it seems to me that what we are experiencing today cannot be compared to anything, it is unique. For the first time we have a crisis that has been triggered by a decision to stop global economic activity. I would call it a new equilibrium of global economic inactivity because this is also synchronised. The whole world went into lockdown and economic activity around the world stopped. It affects everyone: consumers, households, companies and governments. It's very difficult to try to contemplate and to project what the global economy will look like, because it's unclear when the quarantine will end. Will this reopening of the economy be done in a synchronised way? Let's say, in France, we just started to reopen very slowly. But moving too fast is a concern for the whole world — we may lift the quarantine and get run over by the second wave. So it's unclear how this uncertainty in the global economy can be managed, because you have a lot of projections that the global economy will be going down by 3 percent this year, and the recovery slope is going to be U-shaped, V-shaped, L-shaped, etc.

We are dealing with an economic crisis of such dimensions that it affects everything. We know that we're going to go through something bigger than the Great Depression. We see already the unemployment numbers in the US, but also emerging markets are getting affected. For the moment, emerging markets do not have the same fiscal or monetary capacity as the advanced countries. And they are facing multiple shocks: commodity shock, tourism shock, manufacturing shock. This is a unique event in history. This crisis will change the way we think about the global economy, about global governance, about regional integration and so on.

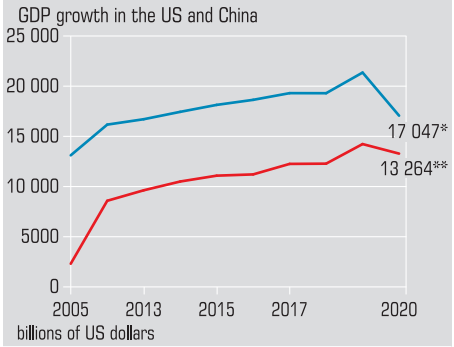
— Indeed, it is hard to predict the future of the global economy. But what is the future of global institutions — the IMF, the World Bank and others? Recent examples include the World Health Organisation (WHO). They have been under pressure for a long time. What role will these institutions play in the future?

— Before this epidemic there was a lot of talk that the world was facing a crisis of multilateralism. Two main global players, the United States and China, used to differ in their perceptions of global public good. More actions came from the United States: it wanted to retreat and was saying

"Why should we be part of WTO?" And America withdrew from the WTO's dispute settlement mechanism. The US started to really question why it should pay for the global public good. That was in fact completely different from what the US was all about since the end of World War II.

And at the same time you have China before this crisis playing a more important role and being an active player in international affairs — by launching the Belt and Road Initiative, by setting up different swap lines with different Central Banks and by being more involved in international institutions like the IMF, the World Bank and so on. Will these

The GDP of the US and China have always been synchronized



* The US Federal Reserve forecast.
* IMF forecast.

■ The US ■ China

Source: RANEPA

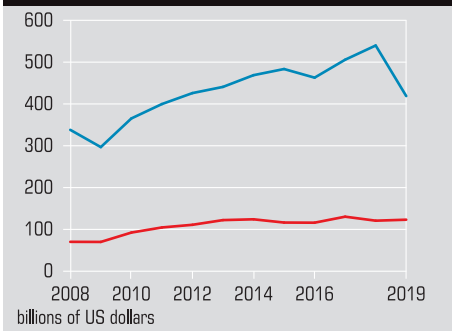
China's rate of growth was several times higher than that of the US

*The US Federal Reserve and IMF forecasts.

■ The US ■ China

Source: S&P Global

In recent years, China's exports to the US have reduced considerably, and imports from the US have increased



■ China's imports to the US
■ The US exports to China

Source: NRU HSE

Russia demanded that this "double transnational corporation" share its advanced genomic seed selection technologies, which are not available locally. The United States also did the same, making Bayer locate its hi-tech biotechnology and genetics R&D facilities in the US.

Why Has the World Gone Crazy?

The crisis of 2008 showed that the basic financial mechanisms of globalism also occasionally fail. The too liberal development of stock markets led to the prevalence of speculative instruments over investments in real assets. As a result, financial bubbles first inflated and then burst, shocking the world for long periods of time. The 2008 ratio of world trade to global GDP has still not recovered. The "Rust Belt" in the USA with empty cities because of relocation of production to China and other Asian countries, as well as incorporation of Apple in Ireland to take advantage from a 2 percent tax (a lead followed by many others) are only some examples of direct results of globalisation, free movement of goods, as well as free choice of jurisdictions and labour markets.

Over the past three decades, the share of developed countries in global GDP at purchasing power parity has declined from 58 percent to 40 percent. The share of G7 states fell from 46 percent to 30 percent, whereas the share of emerging markets is growing. Of course, this primarily reflects the strengthening of the so-called "Asian Tigers" and the whole of Southeast Asia, led by China. All this enabled the hysteria of protectionism, which undermines the fundamental rules of liberal trade at their core. That is, as soon as overly liberal trade and common markets opposed the economic interests of the primary defenders of WTO — the USA at the world level and United Kingdom (UK) within the European Union (EU) — the rules of the WTO itself were totally violated. Moreover, digitalisation, as a driver of the new economy, is also becoming an enemy for developed countries. E-commerce has established the primacy of a consumer by making it possible to choose anything at best prices anywhere in the world. A genuine competition emerged in consumer goods, as well as in white goods and electronics.

The trade war between the USA and China shows that the entire global economy is

trends accelerate? Will this crisis remind us why international institutions and multilateralism matter? The Great Depression happened because of major mistakes in managing the crisis of 1930s. These mistakes created colossal errors in international relations and triggered a global war. I think today we are facing the same challenge. The only difference is that today policy makers reacted very swiftly and took all the necessary measures. But we must be very careful. Because if we are not making mistakes now with regards to the economy, it doesn't mean we will not make mistakes in the future with regards to the international relations.

— There is a lot of talk now at different levels that countries, companies and everyone else should become more self-reliant, that companies should control their entire supply chains. In your opinion, will we see this? Or have large companies already started to actually localize all processes in their countries of origin (French companies in France, Russian companies in Russia)? Does this trend really exist?

— Yes, it does. I would define that as one of the lessons of this current pandemic. We used to take globalisation and interdependence for granted. Now interdependence is perceived as a systemic risk. Before the financial crisis, the banking sector was a systemic risk, but now people look at interdependence as becoming a systemic risk for the world. Everyone wants to re-acquire sovereignty over supply chains, and everything becomes strategic. The goal is to make sure that vaccines, or anything else, stay where they were created. If I created something first, it's for my own citizens. The same goes for food security and agriculture. And this need to re-establish sovereignty is a real trend that I see in the EU and the US. This can be very dangerous, and this is a lesson we must learn: if we are making the right policy responses with regards to the economy, we have to make sure we don't make mistakes in geopolitics.

When we are talking about sovereignty, it's really about how we can be less dependent on China. For example, the Recovery Act of Japan is providing support and funding to companies that are bringing back production to Japan instead of having their factories in China.

I would say that these trends will present the major question for the world: Where will global production take place? We used to call China "the world factory." Would this be the case after this crisis? That's number one. When you want to disrupt global value chains, you say, "Okay, we need to become more strategic. We cannot just continue using the global value chain as we did before." Of course, it will have a big impact because cost of production will increase. If tomorrow you decide to bring your companies onshore, cost of production will increase, inflation will go up. We need to think very carefully if the main lesson of this crisis is just to say, "Okay, we need to be less dependent." This is clearly a very important trend everywhere, in the US and also in some emerging markets. Why not? But you have to understand the unintended consequences of this new strategy... Remember that emerging markets were able to catch up with the rest of the world because of this global value chain, because companies in the Western countries decided to take their production abroad. Latin America is a case in point, having been able to catch up with developed countries. What will happen to the growth model of emerging countries if we accept this new tendency? Does it mean that we're moving towards de-globalisation? That is going to be the key question going forward."

MATTHIAS SCHRADER/AP/TASS

Strengthening the economic power of transnational corporations and financial institutions, and their search for sources of extra profits in a close alliance between private and public sectors in many countries, led to the infringement of the interests of developing countries and to unfair competition

suffering from disagreements between the world's two largest economies. The conflict started in late 2017 with the introduction of duties on several goods manufactured in China and imported to the United States. Subsequently, the list was expanded. In response, China raised import duties on food products from the USA that can also be easily purchased in South America, Europe and Russia. As a result, US farmers, unable to sell their products to China, suffered significant losses. The Chinese economy, however, slowed down even more (growth in the first quarter of this year was about zero). Also, some supply chains for multinational companies were ruptured.

Because of this trade war, the International Monetary Fund (IMF) initially predicted a slowdown of the global economic growth rate from 3.6 percent to 3.3 percent, and stock markets took a dive. China's appeal to the WTO did not produce results (the hearing takes too long), and then the Bank of China devalued the renminbi to stimulate exports which account for up to two-thirds of the country's GDP. This made Chinese goods cheaper on world markets, so the USA tried to challenge China's financial decision in the WTO. But it turned out that countries' foreign exchange operations are beyond the jurisdiction of the organisation. Moreover,

Dr. Ariel Cohen, Director of Energy, Growth and Security Program at the International Tax and Investment Centre, and founder of International Market Analysis, a consulting boutique

The world is being dragged into a confrontation between two great powers. One is the reigning superpower, and the other is a challenger — China. The USA at this point has an advantage of post-World War II alliances, including Western Europe, Japan, the UK, Australia, New Zealand, etc., and countries that are fearful of China, such as Japan, India, Vietnam, etc. However, the Chinese economic growth and industrial base allow it to compete economically with the United States. If the United States manages its alliances, emphasizes science and technology in STEM [Science, Technology, Engineering and Mathematics] education, and effectively manages its internal politics, my bet is that in a long-term confrontation, the US and its allies will be successful. If, however, the alliances fray, the internal politics become too divisive, and the USA does not develop its science and technology in a way it can prevail in competition with China, the outcome is more in doubt. This does not mean that China will be able to build a global system as the USA succeeded after 1945. It may mean decades and decades of a chaotic world in which everyone would lose. In such a world, regional wars, customs and trade barriers and other disruptive events will raise the price of conducting business to the point that the world will be more embattled, more miserable, and poorer.

Sergey Glazyev, Member of the Russian Academy of Sciences, Minister of the Eurasian Commission, former Advisor to the President of Russia

Many countries are building their own interbank information exchange systems to replace SWIFT, switching to settlements in national currencies, diversifying foreign currency reserves, and trading currency and credit swaps. This way they are protecting themselves from the consequences of an uncontrolled unfolding of the financial crisis which draws liquidity into the American financial system. Under any scenario of future events, the latter will weaken, and its alternative, now taking shape in the Asian capital accumulation cycle, will develop. And this means an inevitable reduction of the United States' financial capabilities and a decrease in the degree of inequality within the international economic exchange — which is currently in its favour. This, in turn, will entail a sharp decline in the military and political power of the United States — America will be forced to drastically cut its exorbitant military spending which is creating a huge budget deficit.

The role of the IFCs in all of this will be key. If we talk about the US Federal Reserve as the issuer of the main world currency, American financial and public sector elites that control it will do everything possible to use the US ability to issue dollars for the purpose of redistributing global assets in their favour. The bursting of bubbles in the securities market that is taking place now and is resulting in a $15 trillion drop in securities value means that the financial and public sector oligarchy is manipulating the financial markets and in doing so is unloading its debt obligations. At the same time, the coronavirus pandemic fear has paralyzed the economic activity of most states and leads to a huge increase in state budget deficits generating a demand for large-scale loans. To meet this demand, the US Federal Reserve is issuing money. If the US issues money against unsecured debt obligations of the state, in other countries dollar-denominated loans will have to be secured by sovereign assets. A significant part of loans issued by American banks will be secured by assets of insolvent borrowers, and in the future these assets will come under the control of banks and funds associated with the US Federal Reserve. This way the financial and public sector elites of the United States will try to implement a global redistribution of ownership of valuable assets in their favour. British and European — as well as Japanese — financial and public sector elites that all have their own international financial centres, are acting in conjunction with the Americans.

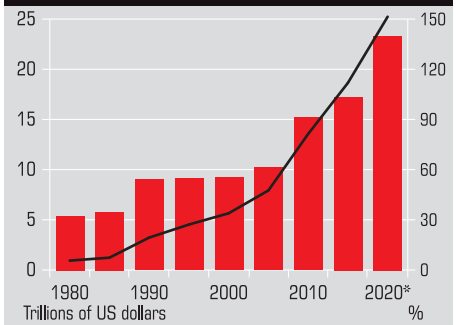
IFCs in countries that do not have the ability to issue global reserve currencies act as transmission links for the redistribution of international flows of dollars, pounds, euros and yens. China, India and other countries that have mastered the institutions of a new global economic order rely on national financial centres and regulate the inflow of foreign capital in accordance with the development objectives of their economies. Most peripheral countries that have liberalized cross-border capital transfers under pressure from the IMF, as well as the Paris and London Clubs of lenders, will become platforms for redistribution of assets.


ДОНАТ СОРОКИН/ТАСС

the United States already has a "printing press" advantage; it is the only country that, according to the Jamaica monetary system since the 1970s, has been allowed to print money almost uncontrollably by announcing a policy of quantitative easing. (Other countries cannot afford to print money because their currencies are not reserve currencies for other nations.) As a result, the dollar is increasingly transforming from a reserve currency into an instrument of pressure, including sanctions that blocked Iran and Russia from cheap global dollar-denominated financing and threats of disconnecting from the SWIFT international settlement system. Being clusters of credit organisations, international financial centres are not happy with this, but they prefer to stay out of politics. Therefore, as early as 2014, the countries of Greater Eurasia started talking about moving to settlements in national currencies. In the EAEU, the share of transactions in RMB has been growing steadily in recent years.

A struggle for technology leadership between corporations gets escalated to the level of political leadership, and WTO rules can be easily bypassed by using the "national security clause." But this may result in creating a monopoly at the current stage of innovations and limiting access to new products will only aggravate the problem of global inequality between countries and regions, as well as within countries themselves. Not surprisingly, the United Nations' agenda has addressed inequality and hunger for many years. The situation has evolved to the point when the USA is confronting Germany and other EU members over the construction of the Nord Stream-2 gas pipeline, openly forcing them to buy its expensive liquefied natural gas. This can be viewed not only as a violation of global trade rules (restricting access to markets), but also as an encroachment on the economic sovereignty of its own NATO allies. Market growth is also hampered by the likely introduction of new US sanctions on goods from Europe (mainly, automobiles and electronics) worth $4 billion a year.

The US national debt has long outpaced the country's GDP



*The US Federal Reserve forecast.

■ The US national debt

■ Ratio of the national debt to GDP (right-hand scale)

Source: The US Federal Reserve

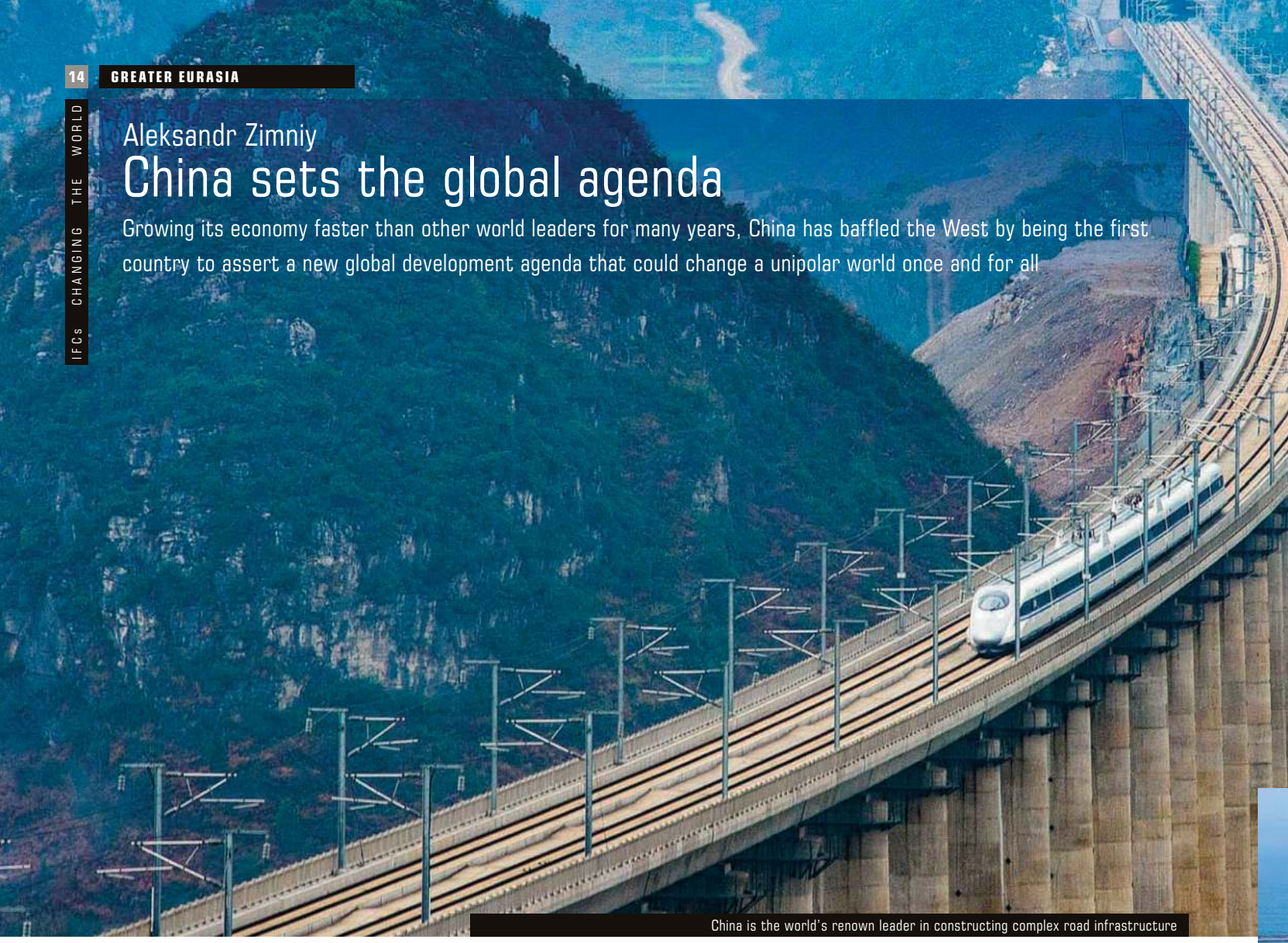
At the same time, dispute resolution mechanisms in the WTO continue to work quite well, and often in the USA's favour. For example, the dispute resolution body recognized that the EU countries (France, Germany, Spain and the UK) unreasonably provided government support to the manufacturer of Airbus airliners, and as a result, Boeing started losing the competition. Since the EU ignored the demands of the WTO, the organisation permitted the USA to impose an import duty on Airbus aircraft worth about $7.5 billion a year, and so in the end everyone got what they wanted. But at the same time, President Trump, with no regard to the WTO, arbitrarily imposed duties against Chinese goods. And when retaliated, he threatened US withdrawal from the WTO. So, in the wake of the confrontation between the two largest economies, the EU had to get ready for WTO reform.

"If we set the market influence that the WTO and the IMF yielded in the early 1990s as 100 percent, then only 40-50 percent of this influence remains now. I think that in the near future, the IMF and the WTO will become more realistic, more multipolar, more independent of the US and the EU," believes Prof. Yakov Mirkin, head of the department of world capital markets at IMEMO RAS (Institute of World Economy and International Relations of the Russian Academy of Sciences).

Aleksandr Zimniy

China sets the global agenda

Growing its economy faster than other world leaders for many years, China has baffled the West by being the first country to assert a new global development agenda that could change a unipolar world once and for all



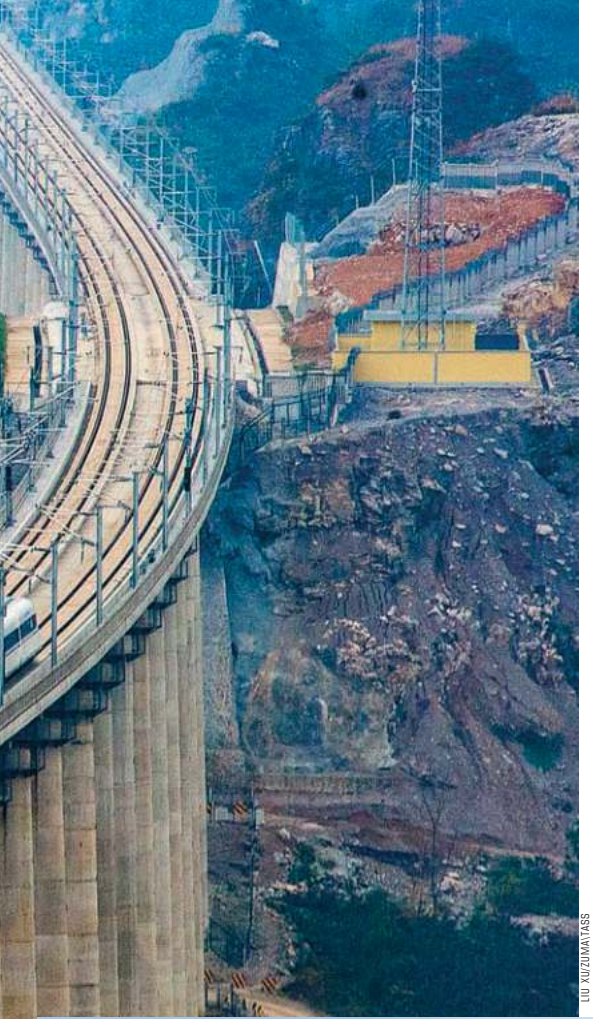
China is the world's renown leader in constructing complex road infrastructure

Growing its economy faster than other world leaders for many years, China has baffled the West by being the first country to assert a new global development agenda that could change a unipolar world once and for all.

China's leader Xi Jinping first announced the concept of the "One Belt — One Road" project, also called the Belt and Road Initiative (BRI), in 2013 in his keynote address on Beijing's cooperation with Central Asian countries. This initiative distilled several earlier projects branded under the general idea of a new Silk Road that initially did not encompass the global geo-economic space, like "Belt and Road." BRI itself was formed as a result of a merger of two main macroeconomic mega-projects — the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road (MSR). Today it is one of the key elements of China's foreign and economic policies. According to China's data, the volume of its trade with BRI partners over six years has been growing and in 2019 exceeded $6 trillion. During this period, China invested more than $90 billion in the economies of countries participating in the initiative (there are already more than 130 of such countries). The World Bank has estimated that over six years China has provided funding for BRI projects in the amount of $547 billion. According to China's government, the total value of projects planned (partially implemented) by 2019 is $2.8 trillion (the figure changes every year, as costs of some projects are revised upwards or downwards).

China proposed to the world the idea of a large-scale construction of logistics, energy and digital infrastructure on almost every continent. The United States saw this as an attempt to completely take over global markets (and at the same time, gain political influence) and launched a large-scale propaganda offensive against the BRI. In 2017, China reformatted this megaproject and incorporated in it the principles of respect for mutual and national interests in project implementation, and the leading role of regional alliances, such as ASEAN, the EAEU, the EU and others.

China's interests in the BRI are obvious. It needs to support its construction sector, which is stagnating after a period of rapid growth, and with it, the industry. China needs to eliminate development inequality between its eastern coastal regions, and western provinces located far from the ports and whose industrialization is just beginning. These interior provinces will require a new corridor to Europe, the Middle East and Africa, different from the southern trading routes. The BRI is also about the Northern Sea Route through the Russian and European Arctic. Without a doubt, the BRI is primarily geared towards creating new markets for Chinese export-oriented regions that have been effectively delivering its goods to the markets of developed countries but see the demand for these goods reaching its limit. As part of the BRI, 82 cooperation zones have already been established around the world with about 300 thousand new jobs. Over the past five years, China's trade with "Belt and Road" partners has exceeded $6 trillion, and China has invested more than $90 billion in the economies of BRI-member countries over this period. First major projects entailing infrastructure, energy and road sites that include railways, bridges and new deposits of natural resources, have already been implemented at the cost of hundreds of billions of dollars in Africa, the Middle East, Europe, and South and North America. The project is well-endowed with cash, which makes it



LIU XU/ZUMA/TASS

ZUMA/TASS

Chairman Xi Jinping first proposed the "Belt and Road" project in 2013

Vietnam constructed South-East Asia's largest port as part of the BRI project

attractive for participants. Initially, in order to finance BRI projects, Xi Jinping initiated the creation of the Asian Infrastructure Investment Bank (AIIB) with $100 billion in capital and the Silk Road Fund with $40 billion in capital (part of these resources have already been spent on projects). According to 2019 data, the China Development Bank has provided financing in the amount of over $190 billion for the implementation of more than 600 infrastructure projects within the framework of the "Belt and Road" mega-project since 2013. Over the course of the next five or six years, AIIB expects to increase annual lending to $4–6 billion, and later possibly increase it to $10–15 billion. The flagship project of the Silk Road Fund was the creation of the Sino-Pakistan Economic Corridor. China Investment Corporation finances infrastructure in Europe, Africa and the Middle East.

BRI rebranding became necessary due to many questions that were raised in the first few years of the initiative. On the one hand, in Africa alone over 40 countries received a powerful modernisation and infrastructure construction boost from China. On the other hand, far from everyone managed to make money on these projects, because most of labour, production facilities and materials came from China. In six years, to gain support from local residents in Africa, China built over 6,000 km of railways, 5,000 km of highways, 9 ports and 40 power plants, as well as schools, stadiums and other social infrastructure. Many countries took out loans from Chinese banks for BRI projects and other purposes.

IMF analysts conclude that close to the time of the loans' maturity, African governments will change, and countries will be deep in debt and will be forced to use natural resources to repay these debts. According to the China Africa Research Initiative, Chinese companies (including state-owned) in Africa make up to $50 billion annually on the construction of new roads, energy facilities, ports and airports, and by doing so repatriate Chinese banks' money well ahead of the term of the credits' maturity. China's ZTE and Huawei built mobile communications infrastructure in Africa funded by interest-free loans from their national banks, and so gained an advantage on the continent over EU and US companies. Within the framework of BRI, the Chinese telecommunications company CCS began to implement a large-scale project of a broadband "information highway" in 2015, to unite the largest African cities with a high-speed Internet access network and then unite them into a regional network. In Southeast Asia, a network of BRI infrastructure projects will create the world's largest economic corridor with a production volume of up to $21 trillion and involving 20 countries with a population of more than 4.4 billion people, or 63 percent of the world's population. Almost all South-East Asian countries (including India) are involved in one way or another in the BRI projects partially funded by AIIB. For example, China has already built large modern ports in several countries — Gwadar in Pakistan, Hambantota in Sri Lanka, Chittagong in Bangladesh, Kyaukphyu in Myanmar — with plans to build several more. A 4,000 km-long Pan-Asian railway network is being built to connect China with Laos, Thailand and Singapore. Vietnam is also a key element of China's MSR project and one of the 21 founding countries of AIIB. With China's help, Vietnam has modernised and increased the capacity of Hai Phong, the largest trading port in Southeast Asia. Indonesia plans to integrate into BRI through construction and to build 24 seaports, some of which have already been completed. Malaysia will also participate in the project, focusing on the construction of ports, including seaports, and railways, as well as on the development of the aviation sector. But a lot of these projects are being financed by China on market terms. In Pakistan and Malaysia, state debt to Chinese banks exceeds these countries' GDP, so that without debt write-offs they will find themselves in default. According to a study by the Centre for Global Development (USA), among 68 countries participating in BRI, 23 are "at risk of debt distress," while for eight countries there is "potential for debt sustainability problems." On the other hand, several of China's projects in the Middle East turned out to be unprofitable due to bad risk management. ■

Aleksandr Labykin

Finding their own place in Greater Eurasia

In order to find their place between the largest economies of the West and the growing East, the countries of the Eurasian Economic Union (EAEU) will have to integrate into the new world paradigm while pursuing their own agenda for modernising the economy

The First President of Kazakhstan Nursultan Nazarbayev initiated deep integration of post-Soviet states back in 1994

After adjusting its projects in 2017, BRI placed special focus on alignment with the integration project of the EAEU. This was one of the objectives for creating EAEU — to establish a unified block able to stand up to the world's largest economies and to advance a development agenda with greater strength than each of the member states on their own. Coronavirus put the global economy, already weakened by trade wars, on hold. EU countries reacted by self-isolating from each other and by rupturing production chains without advanced notice. The slowdown of the Chinese economy due to the virus provoked a drop in oil prices and the cancellation of the OPEC+ deal, causing a further collapse in oil prices. Scenarios of economic recovery: the most optimistic — 2021–2022, pessimistic — 2024 and beyond. The IMF estimates that global economic growth will be only 0.3 percent instead of the previously expected 3.6 percent because of the pandemic. The economic outlook after the pandemic includes a slow recovery of industrial and services sectors against the backdrop of lower demand from the impoverished global population. At the same time, the trade war between China and the US only adds to everyone's problems. For example, President Trump announced that due to the alleged cover-up by China of pandemic data, the US would refuse to honour its financial obligations with regards to bonds owned by China. In response, China, as the largest holder of US bonds in the world (at $ 1.2 trillion), warned that it would simply dump them into the market, making what used to be the world's most reliable bonds worthless, and at the same time, crushing the dollar. This will hurt everybody as many countries, and not only in the West, keep their savings in US bonds and use the dollar.

"China may emerge a winner from this confrontation, because the US can no longer increase its customs duties - it's not profitable for America anymore, and debt write-off will boomerang and hurt the US itself," says Alexander Gabuev, head of Russia in the Asia-Pacific Region Program at the Car-

negie Moscow Centre and a China specialist. "China is now focusing on infrastructure construction domestically for the Fourth Industrial Revolution, as an anti-crisis measure. This allows it to employ an army of workers who were laid-off as a result of declining exports and business closures in a pandemic. It started to actively build 5G networks and huge storage facilities, create quantum computers and develop AI. As always, it views the crisis as an opportunity to ensure an even greater leadership and then to expand beyond the borders of China into Eurasia." However, there is also a view that by "dumping" the US bonds, China will hurt itself — these securities will immediately depreciate, whereas now they earn China between $20–40 billion each year.

The EAEU countries must also find new opportunities for themselves in order to pursue their agenda for post-crisis recovery and further development. Most likely, this will be a more pronounced pivot to the East, initiated by Russia against the background of sanctions in 2014, but supported by the EAEU partners as a supplement to a long-term development agenda. However, a complete inability to predict even the immediate future makes it impossible to build the complete anti-crisis agenda. The world will change in ways that we have not expected.

"I think that in the coming years the rebalancing of industry will continue — a partial return of production from the "workshops of the world " (China and Asian economies) to the US, the EU and, in general, the developed countries," reasons economist Dr. Yakov Mirkin. "Everybody has seen the risks of excessive concentration. The value (and valuation) of primary resources — clean water, fuel, food, metals — may increase. No one will forget the panic of the first few days. There will be more protectionism (it's crazy when the US and Germany are in conflict over the supply of medical masks from China). The notion of "ownership" will be at a premium. Ideas about the future as a sharing economy (primarily) — car-sharing and rentals — will fade."

And this means a rollback from the Fourth Industrial Revolution and higher value-added margins. "China is becoming the centre of a new world economy, and in the foreseeable future China will remain the leading engine of global economic growth," says Sergey Glazyev, member of the Russian Academy of Sciences and Minister of the Eurasian Economic Commission. "The convergent-type management system created in that country — combining central planning with market competition — is the most effective in the world. To strengthen their position in Greater Eurasia, the EAEU countries should creatively use China's successful experience by introducing institutions and mechanisms that ensure the growth of an integrated economic system." In his opinion, under a favourable scenario, the great stagnation of the Western economies, under way for more than a decade, will continue for several more years until the capital remaining after the financial bubbles have burst is invested in production within a new global technological model. Under an unfavourable scenario, money injections into the financial system will lead to high inflation, which will result in economic disorganisation, a drop in peoples' living standards and a political crisis.

Kuryk Port in Aktau: Kazakhstan is actively modernizing its transportation infrastructure, in part tailored to the "Belt and Road" project

The EAEU's advantage in Greater Eurasia is that many of its participants, primarily Kazakhstan, are pursuing a multi-vector foreign policy: unlike Russia, they do not feud with the West and at the same time draw closer to the East

"China, Russia and Iran are already taking measures to reduce their dependence on the dollar. They are building their own interbank information exchange systems to replace SWIFT, switching to settlements in national currencies, diversifying foreign exchange reserves, and trading currency and credit swaps. This way, they are protecting themselves from the consequences of an uncontrolled roll-out of the financial crisis, which draws liquidity into the American financial system," adds Minister Sergey Glazyev.

Against this backdrop, the EAEU's advantage in Greater Eurasia is that many of its participants, primarily Kazakhstan, are pursuing a multi-vector foreign policy. Unlike Russia, they do not feud with the West (the United States is one of the largest investors in Kazakhstan's economy) and at the same time, draw closer to the East. Such a model will allow the EAEU countries to find their own opportunities for economic growth, be it BRI or modernisation towards the 4IR structure. Then the geo-economics of Greater Eurasia will acquire a new growth area, bringing the world closer to a multi-level and polycentric regional structure.

"If we want to become an important player in Greater Eurasia, we certainly need to leverage the transit hub as a growth opportunity," says Sultan Akimbekov, director of the Asian Studies Institute. "But at the same time, we need to increase our competitiveness since we will be in direct competition with goods from China and Southeast Asia. This can be our agenda that will help us withstand any transformations of globalism." ■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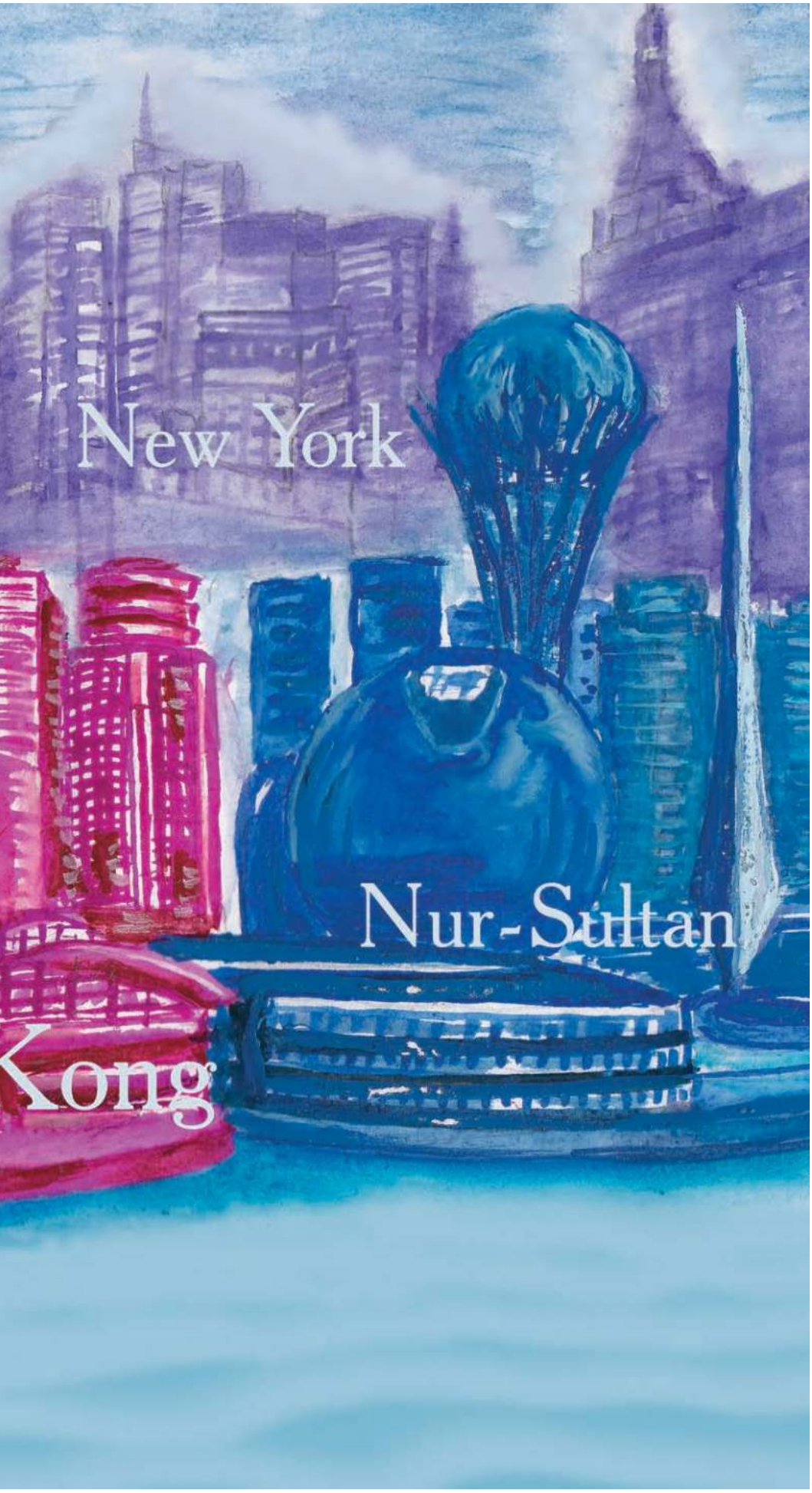


IGOR SHAPOSHNIKOV

Financial centres of the world — launching pads for economic relations

De-globalisation in terms of fragmentation of the global economy, the growing role of developing countries and the formation of new regional alliances are accompanied by the emergence of new international financial centres. Starting off as islands of free trade, they evolved into major financial hubs. Stock exchanges located at IFCs contributed to the process of economic globalisation and to the growth of the world's leading economies. Now more and more governments are seeking to create their own IFCs to strengthen their economies by attracting investment to modernise their industries.

New IFCs are becoming increasingly specialized depending on their unique economic features, and that way they are gaining advantage over global leaders. At the same time, the competition for residents among IFCs encourages them to increase the number of service companies, offer more flexible regulatory regimes and create incentives for new technologies. In recent years, they have ceased to serve as mere points of redistribution of capital. Rather, they are becoming strong development institutions that enable the creation and market launch of new digital and financial technologies. The development of fundamentally new financial instruments (e.g., tokens) can change the very nature of money, and completely transform the way of life for people around the world. ■

Elena Pogodina

The evolution of IFCs from antiquity to today

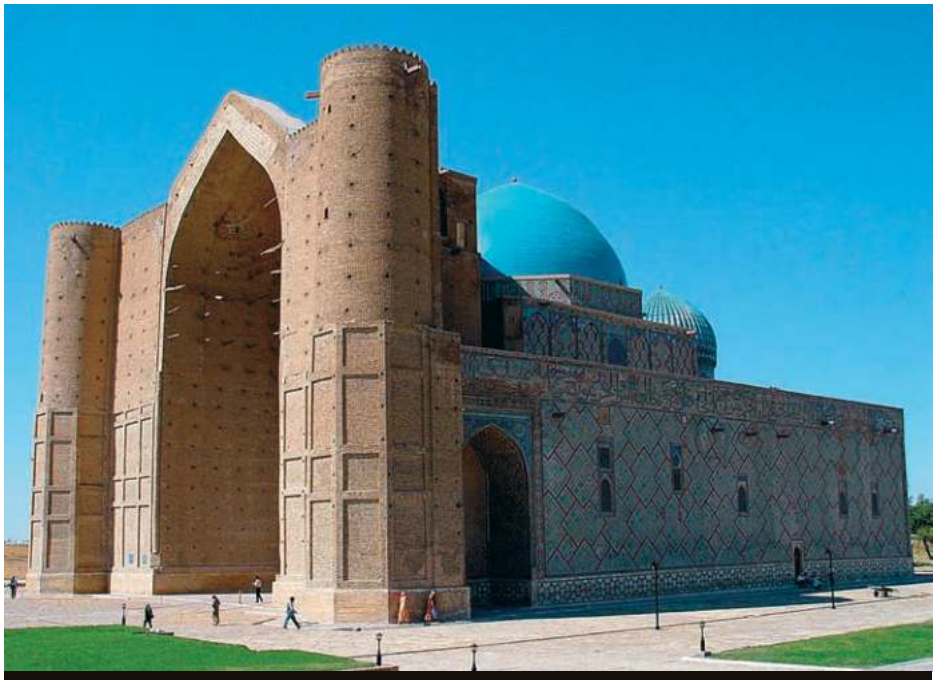
From Hellenistic Alexandria in Egypt, one the first trade centres in antiquity, to modern IFCs in China's Nanjing, Lithuania's Vilnius and Kazakhstan's Nur-Sultan

The first time we see the term "international financial centre" used in literature is at the end of the nineteenth century. However, financial centres appeared long before the term itself was born — even in the Hellenistic era there were at least several dozen large cities that served as financial and trade centres. Today, the number of financial centres in the world exceeds one hundred and includes centres in Nanjing, Vilnius, San Diego (USA) and Nur-Sultan.

Shopping Street in Samarkand and Medici Bank in Florence as Prototypes of Financial Centres

Historically, financial centres have served within the architecture of the global economy as transit points of goods and centres of distribution of capital flows. In ancient times, such transit points where goods and services were exchanged included Alexandria (Egypt), Lothal (India), Baghdad in the Middle East, Angkor (Cambodia), Samarkand in Central Asia and Xi'an in China — the starting point of the Great Silk Road. The predecessors of financial centres featured simple functions: they provided two parties with a place to complete a transaction (exchange of goods or services). The first one to think about providing special infrastructure for international trade was the fourteenth century conqueror Tamerlane who ordered a whole shopping street to be built in Samarkand, where foreigners could do business with local merchants. Tamerlane believed that this was the way to attract traders and help develop the economy, turning Samarkand into a trading hub.

Cities that enabled strong flows of goods also attracted human capital and became centres for the development of crafts and science. As a result, they expanded and turned into centres of gravity for the flows of goods, capital and specialists. As early as in the twelfth century, financial centres were formed in Florence and Venice, in large part due to growth of the banking sector fostered through maritime trade. At that time, banks in Florence and Venice issued loans to kingdoms and supplied credits for maritime trade throughout Europe. And the bank owned by the Medici family of Florence became the first bank with a holding structure and representative offices in Rome and Venice. It was the speculations of Florentine financiers in the mid-fourteenth century that led to the financial collapse in Europe at the begin-



Mausoleum of Khoja Ahmed Yasawi became an architectural symbol of the medieval capital of Kazakh Khanate of Turkestan which was an important trading post on the Great Silk Road

ning of the fifteenth century. So happened the first world financial crisis triggered by the first financial centres.

The first financial centre resembling what we see now was seventeenth-century Amsterdam. Goods from all over the world were shipped to the Dutch port of Amsterdam, and from there they were re-exported. Amsterdam's entrepreneurs served as intermediaries between sellers and buyers of goods. The same Amsterdam businessmen also financed foreign trade, accepting bills of exchange from other entrepreneurs as payments.

The closest to the image of a modern-day financial centre was London's financial centre which started taking shape in the end of the nineteenth century. For a long time, England spearheaded and embodied industrial progress, and was a leader in the field of navigation and the development of new lands and foreign trade. All this laid the foundation for a global business centre and the establishment in 1694 of the Bank of England started the process of centralising financial operations in England.

The centralisation of the financial system, in turn, laid the institutional foundations for large-scale financial and credit operations. This way, there emerged a multilevel system of credit and investment banks, insurance companies and many service companies for trading and issuing shares.

Emergence of the Modern Financial Infrastructure

The global financial system as it exists now started taking shape formally around the seventeenth century, when regional financial centres appeared such as Amsterdam, Lyon (France) and Antwerp (Belgium).

Stock exchanges marked the next stage in the development of the global architecture of financial centres. The first stock exchange appeared in London in 1773, and a little later, in 1792, the first document regulating the trade in securities was signed in New York. It defined the rules for concluding transactions and the size of brokers' commissions. After London and New York, exchanges appeared in Paris, Chicago and Berlin. They had all the necessary trade and banking infrastructure.

Later, in the 1950–1980s, the emergence of supranational currency capital markets increased the mobility of capital flows, and greater activities by investors led to the development of regional and even peripheral financial centres. During this period, with new financial centres in Western Europe and Asia which grew stronger over time, the United States ceased to be the main global financial centre. At the same time, offshore financial centres were established in Panama, Luxembourg, the Virgin Islands, etc.

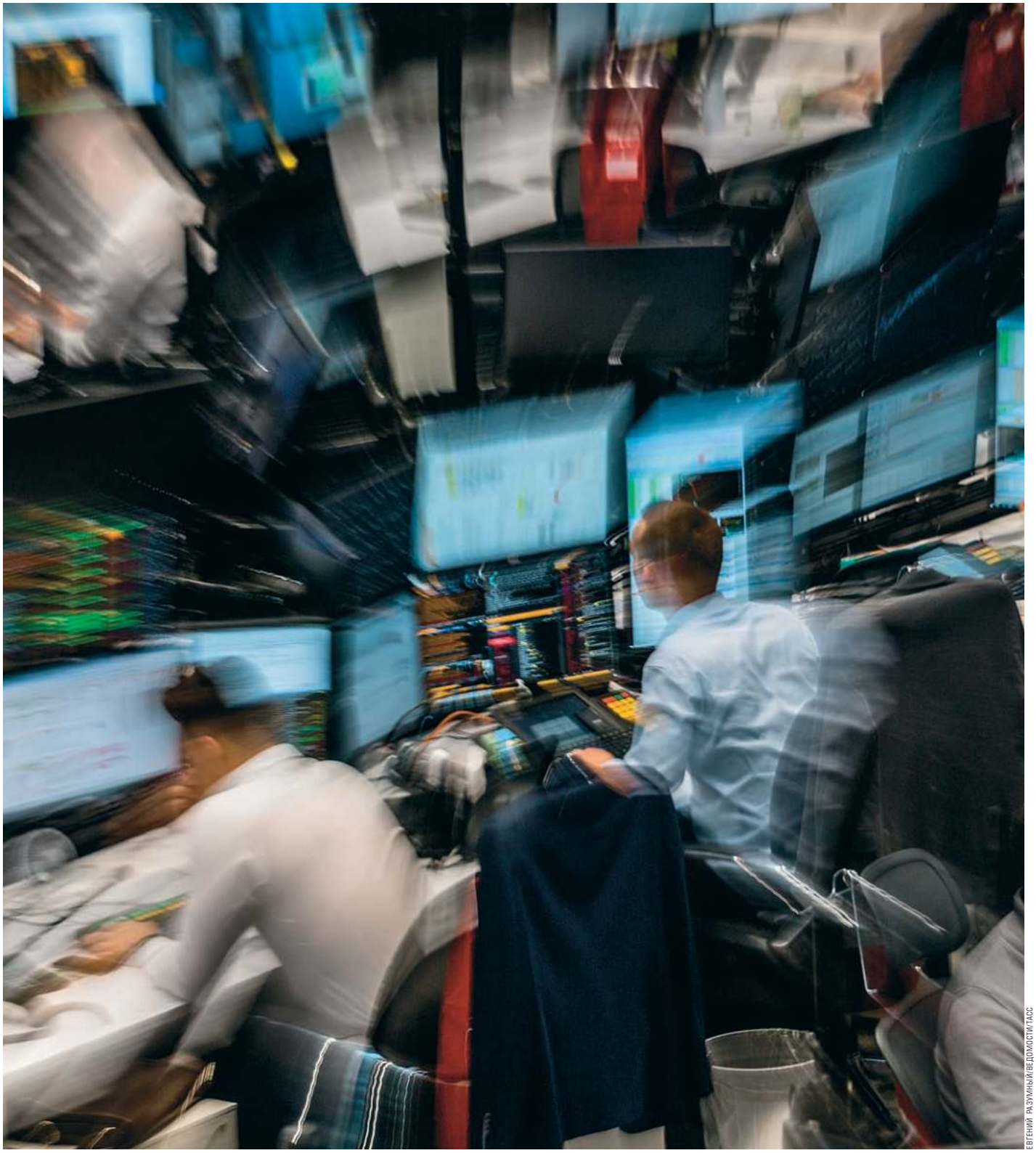
Finally, since the 1980s financial centres ceased to be just a concentration of banking and financial institutions that provides a place and infrastructure for transactions. They have become points of attraction for capital and human resources and have developed into key elements of the global financial architecture. Globalisation of the economy, as well as a growing role and importance of the financial sector, played a large role in this. Global financial centres such as London and New York solidified their positions, Singapore and Hong Kong grew and changed their status from regional to global financial centres, and new financial centres are emerging to attract business and investment communities. Among them are Nur-Sultan in Kazakhstan, Vilnius in Lithuania and Nanjing in China. ■

Robust trade in economically developed medieval countries laid the foundation for the international capital market

Elena Pogodina

Financial centres today: growth areas for new economy

A growing number of increasingly diverse financial centres is emerging in the world, and they are becoming new points of redistribution of global capital



ЕВГЕНИЙ РАЗУМНЫЙ/ВЕДОМОСТИ/ТАСС

Z/Yen, a leading commercial think-tank in the City of London, included Vilnius in its latest rating of the world's financial centres. That Lithuania's capital, with a population of 580,000 people, is now included in the same ranking as New York, London, Luxembourg and Frankfurt speaks of serious changes in the very foundation of the global financial sector. Financial centres are no longer large and sluggish organisations but are becoming increasingly flexible projects that meet the needs of today's economy. At the same time, the financial sector's role in the global economy has grown, new regional financial centres are emerging and becoming stronger as the global financial architecture turns from unipolar to multipolar and multifaceted.

Today, the financial centre is not just a certain territory which houses lots of banks and international-level financial and credit organisations surrounded by a pool of service companies, as it was in seventeenth-century Amsterdam. It is a platform with all the necessary financial infrastructure and built-in mechanisms for attracting and distributing capital. It is a guarantor of diversification of economic income, it is a social and cultural cluster, it is a fulcrum during crises.

From the legal point of view, a financial centre can either be an element of a country's infrastructure, like financial centres in the Eurozone, or it can be a separate entity — a legal enclave with English common law jurisdiction, as in Abu Dhabi, Dubai, Qatar, Nur-Sultan and other locations. From the point of view of physical form, a financial centre can be a "city in a city." For example, it can be a separate administrative district like the City of London, which was endowed in 1695 with the rights of a separate city and having its own government. Or, it can simply be an area within a city where financial and service companies are concentrated.

While in the past the main function of many financial centres was to draw capital to a country or region, today many financial centres have become effective multipurpose tools for a wide range of investors and companies that are pursuing their goals.

What defines the relationship among different categories of financial centres — cooperation or competition? Parag Khanna, a specialist in international relations and the founder of FutureMap, believes that the basis for the interaction among financial centres of any category is mainly cooperation. "Regional financial centres, such as Dubai, Bahrain and Nur-Sultan, can be the primary partners and conduits for global capital to access local markets," the expert emphasises.

It should be noted that financial centres compete on many factors such as regulatory conditions, human resources, infrastructure and others. At the same time, experts say, the essence of competition between financial centres can be described very simply. "How does the business world

GFCI 27 Top-20 IFC Rating (2019)

Place	Center
1	New York
2	London
3	Tokyo
4	Shanghai
5	Singapore
6	Hong Kong
7	Beijing
8	San Francisco
9	Geneva
10	Los Angeles
11	Shenzhen
12	Dubai
13	Frankfurt
14	Zurich
15	Paris
16	Chicago
17	Edinburgh
18	Luxembourg
19	Guangzhou
20	Sydney

Source: Z/Yen Group

Rate financial centres for the GFCI

Oleg Buklemishev, Director, Centre for Economic Policy Research, Economics Department, Moscow State University

Any financial centre is a kind of portal through which money moves in search of effective applications, and companies in search of investments. There is a clear hierarchy of financial centres [global, regional, local, specialised] that developed over the years. In each case, a company chooses which financial centre to go to based on its particular situation. If a company shows explosive growth, then, of course, it is better to go immediately to major platforms. If the growth is organic, you can go up the ladder: first, list locally or regionally, then move to the global level. On the part of an investor, relations with financial centres follow a similar principle: someone sees the world only through the prism of the New York Stock Exchange, and someone looks for interesting assets and goes down to regional and local levels. And such a walk through financial centres, like through portals, down from global to local levels, becomes more common. Those who put together investment portfolios do this quite often. Will this scheme change due to the crisis? I don't think so. Even though the current crisis is, of course, no Great Depression, but the 2008 crisis, compared to the current one, seems like a walk in the park.

Key elements of an international financial centre are:

- a stable currency and a stable financial system;
- developed financial and social infrastructure;
- a wide range of financial market tools, providing lenders and borrowers with a variety of cost, risk, control and liquidity options;
- adapted legislation, including tax system;
- legal guarantees that foster trust from international borrowers and lenders;
- human capital that possesses the necessary financial knowledge through periodic training and skills development;
- modern and effective technologies for the exchange of information and communications.

Source: Z / Yen Group

Reference

An International Financial Centre is a city or a territory of a state that mobilises and redistributes huge amounts of financial resources, brings together various banking and specialised credit and financial institutions that carry out international currency, financial and credit transactions, as well as operations with goods and securities," as defined by Russia's Financial University.

Miles Celic, CEO, TheCityUK

London developed as an international financial centre by virtue of its history, as well as geographical and time zone location. It has been at the centre of the UK's global trading for many centuries. Our stock exchange was established in 1565 and continues to trade today. Lloyds, the largest insurance and reinsurance market of its kind in the world, has been continuously trading since 1688 over 330 years. The first major chartered joint stock company was established in London in 1555 to help finance trade between England and what was then Muscovy. However, what has enabled London to remain a leading international financial centre are factors which are common to business decisions to locate in any financial centre: proximity to clients, access to liquidity, the business environment — particularly the rule of law and the stability of regulation and the availability of skilled talent locally. The UK's strengths are derived not only from the high volume and value of financial transactions, and from the depth of capital and liquidity pools that it provides, but also the breadth of services and expertise available — the 'ecosystem' effect. In London, financial institutions can draw on expertise ranging from green finance to Islamic finance to maritime business services that are supported by an extensive network of professional services related to financial services: legal, accounting and consulting.

work? Capital goes where the environment is safer, cheaper and more profitable," notes Andrey Khandruev, head of the Association of Regional Banks.

Pitfalls of Globalisation

The process of globalisation of financial markets, which began in the last century with the advent of the first multinational companies, is now accelerating rapidly due to arrival of new financial technologies that can erase all borders in the financial sector.

Classification of Financial Centres

There are many classifications and ratings of financial centres. They use different approaches to assess a particular financial centre, but they have one thing in common: all ratings in one way or another suggest that relations between financial centres around the world combine elements of close cooperation and quite fierce competition.

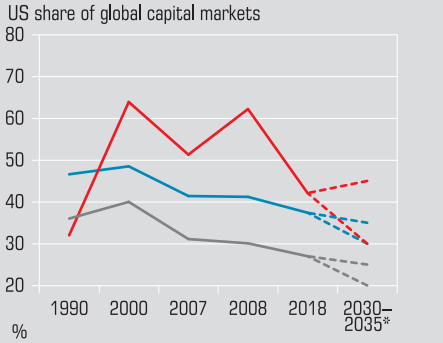
On the one hand, globalisation means the freedom of movement of financial flows, the possibility for investments to easily access any project located anywhere in the world, and the possibility for companies to raise funds on the open market from investors located in any country. This allowed companies to reduce the cost of attracting capital, and investors to increase the efficiency of investments while reducing costs. Conversely, globalisation of the financial sector also carries risks by destabilising financial markets within the country which negatively affects lending to the real sector of a national economy.

Several other processes are closely connected with the globalisation of the financial market. These processes are internationalisation, that is, an increase in the number of international companies and

Antonio Riera, Senior Advisor, Boston Consulting Group

I believe that we will experience a less globalised world and evolve into an economic polarization of regions. Kazakhstan ought to leverage its privileged and highly respected position in Eurasia and play a key role in the new digital economy, leveraging the AIFC's internationally-friendly market infrastructure with international laws and courts with best international standards and already recognized upcoming and rapidly advancing Financial Centre.

The US share in the global economy is declining



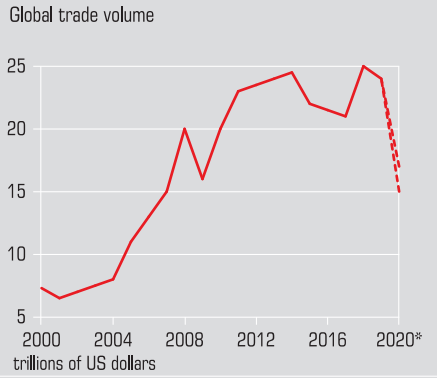
*Forecast.

- US share of global financial assets
- For US exchanges in global exchange turnover
- US market share in the total capitalization of global debt securities markets

Source: IMF Economic Outlook Database, McKinsey Global Institute, World Federation of Exchanges, BIS Quarterly Reviews, IMF COFER, World Gold Council

Regional financial centres are becoming "assembly points" of economic interests within a particular region and are acquiring all the advantages of a global financial centre

Global trade may decline by one-third this year



*WTO forecast.

Source: UNCTAD

institutions, integration of international markets when foreign lenders and borrowers are actively working in national debt markets, and increased competition among financial market entities that are residents of different countries. But all this leads to greater self-reliance of the financial sector and its independence from the economy as a whole. Here, financial centres come to the fore and gradually transform from infrastructure platforms that integrate and distribute capital flows into fulcrums of the global financial architecture and full-fledged players in the global economy.

Strengthening Regional Financial Centres in Response to Global Economic Storms

No matter what experts say about the cooperation among financial centres and their complementarity, an element of competition has always been present in the relationship among them. There are many examples: Frankfurt, having reduced the costs of issuing bonds, attracted some customers from London (in part, due to Brexit), some Singapore financial centre clients went to the Malaysian financial centre, which offered lower rental rates. Today, when many doubt the prospects and effectiveness of globalisation because of the coronavirus pandemic, regional financial centres are viewed by investors in a new light. They now seem attractive not only in terms of specific terms and conditions, but also as a way to "set foot" in a region of choice.

Alyona Dolgova, Professor, MGIMO (Moscow State Institute of International Relations)

According to McKinsey, a third of the global growth in foreign investment since 2007 has been attributed to IFCs. The active development of leading IFCs such as London and New York and the emergence of new centres in recent decades are an element in the process of financial globalisation and an indication of interest of many countries in participating. An IFC acts as a key link in the global financial architecture today, helping to transform savings and capital flows into investments. The post-industrial economy is not only the economy of services and technologies, but also the economy of cities, whose contribution to global GDP is growing rapidly. An important function of global cities is financial intermediation, which is carried out in a comprehensive manner through financial centres. ■

Regional financial centres, according to the Managing Director of the World Alliance of International Financial Centres Jochen Biedermann, perform two main functions — they fulfil domestic and regional service needs, and build a bridge to global financial services. Parag Khanna adds to this another aspect — financial centres are a catalyst for economic diversification. They provide the liquidity and governance essential for new service businesses to gain capital and expertise.

Today, many governments interested in economic development and looking for new sources of economic growth, seek to establish IFCs in their countries. Operations of IFCs bring not only direct benefits to national economies in the form of GDP growth per se, but also indirect and collateral ones — development of the national financial markets, qualitative improvement of institutions, macroeconomic stability and urban development. These benefits are long-term in nature and positively affect the country's social and economic development, although they are hard to quantify using existing economic indicators. Collateral benefits of IFCs raise the overall level of national competitiveness and increase its attractiveness for foreign investors.

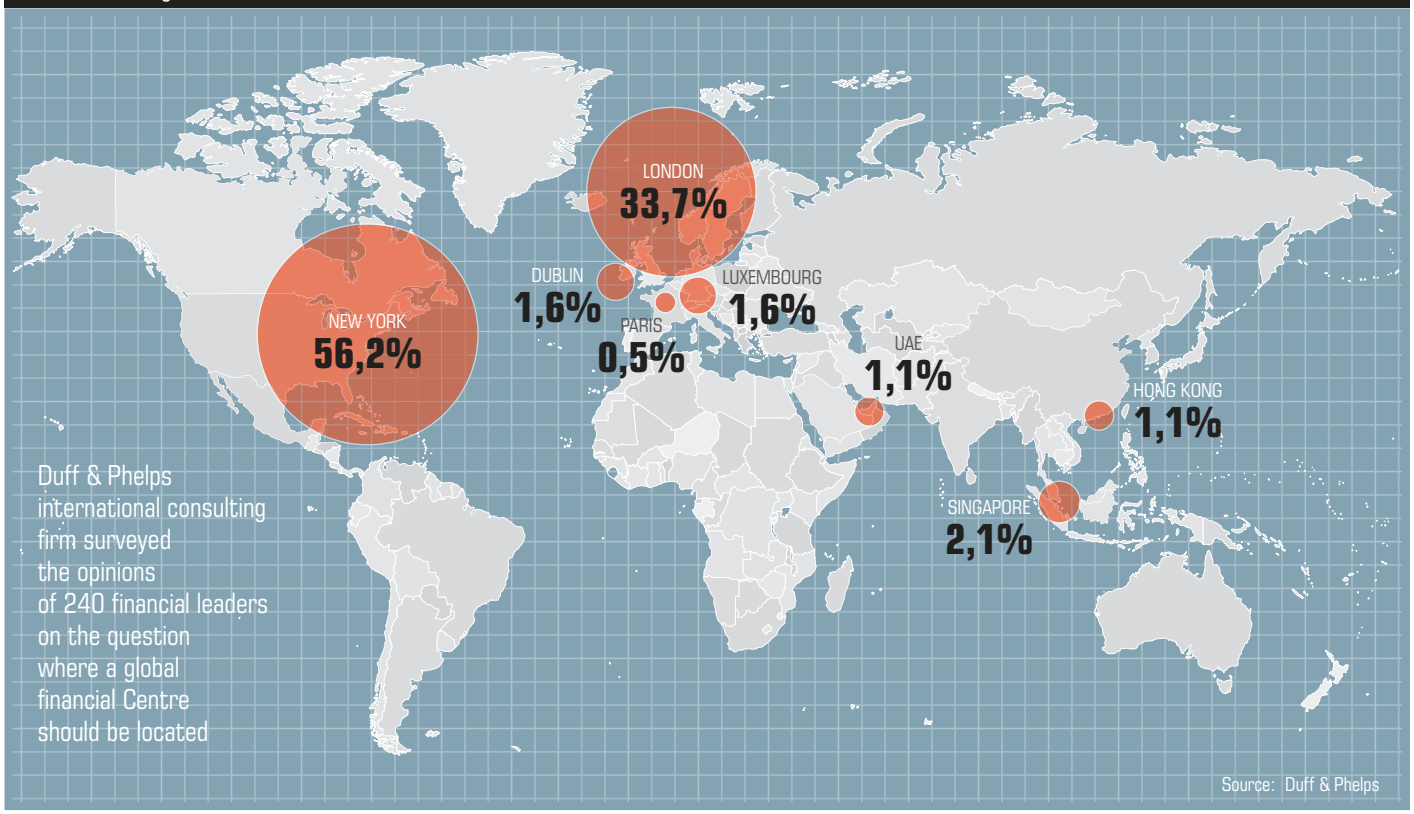
In other words, regional financial centres are becoming "assembly points" of economic interests within a particular region and are acquiring all the advantages of a global financial centre. Therefore, the significance of regional financial centres in the global financial system is growing. But will this be enough for a change of leaders in the global financial architecture to occur?

According to Sergey Glazyev, Minister for Integration and Macroeconomics of the Eurasian Economic Commission, regional financial centres are starting to seize the initiative from global institutions due to some specific features of the new world order: the value of national sovereignty and international law is being restored, a transition to domestic sources of credit and settlements in national currencies is taking place, financial and currency regulation is driven by the national economic development interests (which implies currency restrictions on export of capital). "In these circumstances, working in the rapidly growing national markets of the new world order makes it necessary to become local residents. Inconveniences caused by currency restrictions are offset for investors by expected profits — larger and more reliable ones. When there is turbulence in tradi-

GFCI 27 rating's assessment criteria for international financial centres

Areas of Competitiveness				
Business Environment	Human Capital	Infrastructure	Financial Sector Development	Reputation
Political Stability And Rule Of Law	Availability Of Skilled Personnel	Built Infrastructure	Depth And Breadth Of Industry Clusters	City Brand And Appeal
Institutional And Regulatory Environment	Flexible Labour Market	ICT Infrastructure	Availability Of Capital	Level Of Innovation
Macroeconomic Environment	Education And Development	Transport Infrastructure	Market Liquidity	Attractiveness And Cultural Diversity
Tax And Cost Competitiveness	Quality Of Life	Sustainable Development	Economic Output	Comparative Positioning With Other Centres

Where should a global financial Centre be located?



tional financial centres — and specifically, during the current crisis in the heart of the global financial system — this is a reasonable choice," believes Sergey Glazyev.

Despite the obvious trend for a growing role of regional financial centres, many experts believe that it is too early to expect the change of leaders at the global financial stage. "I do not believe that the new regional financial centres, such as Dubai, Bahrain and Nur-Sultan, will compete with the highly established global financial centres. Their goal is to emerge as the leading, most international capital friendly and respected centre of the region," says Senior Advisor at Boston Consulting Group Antonio Riera.

Prof. Yakov Mirkin, head of International Capital Markets Department at the Institute of the World Economy and International Relations, also thinks that it is early to talk about a change of leaders within the global financial centres' community. "This structure will be transforming from unipolar into multipolar and hierarchical, with regional centres standing apart to a growing degree, particularly in Asia, because there will be more liquidity there following the change in the roles of countries in the global economy. But overall, the positions of leaders have not changed: the Anglo-Saxon core of global finances is intact — New York, London and British offshore areas. The Netherlands is still a major centre of direct investments. Ireland, Switzerland, Luxembourg, etc. are still big names. As before, Hong Kong and Singapore are top of mind selections as locations to source money," notes Mirkin.

Clearly, in the next several years the world will witness the regional financial centres' growing sway within the global financial structure, and at the same time, financial market influence will be shifting from West to East. Will this result in tectonic shifts among financial centres, or will the existing order in the financial world remain intact?

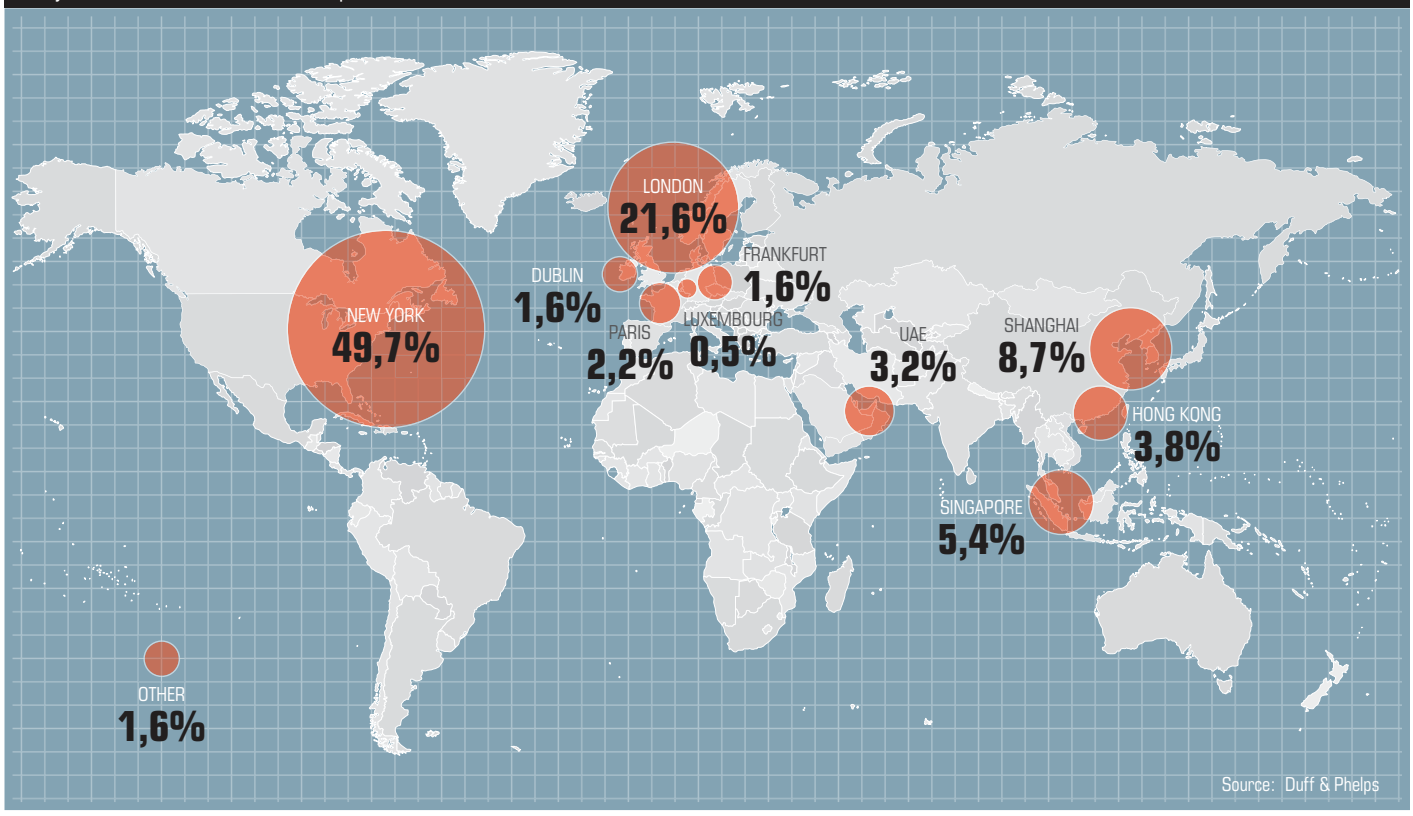
Miles Celic, CEO, TheCityUK

As systems develop and improve, the emergence of 'young' financial centres is inevitable, and this is to be welcomed. The preponderance of international financial centres located in Asia is in step with the rapid growth of the region's economies. It also reflects factors such as the significant and growing requirement for infrastructure investment in emerging economies throughout Southeast Asia and South Asia, as well as the advent of financial technology and e-commerce across the region. However, the picture is not a simple one of a shift of influence to Asia Pacific, as the region's growing economy has facilitated greater trade and investment with other international financial centres. For example, London is the largest offshore centre for renminbi trading and cross-border transactions between the UK and China have risen sharply in recent years.

A Shift of the Balance of Power from West to East

All experts acknowledge a rapid advancement of Asian financial centres and an increase in their share in global finances. In the past, capital was moving from developed countries to developing, and now the reverse process may begin. The development of financial centres, despite a growing independence of the financial sector, still follows the development of the global economy. "In the last 60 years, we have been witnessing a major shift towards Asia from the point of economic development caused by the development of China and ASEAN countries in the previous two dec-

Likely IFC location in 2025, % of respondents



ades. Also, Japan and South Korea started developing from the 1960s," comments Jochen Biedermann from WAIFC.

Historically, capital was accumulated mostly in the developed economies. Now we are witnessing a reverse process: in particular, the Asian region is turning into one of the centres of capital accumulation. "Asia's accumulated savings from trade surpluses, inbound investment and job creation have attracted substantial growth in Asian financial centres, which are now the primary conduit for global capital flows into and across the region," notes economist Parag Khanna.

Moreover, changes in the structure of financial centres are taking place within the Asian region itself: Japan was a centre of attraction for capital flows until the 1990s, and later its influence among regional financial centres in the Asia-Pacific region was steadily declining. This was true even though until the mid-2000s it continued to remain the third largest financial market in the world after the United States and Europe. Singapore, Taiwan and Hong Kong charged ahead, building cross-border ties with China and other emerging markets, while Japan was falling behind in terms of integration into the global financial system.

Among other sources, the development of Asian financial centres was boosted by advancements in key areas of technology, such as 5G or payment systems. These new technologies have enabled Asian countries to create conditions for greater mobility of communications, services and, most importantly, investment flows in a cross-border format. The result is that today there is more money in the East than there is in the West, although quite recently it was the other way around.

"China's money supply in dollar terms is already significantly higher than the money supply of the United States," notes Prof. Mirkin. Stock markets in Asia-Pacific countries are growing rapidly and have already surpassed traditional Western platforms in terms of liquidity, which has made Asia attractive to issuers. Sergei Glazyev believes that global financial centres have followed the shift in the centre of global economic development from the USA and the EU to Southeast Asia due to a change in world economic patterns. Actually, this course of events was predicted by the famous Italian economist and sociologist Giovanni Arrighi. According to his theory, America's century-long cycle of capital accumulation is in decline. It is being replaced by the Asian cycle of capital accumulation with a matching overall world order that will shape the development of the global economy in the current century.

However, despite the obvious strengthening of the role of Asian financial centres, it is still too early to talk about the loss of hegemony of large Western centres on the world financial stage. Sergey Sukhanov from SOVA Capital only partially agrees that London is losing its position as a financial centre. Despite the fact that financial giants like HSBC, JP Morgan Chase,

Despite the obvious trend for a growing role of regional financial centres, it is too early to expect major Western platforms losing their hegemony at the global financial stage

Dubai IFC was the first one to create a global media hub

EAST NEWS

Abu Dhabi IFC occupies the entire Al Maryam island of 114 hectares

Bank of America and others left the City last year, and London lost a tenth of all assets in the country's banking sector due to the withdrawal of more than $1 trillion in assets by the largest financial corporations, the City remains one of the primary elements in the global structure of global financial centres.

"It's all about Brexit. It is the reason why global companies are thinking about increasing their presence in other European cities. This does not mean at all that London is losing its position as a financial centre, it means that companies do not want to lose their market shares and therefore have increased their presence in other European cities," explains Sukhanov. "London is still the largest financial centre in terms of banking activities — currency dealing, stock and bond markets, international banking, IPO and SPO."

The United States also continues to have a large share in the global financial system and will not lose its influence in the near future. NASDAQ remains the most sought-after exchange for selling shares, and four of ten largest IPOs in 2019 took place on exchanges in the US (Uber, Avantor, Lyft and XP). According to the forecasts of the World Federation of Exchanges, the share of US stock exchanges in the global stock exchange turnover may grow from the current 42.1 percent to 45 percent by 2035.

For a long time, there was no financial centre in the Eurasian region. Moscow aspired to become one, but due to a combination of different reasons — ranging from legislative deficiencies to international sanctions against Russia — was unable to. Big business from the Eurasian region went to London, New York and Dubai while small and medium-cap companies did not even think about instruments offered at stock exchanges. However, there was an obvious need for a modern platform for interaction among global investors and regional companies. And this was true not only because of China's apparent interest in the region and its desire to enhance its presence through the Belt and Road project. But there is also interest from investors to various sectors of the national economies in Eurasia (for example, information technologies, mining and other industries). This investors'

Yuri Danilov, PhD, Senior Researcher, Department of Macroeconomic Policy and Strategic Management, Moscow State University

For more than 30 years, Hong Kong's IFC has been pursuing high-quality development programs, which ensured its leading role in the world. My 2016 article, "The Experience of Financial Market Reforms in Competitor States to Russia on the Global Capital Market," reviews this topic in detail. It includes a description of the competitive advantages that Hong Kong leveraged at various stages of its development. From around 2014–2015, one of the key ideas was the transformation of Hong Kong into a global asset management centre. This, in turn, made it necessary to implement the highest international standards for financial sector regulation, to ensure an exceptionally high level of financial stability, to increase openness of the economy and financial markets, and to become a full-fledged window into the economy of mainland China. By the end of 2019, according to some views, this element of Hong Kong's competitive advantage became obsolete, and Singapore and Tokyo could become regional leaders. But Hong Kong retains at least two sets of long-term competitive advantages. First, it will remain for a very long time the main window for China to the global capital markets providing global investors with an appropriate level of convenience, accessibility, transparency and investment protection. This set of advantages will disappear only when mainland China catches up with Hong Kong in terms of financial development. But this will require, among other things, an overhaul of the political system, including a transition from authoritarianism to democracy, and this is a very long process. Second, Hong Kong stands out as an IFC having competitive advantages in many areas. And in addition, Hong Kong utilizes a uniquely qualified strategic planning process of financial development, and right now Hong Kong's financial regulators are creating new sets of competitive advantages — employing principles of sustainable finance, expanding the range of traded instruments (including Islamic finance, ETFs for goods, etc.), introducing digital services, etc. This is too broad a question to be answered briefly. ■

EAST NEWS

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Hong Kong IFC remains the main offshore centre for China's companies

interest, along with the need to diversify regional economies, made obvious the need to create an engagement platform for investors and business. Kazakhstan realised this need and decided to establish the Astana International Financial Centre (AIFC).

The AIFC belongs to the type of financial centres that are legal enclaves. The financial centre operates in the independent jurisdiction of English common law within a country that employs a continental legal regime. The advantages of the legal regime and various additional positive features, like tax benefits, have already been appreciated by companies from 40 countries around the world. Since the AIFC opened in 2018, more than 483 companies from Kazakhstan, Russia, China, Great Britain, the USA, India, Finland, Singapore, the United Arab Emirates, the Netherlands, Turkey, Switzerland, Germany and Italy, among others, became its participants.

Having attracted a significant number of participants in two years, Kazakhstan shows that modern financial centres do not require a lot of time to establish themselves as an engagement platform for market players. Whereas it took London several centuries to establish itself as a financial centre, Dubai was able to earn a strong reputation in the global financial community in 18 years, and Abu Dhabi only needed five years. Experts have an explanation for this — new financial centres are created using the experience of predecessors, and they are viewed as important projects by their governments. "DIFC and AIFC are top-priority initiatives for their governments," notes head of WAIFC Jochen Biedermann.

New regional financial centres have the advantage of being able to start from a clean slate, without a legacy and bureaucracy that are embedded in existing financial centres. Rather, they can use the benefits of the international regulatory framework and provide participants with several preferences in the form of subsidies and tax benefits. However, apart from enjoying certain advantages, regional financial centres also go through their own growing pains.

The main challenge for young regional financial centres — whether it is Dubai, Nur-Sultan or any other — is creating a lively and functional community of participants: from young inexperienced startups and small local companies to international corporations with a long history of working around the world. And the ability of a regional financial centre to cope with this task will determine how successful it is. "Regionalization is the competitive advantage for such financial centres," believes Alexander Voloshin, CEO of Forum Analytical Centre. "Their unique function is to connect global markets and global players with regional markets and local players. They can be better at taking into account regional nuances, can respond more flexibly to changing circumstances, and can offer "customized" solutions to local market players and to global investors. At the present stage, when the world economy is de-globalizing, these competitive advantages of the regional centres are becoming increasingly important."

Specialization as a Competitive Advantage

Global financial centres are facing competition not only from the growing regional centres but also from specialized platforms.

The advantage of new regional financial centres is granted by their ability to start from a clean slate — without certain legacies and bureaucracy

Yakov Mirkin, Institute of the World Economy and International Relations, Russian Academy of Sciences

Financial offshores have been "degraded": forced to disclose information about clients, deprived of tax secrecy and ownership secrecy. Companies are forced to maintain real offices [in the offshore zones], overheads are growing. These jurisdictions are turning from "zero tax" into "low tax" areas, and companies need to consider all the pros and cons of being there. Overall, instead of finding a real shelter from risks associated with excessive taxes and regulations, a company gets itself a headache and finds itself on an open windy beach." However, specialization, along with regionalization, may soon become things of the past as separate categories. The reason is the rapid penetration of innovative technologies into the financial sector. New technologies are completely erasing the boundaries between all market participants and are thus enabling any financial centre to become a global virtual platform. Many financial centres around the world are already following this path.

And some financial centres are quite successful in biting nice chunks of business out from the large players. As an example, the special economic zone in Dublin was created just thirty years ago on a tiny area of just 1,100 m² and offered its participants a reduced 10 percent corporate income tax rate as a benefit. Not only has it turned into a full-fledged financial centre with more than 1,000 international companies having relocated their headquarters to its territory, but it also took over from London as a leader in issuing Eurobonds by creating a flexible regulatory environment and streamlining listing requirements. The Irish IFC managed to ensure that its participants could issue Eurobonds through the European depository, bypassing the depositories of their countries which made it cheaper and easier to issue bonds. That way, Dublin became the centre for issuing Eurobonds.

"One way or the other, each financial centre has its specialty, even global universal IFCs have their own profiles. Some focus on issuing bonds, others on interbank market development, etc.," says Andrey Khandruev of the Association of Regional Banks. "Hong Kong is focused on developing banking and investment business, Singapore — on currency operations and insurance segment, Luxemburg strives to be the "green finance" centre, and Malaysia and Bahrain have become the centres for Islamic banking."

In discussing the role of specialized financial centres in the global system, Moscow State University's Oleg Buklemishev draws an analogy with shops. "There are supermarkets, and there are boutiques, where people come to buy something specific. Will this setup change in the nearest future, even considering the crisis? I don't think so," he says.

Financial centres as well as offshore zones attracting the capital all have their specialties. Many offshores are highly targeted towards specific segments of the financial market, and in this sense will maintain their attractiveness — maybe because of synergies or consumer habits. "For example, our "joy" — Cyprus — will maintain its role as the leading "Slavic" or "Orthodox" offshore," notes Prof. Mirkin.

Digitalisation as a Synonym for the Future

Today, the segment of new financial technology is the priority development track for most if not all financial centres of the world. The financial sector is on the cusp of radical changes: the introduction of new technologies is changing the very development model of financial products and serv-

Robert Lawrence, Professor at Harvard University's JFK School of Government: "Many countries would like to be less reliant on world markets, but it's going to be difficult"

Diversification of world trade as a transitional stage from globalisation to de-globalisation, the possibility of ending trade wars under the new US president, the strengthening of regional integration against the backdrop of weakening international organisations are just some of many issues that The Expert discussed with Professor **Robert Lawrence**.

— Increasingly, there is an opinion that after the pandemic global trade will change beyond recognition. Countries will separate from each other, existing supply chains will be restructured, and countries will begin to bring back their production from third countries. Will a pandemic lead to a new round of de-globalisation? How serious is this?

— I think it's serious. I think de-globalisation — in terms of the speed with which global trade was growing relative to GDP — was already taking place prior to this crisis. Part of that was related to developments in China, which has become more self-sufficient and less dependent on trade than it used to be. Then we had the conflicts between China and the United States, which already put a lot of the supply chains under strain. And now we have COVID-19 which has underscored the vulnerabilities of these supply chains to shocks. If there's a shutdown in one country, it cannot supply key inputs to a second country, then those shocks reverberate throughout the supply chain. So, I do think those who invest in supply chains will be much more wary of reliance on them for sources of supply. This is going to make it more difficult for the emerging countries who would like to use export growth and export processing zones to contribute to international trade. All this is likely to enhance de-globalisation.

But we should not exaggerate. Globalisation will remain very important. There is a whole set of products which can be produced much more economically in developing countries with lower wages than in advanced countries with high wages. So, costs are going to rise if countries decide to bring back production onshore. In addition, reliable suppliers need to be found, and it's not very easy to switch those. So even though many countries would like to be less reliant on world markets over the medium to long term, I think it's going to be difficult to do that. The dilemma "globalise or de-globalise" remains. But I think a compromise is the diversification of supply chains. I think that rather than becoming highly dependent on just one or two countries as source countries, many firms are going to say they need to diversify in order to limit future risks. The supply chains are already moving out of China, especially towards other parts of Asia like Cambodia, and Myanmar, and Vietnam especially. So, I think there's also going to be a process of increased diversification which is an intermediate phase between globalisation and de-globalisation.

ices, as well as the methods of managing them. According to estimates by the Moscow Higher School of Economics, 10 percent of all global GDP assets will be stored using blockchain technology by 2027.

The use of products and technologies based on artificial intelligence (AI) in securities transactions, asset management and other banking segments, as well development of digital assets sector, including cryptocurrencies and blockchain technology, are already defining the future image of the future global financial markets. Today there are no more digital outsiders as almost every economic segment, even industry, is actively introducing new technological products.

Digitalisation (or digital transformation) of business has become a priority for corporations around the world. Companies are actively employing new opportunities offered by technology advancements. For example, in order to raise its effectiveness, a company actively uses the services and products offered by new fintech companies or simply buys these companies. According to a study by the analytical agency IDC (International Data Corporation), global investments in digitalisation will reach $7.4 billion by 2023.

Many financial centres around the world and different governments are eager to ride this wave of new technologies. They would like to not only use them in daily operations, but more importantly, to support their implementation by developing the necessary regulations. For example, "regulatory sandboxes" have been created under the auspices of regulatory bodies in Hong Kong, Singapore, the USA and the Netherlands. "Sandboxes" allow testing of new financial products and development of regulations necessary for their application in the open market. Such a "regulatory sandbox" operates within the Astana International Financial Centre (AIFC).

"Astana International Financial Centre may become a technology enabled, fintech savvy common law jurisdiction in the vast geography between London and the Asian common law jurisdictions of Hong Kong and Singapore," believes Carson Wen, Founder and Chairman of The Bank of Asia. He thinks the AIFC should develop its expertise precisely in this area, including, among other things, support for the development of fintech knowledgeable bench and legal profession.

The development of new technologies and digitalisation in public and private sectors is particularly important now. During the crisis there are more important things to worry about, like saving the economy or supporting healthcare. But experts believe that today, more than ever, it is vital to maintain the process of digitalisation. "During these hard times, when there are so many obstacles to growth, innovations are of paramount importance for sustainable national development," notes Yasuyuki Sawada, Chief Economist of the Asia Development Bank in the Asia Development Outlook 2020. ■

Today, the segment of new financial technologies is the priority development track for most if not all financial centres of the world

— Trade wars between the United States and China started raging before this pandemic. Trade conflicts happened between the US and the EU. Will these tensions calm down or will they escalate in the nearest months?

— I think the key question now, who will be the next president of the United States — at the moment, the betting is that Donald Trump will continue to be the president of the United States, although the polls are saying that Americans favour Joe Biden. So, we don't know exactly who is going to be the president. My suspicion is, while tensions will continue to prevail between China and the United States, especially in the area of trade, a Biden presidency would be much more inclined to work through international institutions and organisations, and to work together with other advanced economies in their policies vis-a-vis China. And therefore, a Biden administration would not seek to raise tensions with other countries who are friendly to the United States and used to be America's allies. So, in that sense, there may be conflicts, but they would be much more akin to a world divided along the lines where countries who have problems with China are in opposition to those who are allied with China. By contrast, the Trump administration would seek to continue with its hyper-nationalist policies. And in that regard, there could be more US frictions both with Europe and with China. By the way, we haven't discussed a key role for institutions like the World Trade Organisation. I think for the WTO's future, the American election is also very crucial because the US has really been undermining the WTO. The appellate body, its dispute settlement process, has basically been ground to a halt, and countries are now having to develop alternative institutions.

— Indeed, it often seems that international institutions have completely gone to the background and everything is being decided among the capitals of nation-states. Governments exchange threats and issue ultimatums, and international organisations seem to sit idle and do nothing to help settle the disputes.

— This is actually the case in many instances now. But I think we're going to see that regional arrangements and regional institutions, which have already had a bigger role, will continue among those coalitions of the willing and actually may well become stronger. When the United States decided under the Trump administration not to join the Trans-Pacific Partnership, the other countries simply went ahead with the regional comprehensive and progressive economic partnership. We've also seen efforts in Africa to use regional integration as a mechanism. I don't think all of these institutions are as effective as the WTO or as inclusive as the WTO. But nonetheless, some of the regional institutions are going to be okay. I think they will continue to play an important role, for supporters of globalisation. The WTO was unable to conclude its trade negotiations for the Doha Round. We used to talk about the dispute settlement system as the jewel in the crown of the WTO and there it's been ineffective. The WTO was important not only because of its legal role, but also its role in setting norms of behaviour, including norms about not using the national security exception except in very unusual circumstances. Even though the words said that countries could take "all measures that they deemed necessary for their national defense" the implicit understanding was that they would be very cautious in undertaking these measures. That's a taboo that was broken by the Trump administration and a fear now is that other countries will follow their example. ■

Elena Pogodina

Nur-Sultan: a unique place within the global financial system

AIFC aspires to become the financial hub for the whole of Eurasia

Eurasia has always been one of the most dynamic territories in terms of economic development. In 1904, the British historian and political scientist Halford Mackinder called it "heartland" and noted that it allows for projecting influence throughout other continents. The development of transport corridors gave impetus to intra-continental trade in Eurasia: trade between China and Europe grew from $50 billion in 1995 to a historical high of $682.2 billion in 2018. For a long time, the region was lacking a financial centre which would attract capital flows here, until in 2015 Kazakhstan decided to introduce amendments to the national Constitution and create an English common law jurisdiction that would serve as a foundation for a financial centre.

Despite Eurasia's economic development, the region for a long time lacked a financial centre that would be focused on serving this territory. Not that there were no attempts — Moscow was also establishing a financial centre.

Astana (now Nur-Sultan) became the financial centre for the Eurasian region, operating according to principles of the English common law. Creation of the legal enclave there was incompatible with the national Constitution that was in effect at the time, but in 2015 the first president of Kazakhstan, Nursultan Nazarbayev, initiated amendments in the Constitution that allowed creation of a jurisdiction that was different from the sovereign legal system. This made possible the establishment of the Astana International Financial Centre with separate regulatory and court systems.

"AIFC is not only a territory in Nur-Sultan that enjoys a special status, but also a financial centre, a centre of competencies, professional development, human capital, green economy and Islamic finance," noted President of Kazakhstan Kassym-Jomart Tokayev.

One of the main advantages of the AIFC is its favourable geopolitical position. According to Ulf Wokurka, the independent director of Nurbank JSC (Almaty, Kazakh-

stan), the proximity of the financial centre to such giants as China and Russia, and the absence of obstacles that can sometimes inhibit the investment business or asset management in these countries for internal or external reasons, will be very favourable for attracting new investors and investments after the crisis. "The AIFC is Kazakhstan's ambitious project to create a first-class regulatory and institutional infrastructure for capital markets in the Eurasian space," Wokurka emphasizes.

Creation of the English common law enclave in Kazakhstan is also noted by Oleg Buklemishev from Moscow State University, who underscores the unique nature of this case for the region. "This is an important precedent, because AIFC stands apart from pan-Eurasian regulatory environment. Now any Eurasian regulation will need to take into consideration the existence of such an institution in the immediate vicinity, which may become a competitor and turn out to be more comfortable," he believes.

Also important is the fact that the financial centre is located in Kazakhstan, the most dynamic country in Central Asia and one of the most dynamic countries in the world: according to the World Bank, Kazakhstan's GDP increased by more than seven times over the last 20 years, and in the 2019 Doing Business rating Kazakhstan was in 28th place in terms of ease of doing business, ahead of Spain (30th), Russia (31st) and France (32nd). In comparison, Kazakhstan was in 77th place in 2015.

Kazakhstan's progress in global rankings reflects everything the country did to develop its economy and raise the quality of life. Kazakhstan's first president, Nursultan Nazarbayev, and the national government launched a comprehensive program of structural reforms — "100 Concrete Steps to Implement Five Institutional Reforms," "Strategy 2050" (according to which Kazakhstan should become one of 30 most developed countries in the world), and "Digital Kazakhstan." These reforms envision large-scale introduction of new technologies in all sectors of the economy and social life, development of transportation and logistics infrastructure, reasonable and effective use of resources, and development of human capital — all within the framework of international standards and international practices that have proved their effectiveness. Implementation of the ideas laid out in these strategies will allow Kazakhstan to shift from a resource-based track to innovation-driven development.

Creation of the international financial centre is one of the key steps within this national development paradigm. The AIFC's main function as the regional financial centre is to attract capital in the economies of Kazakhstan and neighbouring countries. The financial centre must become a "window" in the region for global investors, and conversely, a "bridge" to global markets for businesses from the countries in the region. From this perspective, the financial centre targets two key audiences: countries of Central Asia and more broadly, all countries of the former Soviet Union. From a more global standpoint, the AIFC is geared towards facilitating the access of China's capital to the region to enable financing for the Belt and Road Initiative: the financial centre has close relations with Asian markets, and China in particular. The Shanghai Stock Exchange and the Silk Road Fund are partners of the AIX, the AIFC stock exchange. Close partnership with Chinese investors and institutions greatly facilitates the access of Chinese capital to the regional markets. Also, the USA's NASDAQ is a partner of the AIX, which makes this project unique in that it has as its stakeholders both Chinese and US institutions.

However, apart from attracting capital, a modern regional financial centre makes possible a fast development of the financial sector and the segment of new financial technologies. This in turn provides a much-needed impetus for countries in the region to diversify their economies and reduce dependency on oil. This way, creation of the AIFC will be helpful for EAEU countries, which face this exact challenge.

The importance of the Astana International Financial Centre in achieving Kazakhstan's investment promotion goals is hard to overestimate. Having created favourable conditions for investors, the next steps include development of the local capital market and support for its integration with the global capital markets, as well as advancement of Kazakhstan's market for insurance and banking services, Islamic financing, financial technologies, e-commerce and innovative projects. Achieving all these objectives will enable the AIFC to acquire international recognition as a financial centre. ■

The First President of Kazakhstan Nursultan Nazarbayev and the national government launched a comprehensive program of structural reforms — "100 Concrete Steps to Implement Five Institutional Reforms," "Strategy 2050" (according to which Kazakhstan should become one of 30 most developed countries in the world), and "Digital Kazakhstan"

Maria Sarycheva

Stock exchange is a national priority

The liquidity pool at AIFC's AIX is expected to grow from placements of both local and global players

In his 2018 address, Nursultan Nazarbayev identified the AIFC as the main venue for IPOs of the national companies. In 2019, Kazatomprom, a leader of nuclear industry, held its listing at the AIFC exchange. The preparation for IPOs of other companies of interest to investors is currently under way. In addition to the privatization of state-owned companies, AIX's liquidity pool is being generated by the state through issuance of various securities by the Ministry of Finance.

The listing of national companies and issuance of securities by the local ministry of finance is viewed by many experts as a step in the right direction and a foundation for success of new financial centres, particularly at the early stages of their development. This strategy is employed by Arab countries and financial centres: DIFC "kick-started" its capital markets by privatizing a large pool of national companies, and the global energy giant Saudi Aramco held last year's largest IPO, placing its securities worth $25.6 billion on Saudi Arabia's Tadawul stock exchange.

"The most important thing for any stock exchange and financial centre is to become recognized in their own local market, for example, by issuance of securities by the national ministry of finance — which would indicate the support from the state. Because if a government is not developing local platforms, is not generating interest to shares and bonds issued by local companies among local investors, then we will see their investment flows getting directed to buy shares of the usual global issuers — Tesla, Facebook, etc.," believes Maxim Orlovsky, Managing Director and Director of Equity Markets at Renaissance Capital Investment Company.

EEC Minister Sergey Glazyev agrees with him and believes that for a foreign investor, the best guarantee would be co-financing of a project by local players. "And for this to happen, these local players need to have access to domestic credit. Without it, efforts to create a financial centre will generate nothing more than branches of foreign funds and banks," he notes.

They understand it perfectly well in Kazakhstan. In his address to the State Commission on Emergency Situation in May, President Tokayev underscored the importance of transferring assets owned by national companies from foreign jurisdictions to the AIFC. "We will not be able to earn the trust of foreign investors, if our own companies select foreign jurisdictions. In the current challenging environment, the trust of investors and business in the national currency and monetary and credit policies is key. We will have to more actively utilize the potential of the Astana International Finance Centre for attracting investments and developing capital markets. This is particularly important in light of the upcoming privatization of state assets," noted President Tokayev.

And private business — from both Kazakhstan and neighbouring countries — demonstrates interest in the new stock exchange. In late 2019, Russian mining company Polymetal listed its securities for $20 million, and Kazakhstan's largest private bank Halyk Bank raised more than $65 million, both on AIX. First Islamic bonds — Sukuks — were issued at AIX by the Islamic Bank of Qatar, and the first renminbi-denominated bonds for 1 billion renminbi were issued by one of China's largest banks, China Development Bank. The latter development is particularly important because the funds raised will be used for financing local infrastructure projects, as well as BRI projects.

Apart from large companies, the AIFC is of interest for mid-cap and even small business from the countries in the region. As part of a road show in 2018–2019, the AIFC met with hundreds of entrepreneurs in Moscow, Minsk, Tbilisi, Baku, Krasnodar and Vladivostok. They were all interested in ways to attract external financing through the AIFC using stock exchange-

related and other methods. For example, a Novosibirsk businessman Anton Gorestov asked AIFC officers many questions about terms for bond placement at AIX. This is not surprising as Gorestov's company Uncle Dener, which owns a chain of cafes in several Russian regions, had already listed at the Moscow Exchange and was looking for other ways to raise capital for business development. Seeing interest from the small- and medium-sized businesses in the AIX, the AIFC is working on a plan to relax the conditions for stock exchange listing to make the process of issuing securities more manageable for small and medium-sized enterprises (SMEs) and thereby increase the available liquidity.

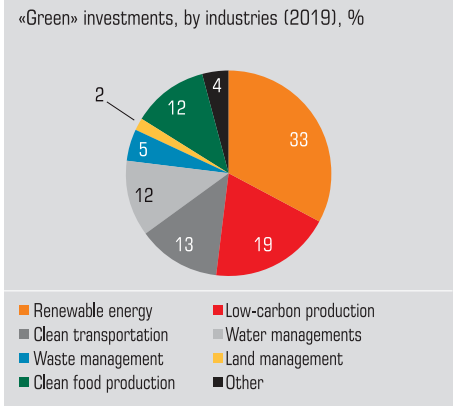
Islamic and "Green" Bonds: A Focus for Investors

Islamic and "green" finances are considered among the most promising emerging sectors of financial markets. In 2018, according to the Islamic Financial Services Industry Stability Report, the Islamic finance sector globally was valued at $2.1 billion, and its annual growth ranges from 10 percent to 20 percent in different countries.

The promising future of Islamic finance is based on a slow yet certain elimination of a purely religious connotation — its tools are increasingly used not only in the Islamic world, but also in non-Muslim countries. The reason is simple — during the crisis, investors are paying greater attention to reliable instruments. "Fixed income instruments will go through difficult times, and in the current period of high uncertainty investors will consider reliable ways to invest, even with low returns," believes Oleg Buklemishev of Moscow State University. The AIFC would like to become a platform to develop Islamic banking in Eurasia, having developed a comprehensive regulatory base for classic Sukuks, as well as green Islamic bonds and other Islamic finance products.

Green finance instruments are becoming more popular among investors. The topic of environmental protection and the reduction of emissions will be discussed by governments and the public of different countries with renewed vigour, and the number of environmentally-responsible companies and projects will increase. The Astana International Financial Centre can become a centre of green finance not only for Kazakhstan, but also for the Central Asian region: the regulatory base for issuing green bonds and Sukuks has been developed, and relations with leading institutional investors willing to invest in green projects, including the Eurasian Development Bank, the EBRD, and the Asian Development Bank have been built. Cooperation has been established with the UN

Alternative energy is a leading recipient of «green» investments



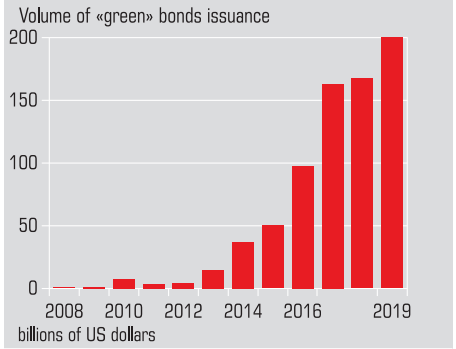
Source: Climate Bonds

program that provides subsidies for green projects. Also, to ensure that financial market players clearly understand what projects may attract financing, the AIFC together with Tsinghua University has developed a taxonomy of green projects. This is a classifier that outlines in detail the sectors, criteria, and thresholds for each type of green project. It has been specifically tailored for the Eurasian region. For example, it describes the characteristics of transition projects from coal to clean sources of fuel, typical for EAEU countries. It is possible that we will very soon see the first listings of green bonds on AIX. The AIFC is currently negotiating with potential issuers of green bonds, including local governments and national and private companies.

Betting on Human Capital

Many experts identify introduction of new technologies and digitalisation as the main factor that will define the future of the corporate sector. But of equal importance are trends in the areas of human capital, labour market and education. Strengthening of trends towards active (project-based) instruction in education

Implementation of the UN Sustainable Development Goals and expansion of alternative energy are driving interest towards «green» bonds



Source: Green bonds soar to record

and freelance labour economics that has been further advanced by the pandemic and quarantine, may alter the approaches to human capital development at their very core.

Education and labour markets will be increasingly global. In this regard, IFCs will become conduits for international expertise to local markets by raising professional qualifications and the competitiveness of local personnel. This is the goal of one of the AIFC's divisions — the Bureau of Continuing Professional Development (BCPD). Professional development programs created by the BCPD provide a specialist with the freedom of choice to develop his/her professional competencies by attending standard courses or by acquiring an international certification. This approach is based on active (project-based) education, where practice takes precedence over theory. Today, most of these programs are available online not only to professionals in Kazakhstan, but globally as well. "This is a very good approach: the AIFC provides specialists with an opportunity to work on specific competencies, which creates additional opportunities for development. Overall, the AIFC has taken upon itself a very important mission of integrating Kazakhstan's human resources into the global community and is making this available not only for AIFC purposes, but to Kazakhstan's business community as a whole," thinks Dmitry Vovk, a partner at Rosexpert.

This individual approach to human capital will be adopted by both companies and professionals themselves: companies will be paying more and more attention not so much to a degree from a specific university that a potential employee has, but to the set of available skills and international certificates that testify to certain competencies. According to a PwC survey (1,246 heads of companies from 79 countries), 25 percent of corporate leaders believe that forecasting and managing the deficit of employees' competencies is of "very high importance" for a company's future. In turn, professionals will strive to develop their own sets of competencies.

The quality of human capital is one of key factors defining the success of IFCs. The GFCI ranking evaluates financial centres according to several main criteria, and this factor is one of the most important. "International financial centres are at the focal point of interests of both investors and the business community, and for that reason this issue is key for them. Because these days one can compete successfully only by employing the right type of qualified individuals, who are motivated and capable of changing quickly to adjust to a changing environment," says Vovk.

Tim Bennett, CEO of AIX

We welcome Qatar International Islamic Bank in our market and are glad to announce listing of the first Senior Sukuk issue with us. We believe this listing is a good signal to the market and will kickstart the further promotion of Islamic instruments in the region. AIX has an ambition to become a key venue for listing of Shari'ah-compliant products and we are keen to support both potential issuers and investors to ensure the growth of such products at AIX.

The quality of human capital is particularly important for newer, recently established financial centres. The classical financial centres of Europe and the USA that developed over centuries as a natural concentration of capital and people already have established reputations. The new financial centres have to emphasise an ability to attract the best talent from around the world in order to ensure that the quality of their services is on par with, or even better than, the traditional centres.

Global Investors Believe in Fintech Start-Ups

Many financial centres bet on developing the segment of new financial technologies. Singapore, Dubai, Beijing, Shanghai, Nur-Sultan and others are striving to become fintech hubs.

Within its Fintech Hub division, the AIFC assists companies that are developing new products and services in the field of financial technology in several ways. One way is by offering acceleration programs whereby start-ups can work closely with mentors from around the world and develop the necessary competencies. Another is by developing legal and regulatory base for new financial products and technologies at the AFSA fintech division and test them in the Fintech Lab, a "regulatory sandbox." Currently, 22 projects are being tested in the "sandbox" there are now more than 120 start-ups the AIFC Fintech works with, representing diverse segments such as payments and mobile wallets, marketplaces, credits, AI and machine learning, blockchain, digital identification, cybersecurity and anti-fraud.

The AIFC Fintech supports — among other things — venture capital (VC Support) and development of corporate innovations (Corporate Innovations). The goal of VC Support is to create a healthy ecosystem of venture capital and to expand opportunities for start-ups in Central Asia and the CIS to attract investments and execute transactions. The mission of Corporate Innovations is to implement innovative solutions in the corporate sector. This track is quite popular with companies now; according to a report by CB Insights, "organisations are increasingly turning to fintech for purposes of automation, reduction of costs and increasing effectiveness."

Despite the crisis, international venture investors continue to demonstrate interest in fintech companies from Eurasian countries. It is a common view that this region has a strong STEM school base, a high concentration of talented IT specialists and promising projects for investments. Investors from Hong Kong, Japan, Singapore, Dubai, Abu Dhabi and the UK show tangible interest in startups in this region, even at the early stages. They are interested in new projects in areas such as fintech, space exploration and gaming. Investors demonstrate interest in putting money in developing markets that have growth potential due to excess capital and lack of promising projects for investments in their home countries. But countries in the Eurasian region are attractive for them also because of the quality of human capital — STEM education has a strong tradition in this part of the world, going back to Soviet times.

Leveraging investor interest from these countries as a new opportunity to attract investments into the region, the AIFC is creating VC Support — a project that has already put together a pool of investors (to be expanded in the future), and is seeking promising start-up projects in the neighbouring countries on a continuous basis. With help from VC Support, the AIFC will help attract funds from international investors into the start-ups located in the region. Moreover, start-ups can work with corporations in order to attract capital, particularly during the crisis, by developing solutions to streamline and digitalise corporate processes. This way, the AIFC Fintech Hub is creating a comprehensive ecosystem that includes a regulatory element, support for startups, assistance in attracting investments and implementation of fintech solutions within corporations.

Rumil Taufikov, Chairman of the Board, Tokyo Rope Almaty

Upon the end of coronavirus pandemic in Kazakhstan, the country's economy can be forced to work with completely new and non-standard projects, new ideas and new solutions based on advanced global developments and technologies. These projects should become the drivers of the economy and not depend on prices for oil, gas and other commodities.

Financial Centres as Points of Support in a Crisis

The coronavirus pandemic and the resulting economic crisis will bring the global economy into recession. Experts from around the world agree that the financial sector will follow. According to estimates by the Asian Development Bank, the coronavirus pandemic will cost the world economy at least $ 1.4 trillion. "The pandemic and ongoing efforts to limit its spread inflict strain of historic proportions on the world's economy, financial systems, and our societies as a whole," notes Jochen Biedermann from WAIFC.

As the first step, all countries remembered lessons from the past. They recalled that Hong Kong was able to quickly recover from the crisis caused by SARS in 2003, and this experience allowed it to react more expediently and with due prudence to COVID-19. The situation developed in a similar manner in Japan following the Tohoku earthquake in 2011 — at that time, the authorities realised that a quick reaction by the central bank would be critical to prevent a full-scale crisis.

During crisis, investors predictably abandon low-return and high-risk securities, and it means difficulties in attracting capital for companies. This is where financial centres may come to the aid of business, in part because they work closely with international financial organizations that provide loans at lower interest rates although this is but one of existing options.

Clearly, the crisis generated by the coronavirus pandemic has hurt small and medium-size companies the most. This can be expected since large businesses have a certain safety cushion that gives them time to re-adjust processes and technologies, and to adapt to the new environment, as compared to small business that do not have such an opportunity. According to a survey by Beijing University, a third of Chinese SMEs expect a fall in revenues of more than 50 percent in 2020. The latest data of the Russian Chamber of Commerce suggests that more than 3 million SMEs may close in Russia, and 8.6 million people

President of Kazakhstan Kassym-Jomart Tokayev called for a more active use of the AIFC potential to attract investments

may lose their jobs. An OECD survey shows that 30 percent of SMEs in Germany expect a 10 percent drop in revenues, and 42.1 percent of Korean SMEs said that they would be unable to operate in the difficult environment caused by the pandemic for longer than three months.

In many countries, it is the SME segment that is the driver and the foundation of national economies. In China, small and medium companies account for 80 percent of all jobs, in Kazakhstan the SMEs generate about 28 percent of GDP, and in Russia this indicator stands at 20 percent. For this reason, all countries recognise the importance of timely support for SMEs. Even before the crisis caused by the coronavirus pandemic, the AIFC initiated and is implementing a project to support SMEs in the framework of the World Alliance of International Financial Centres (WAIFC). The project is also actively joined by the financial centres of Qatar, Germany, Morocco (Casablanca) and Belgium.

Currently, the project to support SMEs under the WAIFC auspices is at the stage when experts from the AIFC and other international financial centres are studying best global practices for support of SMEs. For example, they include a program of Borsa Italiana, Italy's stock exchange (a selected pool of SMEs is provided access to expertise of leading companies, public offices and universities) or a program of SME support from a German bank KfW (instant anti-crisis loans to companies affected by the crisis with minimal requirements to the borrower — being in operation since at least January 1, 2019 and employing at least ten staff members). Best practices will be adapted to local regulations and proposed for implementation in Kazakhstan and other countries in the region.

For their other key target audience — investors — financial centres are trying to offer different options to diversify investments. Currently investors lack confidence in their future and need to diversify investments in order to protect their capital. For this reason, markets for certain commodities are now growing, and there is an increased demand for sovereign bonds of developed countries.

For professional investors, the AIFC offers different stock exchange-based instruments to diversify investments: AIX lists bonds of Kazakhstan's companies and Eurobonds of the Ministry of Finance, as well as Islamic bonds (sukuks) and the first renminbi-denominated bonds. Individual investors may be interested in exchange-traded funds (ETFs) and exchange-traded notes (ETNs) which allow to invest in bonds, resource and industry-based funds, indices of the largest companies, like S&P 500. Global institutional and individual investors have long been using such stock-exchange-based instruments to diversify their investments at low cost. Today structured financial instruments are in high demand and are now available to investors from the countries in the region. In the future, the number of such stock exchange-based products available on AIX will grow.

Overall, financial centres will use different methods to compete for investors once the pandemic is over, mostly by offering new products and services. But the main point of investors' attention now is how a country or a metropolis deals with the crisis and what losses they suffer. For example, if Shanghai quickly defeats the epidemic and then grows faster than others, this consideration will be more important than a possible offer of lower tariffs or taxes in, say, Hong Kong.

"The global economic recovery today will require less protectionism and more capital flows rather than less. IFCs can play a crucial role in this process by maintaining and fostering global openness," concludes economist Parag Khanna. ■

Dmitry Vovk, Partner at Rosexpert

International financial centres are at the focal point of interests of both investors and the business community, and for that reason quality of human capital is key issue for them. Because these days one can compete successfully only by employing the right type of qualified individuals, who are motivated and capable of changing quickly to adjust to a changing environment. ■

Elena Pogodina

Kairat Kelimbetov, Governor, AIFC: "The AIFC has created an innovative ecosystem for international investors"

In only two years, Astana International Financial Centre managed to create a comfortable and innovative environment for regional and global investments in Eurasia

How deep will be the crisis caused by the coronavirus pandemic and global recession, how long will it take the global economy to recover, what changes will occur in the habits and preferences of financial services consumers around the world, why global trade rules are changing and what place will the EAEU member states occupy in the new system — these and other questions The Expert discussed with the AIFC's Governor, Dr. **Kairat Kelimbetov**.

— How deep do you believe the current crisis will be?

— The world is facing a global pandemic for the first time in 100 years. But in case of the "Spanish flu," the world did not witness a juxtaposition of a critical epidemiological situation and a crisis with demand, on top of a general recession which started earlier.Today's forced shutdown of enterprises around the world interrupted production chains and led to an abrupt drop in oil prices. Now all governments are doing all they can, first and foremost to protect the health of their citizens and to support those who suffered from the shutdown of enterprises and whole sectors. This entails significant budget expenses that will amount to half of GDP in some countries, and to one-tenth of GDP in others.

Countries are spending their reserves, but the current situation is worth it. But whereas during the 2008 crisis, the "rainy-day funds" of many countries worked to stimulate the demand and to pump liquidity into the financial systems in order to be used for future investments, now the demand is constrained artificially, and the beginning of a real investment cycle cannot be assured even in the medium term. Moreover, the financial reserves of many countries will remain exhausted for quite a long time, and therefore, private investors will be careful.

— What will radically change in the world economy and how will its development be influenced by changing habits and needs of consumers?

— The general trend is already clear: it is growth of information and digital technologies. We will see the growth of online services for communicating amongst ourselves, like conference calls, growth of distance learning services — from schools to vocational training and higher education — obviously, telemedicine received a new impetus, as well as remote entertainment and sports services. By the way, the AIFC quite successfully and timely managed the transition of all its services online, because the Centre was designed as a digital financial hub from day one.

Obviously, the growth of fintech and multi-services will be even more accelerated. Medical biotechnologies will get a new impetus.

In general, we will see that companies unable to respond to the crisis of demand will leave the market, and this means that many sectors will go through consolidations and mergers involving more efficient companies which will leverage markets with fewer competitors for their growth. At the same time, we will also see that many businesses will be re-started, because not all entrepreneurs will lose self-confidence, and many will learn the right lessons. A redistribution will occur with some assets

which will end up being repossessed by banks, as collateral. And I believe, the role of the state in the economy and social life will increase, and systems that monitor various areas of citizens' lives will become a new normal.

We saw a similar situation after the 9–11 terrorist attacks: many governments tightened security requirements and initiated surveillance of their citizens. Many political experts are saying that epidemiological oversight will strengthen.

Governments will actively employ digital technologies to monitor the health of their citizens and to prevent the spread of diseases. I believe it will create an added demand for innovations, and citizens, by the time the pandemic is over, will be more prepared for such measures. I hope that people will be more attentive to their health after the quarantine. The pandemic is sending us a clear message — no disease should be ignored.

According to some forecasts, COVID-19 waves will continue until 2022, and this should also be considered. We don't know how fast the vaccine will be ready. Perhaps, by that time, mankind will already acquire herd immunity, and for that reason strategies should be longer-term and online-oriented. In that sense, of course, the pandemic has presented us with the image of the future.

— How much will the world's geo-economic architecture change?

— It started changing even before the pandemic. Globalisation develops in cycles, and the latest 30-year cycle is over. In early 1990s, China had an accelerated growth, followed by the rest of the South-East Asia, and markets of the former Soviet Union countries opened to the world and were absorbing consumer goods like a sponge. As a result, enterprises were being constructed, services were developing, and financial services were expanding.

But in the recent years, China's growth slowed down, and the transition to a new technological way of life and to digitalisation of production has not yet realised its full potential. No large-scale productivity "explosion" has yet occurred, and for that reason all countries that have grown used to double-digit economic growth rates and facing an extended slowdown, are now ready for desperate measures, including trade wars.

This way, the foundation was laid for the start of disintegration, de-globalisation, rupture of value-added chains and trade wars — and all that was exacerbated by the pandemic. In addition, after the pandemic many countries will be more inclined to localize production, "close the borders" (in case of the second wave of the pandemic or other negative developments) and establish higher duties. For 30 years, the world has been riding the wave of economic liberalism, borders have been opening everywhere and duties have been coming down, but now a large-scale reversal is possible.

But there is another trend, too — regionalisation. In the modern world, it is impossible to build autarchy, and for that reason it is easier to cooperate with close (geographically, first) partners and pursue greater integration. In this regard, the EAEU and our common relations with China are looking even more attractive. Perhaps, in the current circumstances the situation within the EU will be less rocky because all member states are long-established and familiar to each other, and there will be less globalisation. It is important for macro-regions to continue communicating in these circumstances, but this is exactly what international financial centres are for.

— What does it mean for the post-Soviet countries?

— Our countries have not yet exhausted their potential for growth. We have seen in Russia, Belarus and Kazakhstan a strong growth in agriculture, machine-building and fintech. Importantly, in Kazakhstan there has been a significant growth in small business, it generates up to one-third of the national GDP. At the same time, there are opportunities for import substitution in strategic sectors and for localization of production by global companies.

Against the backdrop of the global recession, the Eurasian Economic Union created in 2014 with its common customs space is becoming an attractive region for investments by companies from both the West and from the South-East. Our joint work to create common markets of energy, agriculture, machine-building and others generates advantages for us, because these will be sizable markets and therefore, they will be more attractive for investors. Besides, foreign investors are evaluating not so much a separate country, but rather a region, this is a more promising strategy. In this regard, we should obviously strive to eliminate artificial barriers inside the EAEU that in practice often devalue the notion of economic integration, the very essence of the Union's cornerstone laid by its founders.

— What can the AIFC offer to the business today? How did you manage to assemble such a significant pool of residents in such a short period of time?

— Our key objective has been all along to create an innovative ecosystem for international investors who are interested in our region.

I think we managed. A total of 460 residents joined the AIFC in the two years since its launch. Among them — international investment companies, major banks like Goldman Sachs and Russia's Sberbank, Chinese banks located in Hong Kong, such as ICBC, CITIC Securities, CITIC Capital.

We are actively engaged in developing projects in the framework of the Belt and Road Initiative and working on aligning it with the Eurasian Economic Union Our partners include the China Development Bank and the Silk Road Fund.

It is well-known that we created the AIFC based on best international practices. As a result, we have a technologically advanced stock exchange AIX that operates on the NASDAQ platform.

We have a large pool of professional managers who are improving their qualifications all the time with the help of the Bureau of Continuous Professional Development. And very importantly for international investors, the AIFC features its own jurisdiction based on the English common law, its own Court and Arbitration Centre which are offering their services free of charge until 2021. And finally, investors are attracted by our favourable conditions for participation — exemption from main taxes for 50 years and a simplified regulatory regime.

— Many countries would like to have their own IFC, but few manage to do it.

— A lot depends on the political will of the country's leadership and its focus on results. The first president of Kazakhstan, Nursultan Nazarbayev, initiated creation of the AIFC as a centre of gravity for world finances in the region of Eurasia. He continued to actively participate in the Centre's creation later as well, sometimes getting personally involved in helping us reach agreements with leading global financial companies and banks who ended up becoming our residents.

He also initiated amendments to the Constitution that allowed us to create in the AIFC an independent common law-based jurisdiction which is understandable to all international investors. As

A lot depends on the political will of the country's leadership and its focus on results. The First President of Kazakhstan Nursultan Nazarbayev initiated creation of the AIFC as a centre of gravity for world finances in the region of Eurasia. He continued to actively participate in the Centre's creation later as well, sometimes getting personally involved in helping us reach agreements with leading global financial companies and banks

a result, world-class judges and arbitrators work here, and many foreign companies and companies from post-Soviet countries include the AIFC in their contracts as the location for dispute resolution.

We have laid a solid foundation for achieving the goals set before us by President Tokayev, primarily in terms of further development of the capital market and upcoming privatization of state assets. We are also putting greater effort in promoting the AIFC among international investors as an attractive tax residency jurisdiction.

— So, creation of the AIFC for Kazakhstan is a matter of national importance. How do you view the objectives of the AIFC today?

— First and most important, it is attracting investments to the country and the region, creation of a developed financial services market, capital market, and this is what we are working on now. All that will undoubtedly contribute to creating favourable conditions for doing business in Kazakhstan. And our country has been the leader among the EAEU countries in this regard for quite some time. In addition, we are involved in developing new technologies and fintech, which is necessary for the country's transition to the fourth industrial set-up.

We are participating in the Digital Kazakhstan program, providing acceleration assistance to more than 120 start-ups and are engaging venture investors in this work, including global ones. We are talking about a wide variety of technologies — from new solutions for payment systems to digital solutions for various types of production and a wide range of consumers, including Smart City program in Nur-Sultan, for example.

We've acquired solid experience in flexible regulations of innovations and believe that our solutions will be useful for improving management of fintech and digital technologies sectors in general. And finally, we are also implementing anti-crisis measures, including support for industry and small business.

The AIFC is introducing a simplified listing of mining companies, which has already attracted interest of international investors. A crowd-funding platform to attract liquidity for small and medium-sized business is already operational. Even before the pandemic, we implemented the system of electronic justice, eJustice, enabling remote filing of court cases which proved quite timely during the quarantine.

So overall, we are bringing together the interests of the business and the state, by creating a comfortable and innovative ecosystem for state, regional and global investments in Eurasia. ■

WORLD ALLIANCE
of International Financial Centers

«International Financial Centers: Sustaining SME Growth in a Post-Covid World — A Webinar Discussion»

during Astana Finance Days Annual International Finance Conference,
July 1, 2020, 18:30 (Nur-Sultan time)

Topics for Discussion:
— How international financial centers support the economy in combatting the consequences of the coronavirus pandemic
— What is the impact of the current pandemic of SME Financing? Is enough capital available?
— What can financial centers do to assist the economies in areas such as financing of small and medium-size business, regulations, sustainable financing and fintech

A report "How International Financial Centers Can Assist in Combatting the COVID-19 Pandemic" has been prepared ahead of the discussion by the experts of the World Alliance of International Financial Centers. It can be accessed here

Join the discussion

World Alliance of International Financial Centers is a platform for engagement among financial centers of the world, sharing best practices and interacting with the general public
http://waifc.finance/

IGOR SHAPOSHNIKOV

Maria Sarycheva

Financial centres of the future

The changing nature of money, financialization of the economy and blockchain everywhere — new contours of the economy are mapped by the financial centres

Digitalisation and financialisation are just some of the features of an evolving financial sector that were named to The Expert reporters by dozens of specialists in finance, international relations, law, geoeconomics and other disciplines, when preparing this special issue. All these specialists are saying that soon, new technologies will erase borders between all financial market participants, pockets of capital and assets, and all this will transform into a common cloud experience peppered with AI technologies. This process of total digitalisation will mix with a specialisation trend by financial centres to meet the demands of economies and markets. Is it possible that, in 50 years, as a result of all this we will see a personalised financial centre which can be accessed remotely by any company anywhere in the world and tailored to the specific needs of a specific market participant?

Will the Future of Money Define the Future of the Financial Sector?

Without question, the emergence of financial and blockchain technologies heralds a new era in financial services and the entire economy. Corporations, governments and institutional investors are about to adopt these technologies that are becoming increasingly democratic and easily accessible for SMEs.

"Digitalisation of assets, the first killer application of blockchain, enables radically disruptive digital financing. Blockchain technologies will enable the trusted sharing of data and digital assets worldwide and for new modes of international collaboration on an unprecedented scale," notes Barbara Meynert, member of AIFC FinTech Advisory Council.

Clearly, new technologies will become drivers of the next digital revolution by enabling digitalisation of any assets and presenting opportunities for transacting deals involving these assets in new and innovative ways. The result of this process will be finan-

cialisation — the penetration of financial activity into all areas of the economy and life.

In addition to digitising everything that has value, blockchain and new technologies will open up completely new opportunities and ways to attract capital. Emerging technologies will not only open up innovative ways of working with assets, but will change the very nature of capital itself. "The nature of money has already changed when money became programmable, i.e. money became represented in digital form (crypto-tokens) tracked with corresponding electronic blockchain ledgers," believes Barbara Meynert.

Experts see the issuance of cryptocurrencies by the central banks of many countries as a thing of the very near future. According to Meynert, in the next five years we will have seen digital currencies issued by the central banks of countries and developed for specific tasks.

China has led the process of issuing cryptocurrencies at the state level. In December 2019, the Chinese People's Bank launched its digital currency DCEP, which is fully secured by the renminbi. "China's digital currency was created in order to replace the assets in the Reserve Fund (cash), as well as to promote the development of trade and the spread of the renminbi as an international currency," said Zhang Xiaocheng, President, Fintech4Good.

The Financial Centre as an Attractive Residency Location

Financial centres are evolving from being just places for business and the accumulation of capital, into locations that can offer comfortable and interesting lifestyles. Expat personnel from the international companies based in the cities and financial centres expect to have access to a quality cultural environment and world standard-of-living conditions.

"Global cities need to be strong hubs for the flows of people, capital, goods, technology, services, and other categories of commerce. They should also be attractive residential hubs for growing numbers of mobile international workers," says economist Parag Khanna.

In cities like New York and London, that emerged as financial centres over the course of centuries, there is no need to artificially generate cultural events. These cities are already cultural leaders, but things are completely different in the emerging financial centres such as Abu Dhabi, Dubai or Nur-Sultan. They require not only the development of a financial infrastructure, but also of an international-level lifestyle. Such a lifestyle presumes a wide selection of shops and restaurants, parks and recreation facilities, as well as art galleries, theatres and a developed media environment.

> Good examples of major media projects include the Dubai Media City with more than 1,500 resident companies representing television, publishing, advertising, music and other media segments

Dubai is a good example of the living conditions should be offered by a new financial centre. Among other things, Dubai hosts a cluster of nine art galleries and representative offices of Sotheby's and Christie's auction houses.

In addition to providing favourable living conductions for the personnel of international companies in a financial centre, developing cultural, social and media institutions contributes to advancing new sectors of the local and national economy — a type of 'economy of the senses.' This in turn provides an additional impetus to urban development — with the rate of growth in creative industries now reaching 10 percent annually. As an example, the share of creative industries in London is 16 percent of the total city economy. In the Netherlands, a program of creative industries' development is supported by the Amsterdam Creative Industries Association through a network of incubators. This program alone has resulted in an increase of the country's revenue from the tourist sector alone from $10 billion in 2009 to $18 billion in 2017.

A media component to a financial centres is equally important. The Dubai Media City, with more than 1,500 resident companies representing television, publishing, advertising, music and other media segments is just one example. There are many more, such as the Abu-Dhabi Media and Entertainment Hub with 450 residents or the Digital Media City in Seoul. And it is often the case that financial centres attract media companies by offering them tax privileges and providing physical space like studios, offices and IT infrastructure for bureaus free of charge. In return, financial centres benefit from the localised opportunity to access part of the global news agenda.

International Financial Centres: The Real Future

Digitalisation of money and assets, as well as transitioning communications to online platforms will inevitably result in financialisation — the penetration of financial technologies and activity into all areas of daily life and sectors of the economy. Clearly, this increases the relevance and role of the financial sector and makes it less dependent on the more transitory nature of national economies and politics. For financial centres having begun as infrastructure platforms or locations enabling transactions, they now have every chance of becoming fully-fledged actors in the global economy and to directly impact its development.

In addition to influencing economic development, financial centres will become catalysts for development in other areas of life. They will help implement an English common law system in other jurisdictions: thanks to the financial centre, UAE in 10 years developed its own world-level legal education system that is now producing top quality indigenous legal professionals. Financial centres provide an impetus for the development of local human resources — in Kazakhstan, the HR division of the financial centre is geared towards bringing the professional qualifications of local specialists up to international level. And by promoting their social and cultural components, financial centres are improving the overall standards of living in the cities.

"Whenever I look to commercial futures, my first thought is not 'Where are the big firms going to be?' If I'm looking at shipping, I don't ask, 'What's going to happen to Maersk?'. If I look at banking, my first thought is not to wonder 'What's going to happen to Citigroup or Credit Suisse?' reasons Professor Michael Mainelli. "I look at the startups first. Whereas most of the people you talk to in financial services think it's all about some kind of next generation derivative, I am not so sure that's the case at all. The startups are trying to eliminate traditional silos and give consumers and businesses control. Thus, pondering commercial and financial futures, I look to more direct delivery of the nitty-gritty of what people really need from trade and finance, and what they don't need is some other kind of mortgage derivative, triple-square, or whatever." ■

Elena Chinzova

Liu Shaotong: "AIFC will make a positive impact on the development of Kazakhstan and Central Asia"

Why the Shanghai Stock Exchange became a strategic partner and shareholder of the Astana International Financial Centre

Liu Shaotong, Executive Vice President of Shanghai Stock Exchange, discussed with The Expert the consequences of the coronavirus pandemic for the global economy, the future of BRI projects and the role of international financial centres in the development of the global financial system.

— How do you assess the progress made by Kazakhstan in establishing the Astana International Financial Centre? How can one explain the fact that they managed to create an international institution in such a short time?

— Shanghai Stock Exchange (SSE) is AIFC's strategic partner and AIX's shareholder. I have been serving on the board of AIX for over two years and have enjoyed the opportunity to contribute to this cooperation. In 2015, the first president of Kazakhstan, Nursultan Nazarbayev, announced the plan to establish the AIFC. From the very beginning, the AIFC introduced in detail to all partners their blueprint and initiatives. I was very much impressed by their determination to become an International Financial Centre and the opening-up policy towards the whole world.

In the past five years, the AIFC has achieved remarkable progress: it has established a business environment and a law system that is in line with leading international standards, carried out in-depth cooperation with various institutions, attracted a large number of international professionals and market participants through tax and other preferential policies, and has steadily built up the capital market ecosystem and first-class capital market infrastructure. As AIX's board member, I personally witnessed every step of the AIFC's growth. Take the exchange for instance, just in two years after AIX opened for business, over 50 products and 20 trading members were attracted, which is great success.

The success that the AIFC achieved is partly based on its natural geographical advantage, but more importantly, is dependent on the strong support from Kazakh government and the clear and targeted development plan of the AIFC. Kazakhstan is in the centre of Eurasia and has convenient transportation to key locations. To leverage this advantage, the AIFC is gradually building an internationalized business environment and an offshore financial platform that is based on English common law. It aims to increase recognition from the international market and continue to attract international talents to boost its rapid development.

— What conditions exist for Kazakhstan to become a bastion region for BRI projects? What will be the role of the AIFC?

— Friendship between China and Kazakhstan can be traced back a long time. In ancient times, on their way from China to the West, Chinese merchants often passed through Kazakhstan along the Silk Road, thousands of miles long, and witnessed the trade between countries through the past thousand years. During a September 2013 state visit to Kazakhstan, President Xi Jin-

ping first proposed the creation of the Silk Road Economic Belt project in his speech at Nazarbayev University. Both the New Eurasian Continental Bridge and China-Central Asia-West Asia Economic Corridor are going through Kazakhstan. The leadership of both countries have long reached consensus that synchronising the construction of the Silk Road Economic Belt with Kazakhstan's Nurly Zhol New Economic Policy ("Bright Path") is hugely important. In September 2019, when President Xi met with Kazakh President Tokayev in Beijing, they decided to develop a China-Kazakhstan permanent comprehensive strategic partnership in the spirit of mutual support and "win-win" cooperation.

Against this backdrop, the AIFC has paid great attention to China's business sector. Since its establishment, the AIFC has signed memoranda of understanding with various Chinese institutions and made great efforts to attract Chinese institutions to conduct business with AIFC. AIFC Governor Kairat Kelimbetov attended several events and road shows in China. A Joint Statement Between the People's Republic of China and the Republic of Kazakhstan provides that "both sides support the development and operation of Astana International Financial Centre (AIFC), encourage financial institutions from both sides to deepen cooperation with AIFC". I believe that guided by these policies, the AIFC will play a more important role serving as the platform in China-Kazakhstan cooperation, especially in financial cooperation.

As AIFC's strategic partner, SSE has always supported the AIFC's development, through investing in AIX, sending SSE's professionals to work at AIX and providing consultancy to contribute in corporate governance and product design. Since 2017, our exchange has assisted AIFC's road show in Shanghai every year. In the future, based on our excellent cooperation, SSE will further promote its business development and deepen China-Kazakhstan financial cooperation in a concrete manner.

— How will the pandemic and recession in the global economy affect the implementation of the BRI projects in Eurasia?

— The virus respects no border and knows no race. The outbreak of COVID-19 came suddenly and has spread to more than 210 countries and regions with over 7 billion people affected, exerting great influence on the world economy. However, during the response to the global public health crisis, win-win cooperation proves to be more valuable than at any other time. Let me take China-Kazakhstan cooperation, for example. During the COVID-19 pandemic, the two countries worked closely together and firmly supported each other.

> The success that AIFC achieved is partly based on its natural geographical advantage, but more importantly, is dependent on the strong support from Kazakh government and the clear and targeted development plan of AIFC

Kazakhstan provided China with medical supplies, while China sent a team of medical experts as well as medical supplies. Effective prevention against COVID-19 comes from efforts of both sides as well as other countries and international organisations. Under the impact of COVID-19, countries need to deepen mutual trust and strengthen cooperation more than ever, so that the pandemic can be better controlled, and the economy can recover more quickly.

In my opinion, in the short term COVID-19 will bring challenges to international cooperation, and cross-border flows of labour, capital and goods will be affected, but the pandemic and its influence on the economy will not change the fundamental trend of international cooperation. Although there is no face- to-face communication, which slows down cooperation to some extent, the influence will not stay long. As far as I know, all parties still have proactive online conversations to explore potential cooperation in the future. After the virus outbreak, SSE has maintained online communication and cooperation with partners such as the AIFC. When the pandemic is over, I believe our two parties will continue to push forward close collaboration as before.

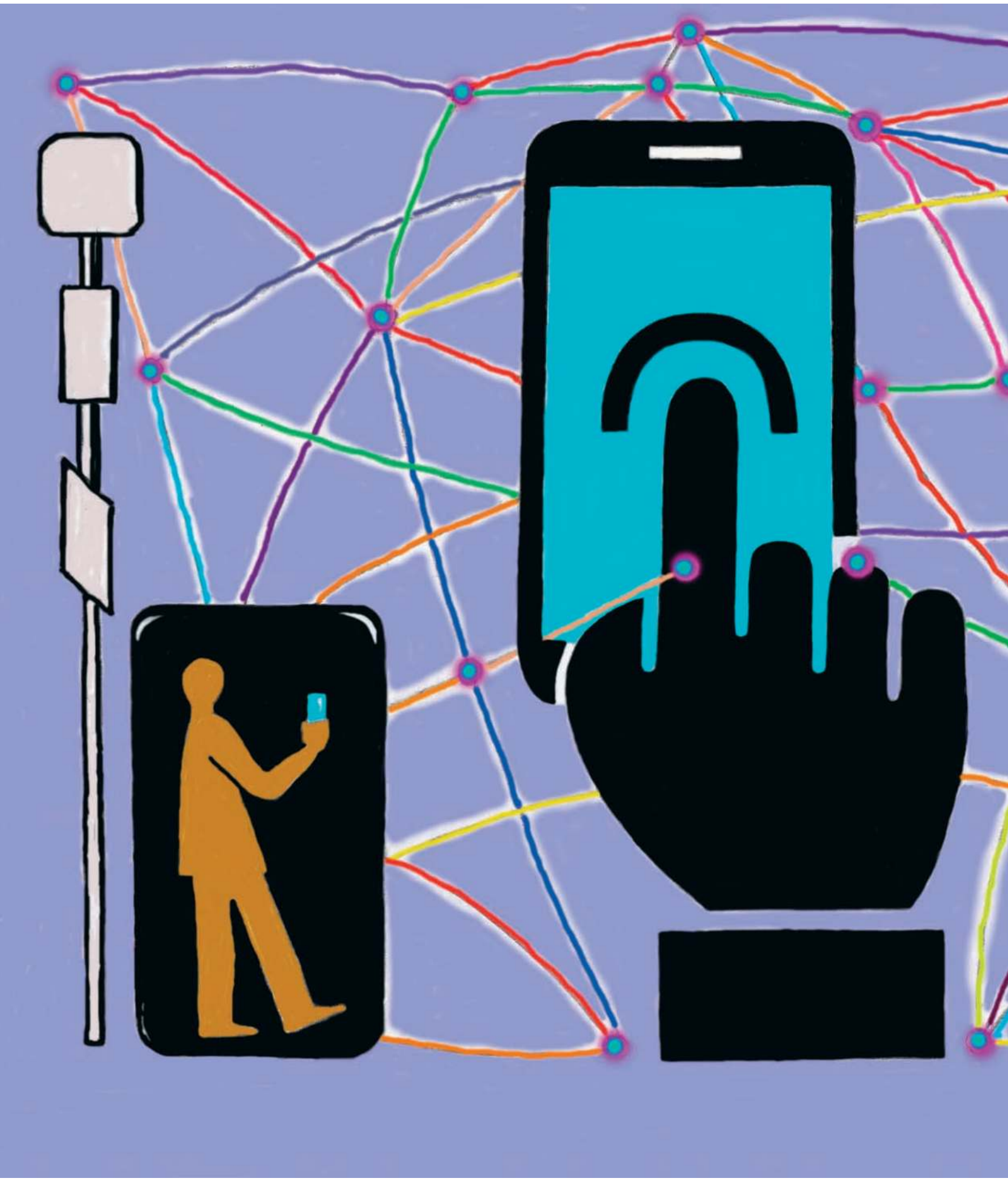
— In what form and what place will international financial centres hold in the global financial system — auxiliary or determining?

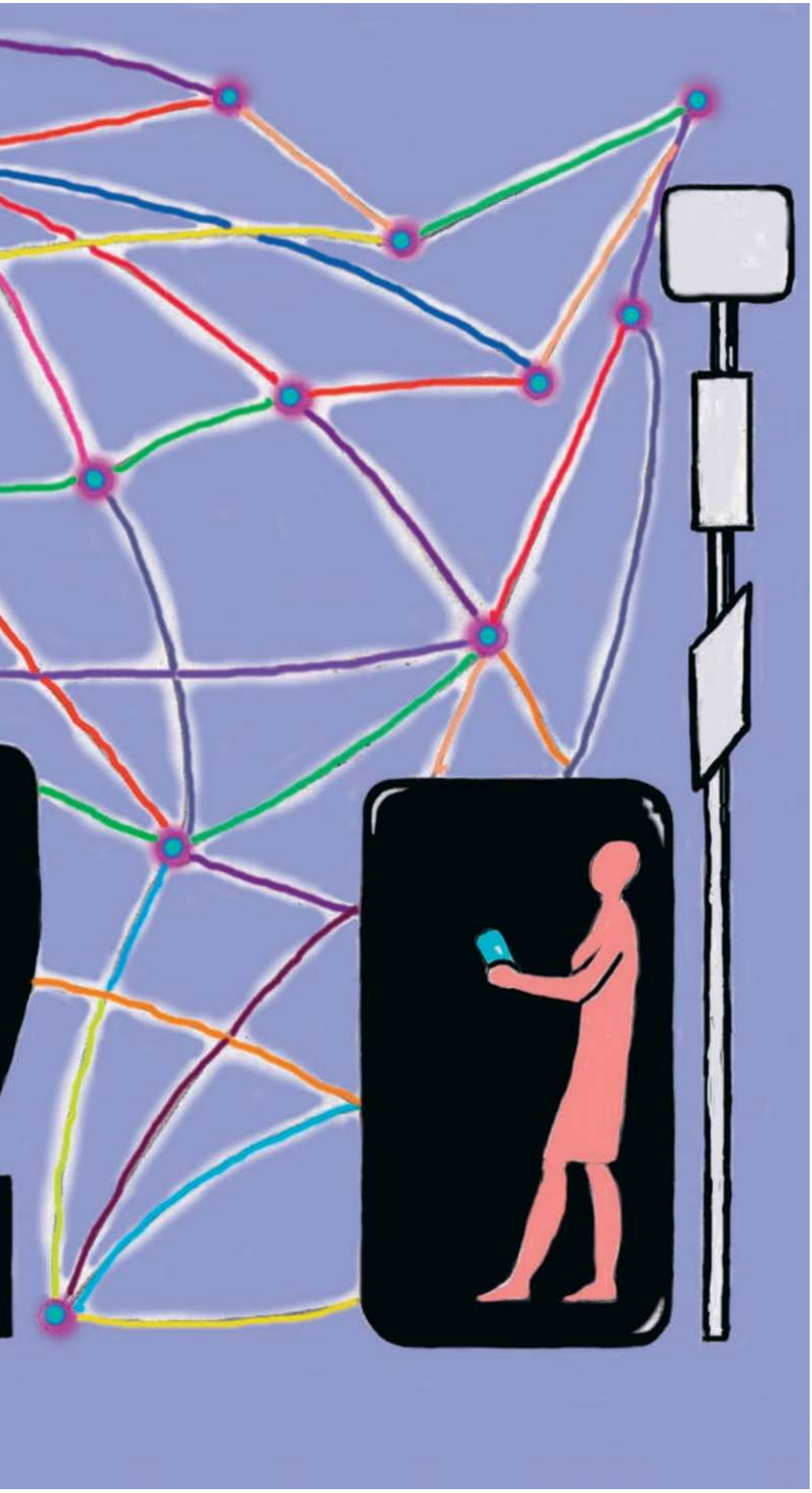
— An international financial centre brings together all types of market institutions. As an important venue for finance and information distribution, integration and transactions, the centre helps to drive the flow of regional capital, and to optimize price discovery and resource allocation, which further improves the host country's international impact and lifts its economic development stage.

Historically speaking, the early international financial centres grew organically under market forces and mostly emerged in developed countries, for example, London and New York. When those centres were formed, their status as the international financial centre further reinforced the global impact of their host countries. For instance, London, as an international financial centre, has generated great value both economically and financially over the last decades, which ensures the significant role of the UK in trade and finance, and also gives the country capabilities to diffuse and share risks.

With the further evolution of globalisation, emerging countries gain more presence in the global market. Many international financial centres are established under the support of government policies, including offshore centres, to promote economic and financial reform as well as internationalisation, and to drive rapid economic development, for instance, Singapore and Dubai. When Singapore gained its independence, it implemented preferential policies and improved its financial system to attract foreign capital. Later, its special features as an international financial centre fed the local and regional growth of shipping, trade and tourism. In this process, Singapore has substantially improved economic development and people's living standards.

Under the support of the Kazakhstan government, the AIFC aims high at the standard of developed international financial centres. It has made considerable achievements and won publicity to a certain extent in the international market. According to the Global Financial Centres Index 26 published in September 2019, as the host city of AIFC, Nur-Sultan ranks 51st among global financial centres, the highest among East European and Central Asian cities. In the future, international communication and cooperation will never come to an end, and international financial centres will still play an important role in economic development. I believe the AIFC will have a positive effect on the development of Kazakhstan and even the entire Central Asia. ■





IGOR SHAPOSHNIKOV

Revolution 4.0: an era of robots

It is no accident that international financial centres are so attracted to the newest digital and financial technologies. These technologies enabled the greater competitiveness of IFCs, and the internet made finances more global. Now these technologies are increasingly promoting the emergence of tools of the new economic order. Machine learning, additive and virtual technologies, augmented reality and internet of things (IoT), artificial intelligence (AI) and big data analysis — all these developments are changing the world around us almost imperceptably. More value added is being created around digital technologies and new payment systems. Industrial enterprises and public offices are going digital, virtual banks and e-commerce are becoming more efficient than their 'analog' competitors, and are inevitably creating a 'new normal' for us — sometimes referred to as the 'Fourth Industrial Revolution' and an explosive growth of fintech. In turn, their success is inseparable from their proximity to the consumer and greater consideration of consumer needs. ■

Elena Chinzova

New technologies await investments

How the Fourth Industrial Revolution is changing the world and why it is important for global financial hubs

EAST NEWS

The term 'Fourth Industrial Revolution' (Industry 4.0) became widely used quite recently — thanks to the World Economic Forum (WEF) in Davos making it the main topic in 2019. However, economists and futurists started talking about it much earlier. Back in 2016, Klaus Schwab, WEF founder and executive chairman, published his book 'Fourth Industrial Revolution' where he described this phenomenon in great detail.

In Klaus Schwab's words, the Fourth Industrial Revolution blurs the lines between physical, digital and biological realms — and as a result, current technological changes (universal introduction of AI, big data, IoT and other technologies in business, government and public life) radically overhaul human lives and activities of societies, business and governments, and ultimately lead to a social transformation on par with industrial revolutions of the past. Today almost all modern industrial enterprises, especially public, have embarked on modernization programs that include technologies of machine vision (allowing to fine-tune conveyor and control processes), 3D modelling and VR, driver-

The US share of the global industrial growth significantly declined following the Great Depression

Share of leading countries in the global industrial production in 1929–1938 (%)

	1929	1932	1937	1938
USA	43.3	31.8	35.1	28.7
USSR	5	11.5	14.1	17.6
Germany	11	10.6	11.4	13.2
Great Britain	9.4	10.9	9.4	9.2
France	6.6	6.9	4.5	4.5
Japan	2.5	3.5	3.5	3.8
Italy	3.3	3.1	2.4	2.9

Source: OECD

less transportation, automated "smart" assembly and, of course, artificial intelligence. Systems of remote management of industrial and other business processes are being introduced everywhere as well.

Leading IFCs have actively engaged in the digital transformation of the global economy: in addition to the traditional financing instruments of major modernization projects, they arrange new ways to attract investments for promising innovative start-ups, such as crowd-funding and private placements (including Initial Coin Offering, ICO). But most importantly, they create digital ecosystems that allow to reduce the number of middle-men in the processes of modernization and creation of innovative products, and to expedite the processes of making decisions and sharing scientific and market data. And finally, the emergence of crypto-currencies and AI systems, including driverless transportation, will require major legislative changes. IFCs are involved in these activities as well — they enable adaptation of relevant national laws and internal rules to ensure most efficient implementation of innovations within their jurisdictions.

From Coal Mines to Internet of Things

The First Industrial Revolution is believed to have started in 1765, when mechanical processes were introduced in production, and steam engine was invented. At the same time, a mass extraction of coal took place, to provide the fuel for steam engines and for iron smelting. The world entered an era of railways and steam locomotives. This served as a great impetus for the development of the economy as a whole, and industrial production started to supplant agriculture.

One century later, in 1870, the Second Industrial Revolution took off, made possible by the discovery of electricity and its introduction in industry and daily life. A massive extraction of oil and gas commenced, as sources of fuel for that type of energy. Inventions included internal combustion engine, telegraph and telephone and later — automobile and airplane. It took another 100 years for the industry to be able to produce all these items.

Augmented reality, robotics and 3D printing are getting universally introduced in the production processes and daily lives, and are changing them significantly — and in some cases, completely and irreversibly

Key technologies of the Fourth Industrial Revolution include:

— Big data
— Artificial intelligence (AI)
— Machine learning (ML)
— Cloud technologies
— Internet of things (IoT)
— Blockchain

In 1969, the time for the Third Industrial Revolution arrived (although formally, it started about 20 years earlier), and brought with it nuclear energy, computers, space exploration and birth of biotechnologies.

And at the end of the twentieth century, gradually and in many respects fusing with the Third Revolution, the Fourth Industrial Revolution started. It is based on universal use of internet-related technologies, and we now live at the height of it. As the previous Revolutions, the Fourth Industrial Revolution, aka Industry 4.0, considerably alters the whole economy by changing the chains of creating, exchanging and distributing value added between the state, business and innovators. Technologies of the Fourth Industrial Revolution, including artificial intelligence, genome editing, augmented reality, robotics, 3D printing, are being introduced universally in both industrial production and daily life, and are altering them significantly and, at times, completely and irreversibly.

These changes are not yet completely apparent. For example, it is clear that 3D printing will change the essence of mass production for many goods, from clothes to buildings, but the timeline and consequences of these changes are now impossible to predict. Still, it is clear that the world is facing a global transformation. 3D printers are already becoming household items. Unique features of the Fourth Industrial Revolution are the enormous number of new technologies and the speed of their application. This speed is many times faster than during the previous Revolutions. A well-known example: it took 75 years for 100 million people to get access to telephones while game application Pokemon Go was downloaded by 100 million people around the world in just one month. This number of new technologies combined with the speed of change causes major concerns, and for a good reason — industrial revolutions in the past always brought about deep social transformations (relocation of workforce from villages to towns, etc), but in the past people had much more time to adapt to these changes. Now one has to adapt much

Herman Gref, CEO, Chairman of the Executive Board of Sberbank

All sectors of the economy have either already been subject to a hard reset, or will be subject to it in the nearest future. As of today, structural technological changes or technological leaps are relevant for only about 5 percent of the traditional economy, which means that more than 90 percent of companies have not yet started this process. This offers enormous opportunities for enterprises and entrepreneurs in all sectors without exception. In order to develop further, modern banks need to abandon classical development strategies in favor of transforming themselves into technological companies and ecosystems. One of the key aspects of this transition is creation of own technological platform. Creation of a digital ecosystem that is in demand is probably the most difficult task. This task is very difficult to accomplish, considering possible lack of technologies within the company, time limits and competition. In order to be successful in this struggle, it is necessary to anticipate the expectations of clients and offer them the most convenient services.

АНТОН НОВОДЕРЕЖКИН/ТАСС

faster — it is no secret that modern people will have to change their occupations at least twice in their lifetimes. Forecasts that robots will crowd out many workers, forcing these individuals to survive on some type of a basic income, are no consolation. Klaus Schwab predicts that inequality will be the most acute social problem derived from the Fourth Financial Revolution, saying that never before there has been so much promise and yet so much danger.

In its 2018 Annual Report, UBS investment bank featured the following data: billionaires managed almost 80 percent of 40 key innovations of the past four decades. Jordan Morrow, head of information literacy department at the analytical firm Qlik, notes that certain people and companies simply do not possess the skills, analysis and interpretation of data that are necessary to successfully compete during the Fourth Industrial Revolution. It then comes as no surprise that the Fourth In-

Stores without sales clerks are becoming a new reality

dustrial Revolution will end up creating an economy of inequality never seen before: highly qualified workers will be earning high salaries, and others will just live on welfare.

Dissecting Industry 4.0

Let's take a closer look at the contents of the Fourth Industrial Revolution. To understand the way it is developing, it is necessary to study its core, the technologies that enable it.

So, Industry 4.0 is based on data, computing technologies and automation. In the new economy — rightfully called digital — data and information are production factors, like financial capital and tangible assets. In the language of economic science, added value in today's world is composed of information continuously generated by sensors and machines. This is defined by the term "intellectual factory": everything that happens at a production facility, is controlled by computers, and

ИТАР-ТАСС/ СЕРГЕЙ ФАДЕЙЧЕВ

Askar Mamin, Prime Minister, Republic of Kazakhstan

As the global competition for investments intensifies, the Government [of the Republic of Kazakhstan] is focusing on attracting a new wave of investments in the national economy. Our strategic objective is to increase the volume of investments in fixed capital by an average of 15% annually and bring it up to 30% of GDP by 2025 (18.2% in 2019). To bolster investment activities, the Government has put together a pool of more than 2,000 projects (2,033) totalling 44 trillion tenge. The greatest potential for attracting investments is offered by processing industry, fuel and energy and agricultural sectors, tourism, healthcare, transportation and logistics, among others. Practical issues of implementing investment projects and enhancing the business climate in the country are being addressed within the framework of the Coordination Council on Investment Attraction.

In 2020, the implementation of the Third Program of Industrial and Innovative Development will be started. In order to increase the competitiveness of the economy, measures will be taken to comprehensively implement innovations by stimulating business to support innovative activities and by attracting leading global companies to developing the innovative potential. For example, Regional Centre of the Fourth Industrial Revolution will be launched jointly with the World Economic Forum.

EAST NEWS

This house was created using additive technologies

EASTNEWS

Currently the global financial market is facing the need to respond to the challenges of the Fourth Industrial Revolution

Impact of digital technologies on the labor market:

- At least 30 percent of professional functions can become automated at the present level of technologies.
- The global GDP can grow by nine trillion dollars by 2030 due to AI-based workplace automation
- 49.3 percent of jobs in Russia can be cut in case of instantaneous and complete automation
- 375 million of workers (about 14 percent of the global workforce) will be forced to switch occupation by 2030.
- 98 percent is the likelihood of automation in occupations such as bank clerk, auditor or credit specialist
- The number of working hours in professions that will not disappear in China's banking sector by 2027 due to introduction of AI, may decrease by 29 percent

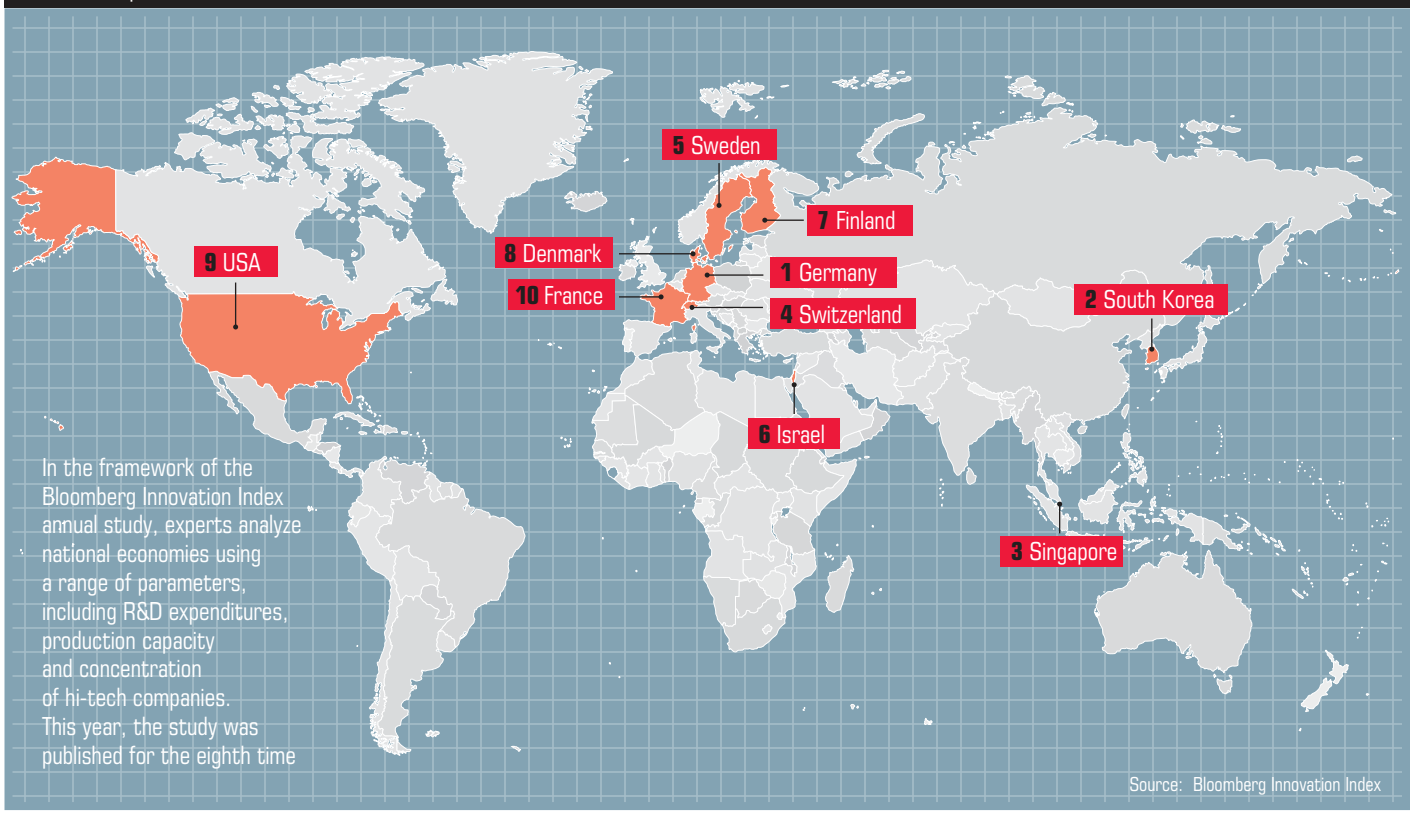
Source: Institute for Statistical Studies and Economics of Knowledge, National Research University Higher School of Economics

they are the ones that make instantaneous decisions based on data that comes in.

In practical terms, it means that business analyzes data on customers and clients. Analysis is conducted online in the cloud. Artificial intelligence provides assistance in doing so. Current developments in the realm of AI are directed towards speech and image recognition, robotic management algorythms and automated decision-making. AI technologies are particularly relevant within industrial sectors — for example, in extractive industries, because they allow to achieve substantial savings during the exploration of deposits, raw materials processing, etc.

Internet of things is a separate class of industrial and household equipment trans-

Newtech map



mitting information into the internet. This information, after it is analyzed with the help of technologies mentioned above, is used to manage industrial, urban, public and household systems. In 2022, 550 million IoT-enabled pieces of equipment will be connected to 5G networks (forecast by Ericsson). IoT input in the global economy may reach $11.1 trillion by 2025, accounting for 11 percent of the world economy. And finally, blockchain, or distributed ledger technologies, enables creation of secure decentralized databases.

Notably, the Fourth Industrial Revolution, like the first three, is actually bringing large-scale changes to the whole global economy. Assets in technological enterprises grew by 11 percent between 2010 and 2015, whereas in other sectors this growth was only 1 percent on average. Broad introduction of AI technologies alone will increase the global market for goods and services by $15.7 trillion by 2030.

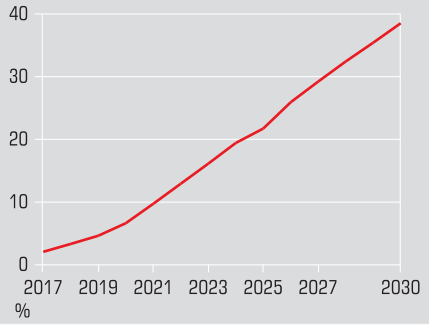
Industrial Revolution and Finances

Like all complex processes, Industrial Revolutions were supported by the emergence of international financial centres on the one hand, and on the other, themselves enabled changes in the area of finances.

It is worth recalling that up till the end of the eighteenth century, a financial system was mostly used to provide credits for trade and insurance for goods, as well as for providing loans to states and private individuals (mostly, via bills of exchange). During the Second Industrial Revolution (from mid-nineteenth through early twentieth century), the role of equity and debt capital increased considerably, and growing cities in the industrial countries were turning into financial centres, including Chicago, Philadelphia and others in the US, Paris and Lyon in France, etc. The use of telegraph and telephone allowed the financial centres to maintain ongoing communications among themselves and to conduct transcontinental transactions. Financial markets of different countries became interconnected and interdependent, because the capital became global. As industrial production grew, there was a greater need in attracting large volumes of financing to new enterprises, which gave birth to development of industrial project financing and capital markets. Companies' IPOs provided a strong impetus to the development of international financial centres, which in addition to providing platform for trading in shares, also attracted credit organizations, as well as insurance and service companies of different types.

Investments in digitalization increase productivity

Estimated total accumulated contribution of digitalization to GDP growth (baseline scenario)



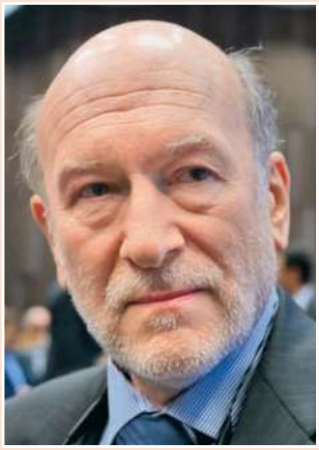
Source: Institute for Statistical Studies and Economics of Knowledge, National Research University Higher School of Economics, 2019

During the Third Financial Revolution, trading on stock exchanges gradually transformed into an electronic form, contributing to development of global financial centres dealing in large volumes of finances, securities and other assets. The roles of IFCs in London, New York and London increased, and liquidity became completely global and migrated into global IFCs.

Now the global financial market needs to face challenges of the Fourth Industrial Revolution. To begin with, active technological modernization of enterprises in the developed and developing countries is currently under way, influenced by new digital technologies, and this requires financing. Leaders in investing in key Industry 4.0 technologies include banking sector, communications, retail, logistics, production, extractive industries and the public sector. In addition, financing is sought by start-ups who develop specific solutions within overall new technological tracks. Just a few figures: in 2019, start-ups specializing in AI attracted a record $26.6 billion. By 2022, the market of AI

Alexander Voloshin, Chairman of the Board, Forum Analytical Centre

In my view, financial centres have to be visionaries of digital economy — due to their unique features and focus on efficiencies and competition. Based on the analysis of trends in social development, in technological development, on financial markets and in investment practices, financial centres are creating and offering to the public most effective models and solutions for the future. In recent years, markets' development has been influenced by two trends — first, erosion of traditional roles within the financial markets segment and digitalisation, and second, active incorporation of 'sustainable financing' principles into the investment models, along with a closely related concept of stakeholder engagement. Actually, it is difficult to overestimate the importance of these trends — both of them reflect changes in the very ideology of market development. Payment execution has gradually become as basic a service as energy or water supplies. Essentially, this approach is reflected in the EU legislation that introduced open APIs in the banking practices. Together with rapid development of non-traditional financial mediators, this forced the banks to change their business models and look for new niches, bringing life to models of ecosystem and marketplace. The principles of sustainable finance, having originally emerged from political agreements in the UN framework, started developing robustly when the societal demand took shape to protect the environment using financial markets tools. I think that as a result of the coronavirus pandemic, the accent will shift towards social matters. Nevertheless, these processes brought to life a whole new class of instruments and collateral services (ratings, analytics and consulting) and more importantly, changed the behavior of both investors and companies. Does this mean that financial centres launched these trends? Of course, not. But financial centres — meaning, their regulatory components and financial institutions — have been and remain now the centres where these trends have been developing and adapting to the needs of the clients. Because of that, financial centres are transforming themselves into centres of financial technologies and are investing resources and efforts into creation of 'sandboxes' and development of new technologies and products, and designing ESG standards and other things. Our experience of living through a pandemic suggests that all remote financial services will be developing fast, and the demand for technological solutions in reliable and stable remote identification will be even higher.



AHBAP TANEEB/TASC

technologies will reach $52.5 billion — four times the level of 2017. This way, the role of debt and equity financing will increase for the existing enterprises that are seeking to modernize with the help of new technologies. Similarly, venture capital will become more important for developing cutting edge technologies of the Fourth Industrial Revolution.

But the role of IFCs in advancing the technologies of Industry 4.0 is not limited to attracting capital for enterprise modernization and preparation of high-tech 'gazelle companies' for IPOs. They were the first financial institutions that moved most of their services and transactions with regulators online, greatly expediting the decision-making process. One of critical functions that IFCs have is adaptation of regulatory regimes and enabling the creation of new laws related to new technologies which are often beyond the existing regulatory regimes. For example, Singapore IFC was one of the first to adapt, in cooperation with the country's Central Bank, the regulations for fintech start-ups so they could receive maximum privileges, and Switzerland was one of the pioneers in liberalizing legislation covering cryptocurrencies. And finally, IFCs are the ones who actively attract and train professionals in the field of new IT technologies, and are capable of providing in-depth consultations on implementing innovations in the industrial and financial sectors.

The Fourth Industrial Revolution is particularly important for areas that deal with large volumes of data to begin with — and financial markets and international financial centres are among these areas. The global market for cloud computing grows by about 20 percent annually. The combined revenue of public cloud services in 2020 will reach $266.4 billion. In 2020, the combined volume of investments in big data technologies will exceed $70 billion.

On the one hand, the need of IFCs to continuously analyze stock exchange and asset-related data (news, reports, etc) in some way contributes to the development of AI technologies and the creation of data centres to accumulate big data. On the other hand, we are witnessing an explosive growth of a whole new class of financial sector services based on Industry 4.0 technologies and called 'fintech.' Fintech is viewed as an enabler of new steps towards ensuring stability of financial infrastructure, fast and efficient liquidity and new ways of codifying, exchanging and analyzing financial data. In addition, opportunities emerge for shorter and faster transactional chains and higher capital efficiencies. In the area of credits, fintech solutions ensure higher quality of credit scoring with a more precise estimates of creditworthiness and risks. For consumers, benefits include a wider selection of financial services, better financial advice and competitive pricing.

Just a few examples: Russia's Sberbank — which now is not so much a bank, but rather, a financial ecosystem — announced its plan to dismiss more than 3,000 lawyers and charge a robot with artificial intelligence with preparing legal claims. Bank of America has started using machine learning to analyze currency strategies. Japanese banks are planning to automate about 30,000 jobs — Mizuho Financial Group alone intends to replace about 8,000 employers with computers by 2021, and to increase this figure to 19,000 by 2026. Interaction with clients in the financial sector was one of the first services that went online, including chat-bots, and many financial transactions are moving online as well. And this is only the beginning.

We are witnessing a continuous flow of new fintech products. The term 'fintech' itself appeared more than ten years ago and referred to new online services in payments and credit, and later in investments and asset management, insurance, SME finances, as well as regulatory services provided by 'regtechs' (companies providing regulatory compliance solutions).

"Recent trends are fintechs addressing the Sustainable Development Goals (UN-SDGs), artificial intelligence in finance, as well as blockchain and distributed ledger technologies," says Dr. Jochen Biedermann, Managing Director, World Alliance of International Financial Centres (WAIFC). "In many cases, governments had to adapt their legal and regulatory framework to accommodate these new services, and financial centres moderated the dialogue between the authorities, start-ups, and incumbents." In his view, most fintech companies will try to access the global market after successfully implementing their business models within the home markets. "At this stage, collaboration between financial centres can help a lot, supporting those start-ups in doing their first steps in an unknown legal, regulatory

and business environment. Both sides will benefit: a local fintech expanding successfully will usually lead to higher revenues and more jobs at the headquarters as well. And on the other hand, a foreign fintech entering the market brings a new business model and potentially new services to the local community. We already witness entirely new ways of raising capital using modern technologies, in addition to the traditional forms of financing through banks or the capital market. For example, the use of IoT and Blockchain technology in inventory (working capital) finance or trade finance, and the use of security tokens for raising equity and debt capital are exciting trends in that respect."

"Digitalisation with lead to process streamlining," continues Assel Zhanassova, AIFC's Chief Digital Officer. "A redistribution of people will occur to deal with analytical tasks. For example, many companies in Kazakhstan spend 80–90 percent of time to assemble data for analysis. The reverse should be the case — 10–20 percent of time should be spend on data assembly, and the rest should be allocated for analysis. And digitalisation can make this possible."

Riding Industry 4.0

Let's re-cap the most important changes that Industry 4.0 brings to the financial sector around the world: first, acceleration and streamlining of transactions and operations — not only involving financial assets, but also in the framework of interacting with regulators, counterparties, etc (electronic reporting, remote filing of lawsuits and other claims, etc). Second, active disintermediation, i.e. reduced roles of mediators and decreased commissions. Third, emergence of brand-new models of financing such as crowd-funding and crowd-lending that allow recently established companies to attract financing for new projects. Fourth, development of ecosystems in which financial institutions are but one of many elements, signifying a new level of IFC evolution. And finally, introduction of new technologies to the financial system, including blockchain, and creation on this basis of new classes of assets (crypto-currency), to follow the new trends that cannot be missed.

An obvious conclusion seems to be in order: the Fourth Industrial Revolution requires financing and itself is changing the structure of the financial sector, meaning that the current set-up among global and regional IFCs will inevitably change. Cities which will be able to quickly align with Industry 4.0 trends, obviously, have a chance to become strong financial centres, at least in their own regions. Alignment means a multifaceted process of providing to investors and a widest possible range of participants a broad range of opportunities to attract financing, investments and collateral services based on advanced technologies. In such an IFC, technological start-ups and large companies should have an opportunity to raise financing, and funds and investors, to invest their resources on the most convenient and transparent terms. It means that a financial centre striving to take a strong position in the future high-technology world should support new forms of financing, rely on maximum online presence of all residents and attract global capital.

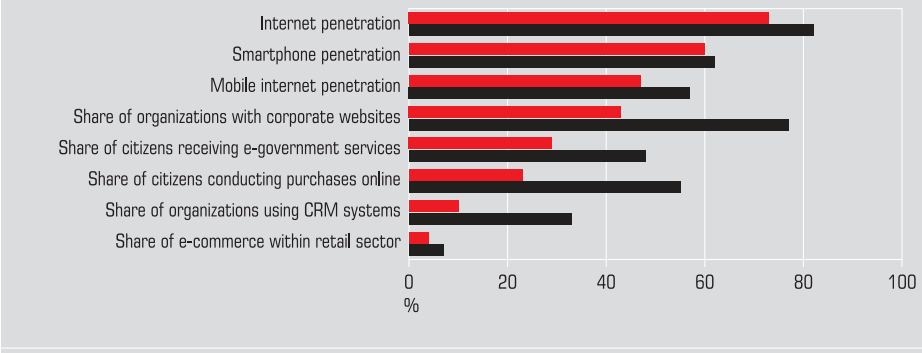
"Members of WAIFC embrace innovation and actively drive developments in that space," says Dr. Jochen Biedermann. "The diversity of WAIFC members is an essential strength in that sense."

"Without a doubt, financial centres also compete in creating most effective and vibrant ecosystems for fintech segment development, and this is quite healthy competition," says Dr. Biedermann. "Financial centres can learn from leading players and themselves implement most successful strategies."

"The financial industry undergoes a process of structural change," concludes the WAIFC managing director. "Nowadays, the priority actions of our members concern environmental finance, technological innovation and infrastructure, as well as social and territorial financing. International financial centres are more reliant on technology, and our members have been driving innovations in the financial industry by supporting the adoption of innovative technologies from cloud computing and blockchain to artificial intelligence and big data. Also, the WAIFC members are increasingly promoting all segments of sustainable finance and strive to ensure that environmental and social considerations are adequately taken into account and integrated into the financial sector moving forward." ■

The EU is a leader in many segments of the digital economy

Access to digital services in Russia and in the EU



Source: AKIT

Barbara Meynert, AIFC Fintech Advisor

The digitalisation of assets and anything of value can provide massive liquidity and new forms of access to capital. It is a general purpose technology that will allow the financialization of the entire world of the future. It will also allow financialization of the previously inefficient industries and non-fungible asset classes in the analogue economy with new financing techniques. All of these digital assets can be invested through regulated securitized digital exchanges. This would bring massive world-wide liquidity and foreign direct investment (FDI) into attractive projects, and empower financial inclusion with local participation. In addition, local stakeholders and population can also sustainably support and participate in the ecosystem, which would provide jobs and financial inclusion opportunities, which have become even more urgently needed in the post COVID-19 world. ■

EAST NEWS

Maria Sarycheva

IFCs going digital

Being a source of financing for Industry 4.0, international financial centres themselves are trying to meet the latest technological requirements and to create a multi-level system of supporting and developing digital technologies

Industry 4.0 has heightened competition among global financial markets — now, global capital is watching not only the size and depth of a particular market, but rather, the opportunities offered by a particular financial centre to manage this capital. This refers not only to trades on the stock exchange, but to the overall infrastructure as well. And what is even more important, financial centres now have to establish a strong system of supporting innovative technologies, from startups to large projects to build 5G networks. Investors want to see a large-scale system of supporting Industry 4.0 on every front, then it will be easier for them to become part of this system.

History has shown more than once that a new technological structure results in the emergence of new leaders. This could be the emergence of new blockbuster products (iPhone or genetic medicines), new means of production (AI), new powerful corporations (Huawei), or finally, new major players among financial centres. Fer remember now, but there was a time when Genoa was an important European banking centre. And we are seeing that having strengthened their positions in the wake of the technological revolution, Asian financial centres are eager to play a central role in the global economy. The Hong Kong Stock Exchange, having previously acquired the London Gold Exchange, last year proposed a merger with the London Stock Exchange (LSE), to achieve a synergy effect from combining new technologies and analytical centres (London's strength) and a broad pool of international investors. For the latter, a merger would create an additional benefit that a listing in Hong Kong would mean a simultaneous listing in London, and vice versa (but London has not yet to decide).

In today's world, with the Fourth Industrial Revolution is a fact of life, it is possible to lay out the key challenges that modern IFCs will need to respond to. It has been a fairly straightforward process to move to online most of the interactions between financial market participants, as well as their clients, regulators and infrastructure institutions. This was already a worldwide trend. On the other hand, many IFCs have established direct cooperation with companies to collect and process big data for the purposes of conducting in-depth market analysis and creating universal online systems to manage operations on the stock exchange, to conduct due diligence of counter-parties and to monitor important decisions. The LSE, a traditional leader in the financial sector, is planning to acquire Refinitiv, one of the world's largest financial analysis companies and a former division of Thomson Reuters. The purpose of the transaction is diversification of sources of income acting as a stock exchange operator, whilst at the same time being able to provide its residents and clients with the fullest financial information and analytics. But in order to implement truly innovative systems and products that had no analogues in the past, IFCs have to participate in creating flexible regulatory environments in their jurisdictions and countries. Without this, it will be impossible to create a fully-fledged digital ecosystems that includes new financial technologies (such as blockchain and cryptocurrencies), that may be unfamiliar to legislators. For IFCs and their clients, this is a direct way to expand their areas of operations and to create new value-add chains. Without exaggeration, an IFCs' future depends on how their development strategies take into account the challenges of Industry 4.0.

"The existing capital markets are both inefficient and exclusive. A distributed capital market can help to take middlemen and redundancy out of the system and make capital markets more efficient and inclusive," says Zhang Xiaochen, President of Fintech4Good.

Singapore Grows Together with Digital Banks

Singapore is a financial centre that offers a broad range of financial services, including banking, insurance, investment and treasury. Tthe key regulator for the whole of the financial sector is The Monetary Authority of Singapore (MAS), which is also the country's central bank. Last year MAS received the annual 'Central Baking Award' as the best central bank in the world precisely for its efforts to 'make the state a centre of financial technologies.' The award recognizes its successful implementation of five-year plans to transform the financial sector, and to align it with areas of business that develop and implement the newest financial technologies. The goals of this program are quite specific: to ensure an annual rate of growth of the financial sector in Singapore at 4.3 percent for the period 2016–2020, as well as to contribute to creation of 3,000 new services and 1,000 new jobs in the area of financial technologies. These goals were already achieved by 2019.

Singapore does everything possible to incorporate digital solutions in the legal space in way that is most convenient for everyone and to establish the most flexible regulatory system. For example, in Singapore, like in many other countries, blockchain as a technology of creating cryptocurrencies is not regulated by any financial services legislation. But MAS made certain that tokens, at a minimum, were recognized as IOUs or as an equity security, which has already enabled their turnover. A blockchain-based system, which allows for crossborder transfer of money, also requires a separate regulation, and so MAS has developed separate licensing systems for digital banks (currently, there are two of them — DFB and DWB). These new digital banks supplement the existing internet banking systems.

The Singapore regulator provides comprehensive support to fintech companies by relaxing the legal and regulatory requirements that apply to them. In this way, fintech start-ups find themselves temporarily located in a regulatory sandbox, where they can grow and begin to establish themselves before entering the open market. Also, MAS has simplified the regulatory requirements for robots-consultants, as well as licensing process for operators of crowdfunding and P2P credit platforms. Generally, Singapore directs close attention to simplifying access to capital for IT companies. For this purpose, the country launched a financing scheme for the technologies and innovations sector with a separate program to finance AI projects, a comprehensive system of support for start-ups and a program of attracting venture funds, among other activities. In 2017, Singapore's regulator issued a guide on ICO for IT companies, and in 2018, modified legislation on payment services, having included in it provisions on virtual currencies and other innovations.

HISTORY OF CRYPTOCURRENCIES AROUND THE WORLD


PHILIPPINES
E-Peso,
2014


SENEGAL
e-CFA,
2016


SINGAPORE
Ubin,
2016


CANADA
CAD Coin,
2017


SWITZERLAND
E-krona,
2017


VENEZUELA
Petro,
2017


MARSHALL ISLANDS
Sovereign,
2018

Source: Open sources

Malaysia has Legalized Tokens

Like in many countries of the world, there is no special regulation or special licensing for IT and fintech companies in Malaysia. Licensing requirements depend on the type of innovative business that the company conducts. For that reason, Malaysia's Central Bank (BNM) launched a fintech regulatory sandbox in 2016, in order to establish regulatory environment conducive for digital technologies. In 2019, definitions of digital currency and digital currency were introduced in the law on capital markets and services.

In Malaysia, most digital companies operate in payments and cryptocurrency sectors. Also, cloud computing is developing fast for financial services companies, robo-advisory firms and asset management companies (like StashAway Malaysia). Obviously, crowdfunding and P2P platforms are developing as well: currently, there are seven crowdfunding platforms and six P2P platforms where blockchain companies actively raise financing.

Malaysia's Securities Commission (SC) was one of the first regulators in the ASEAN region that defined regulatory principles for crowdfunding that enable financing for hi-tech start-ups. There are no separate tax benefits in Malaysia for IT start-ups, they utilize the same benefits that are available for other SMEs. However, Malaysia encourages investments by business angels in new developments via tax privileges, and Malaysia Digital Economy Corporation Sdn

Daniela Peterhoff, Partner, Oliver Wyman

We expect to see a radical change in the way capital is raised. We forecast that companies will be coming to raise financing in the capital markets (both debt and equity) much earlier in their life cycles. Raising capital will not be a cumbersome, 'once in a blue moon' event but rather something that companies can do much easier, with support from efficient digital platforms. Existing and new IFCs will revise the way that financial market intermediaries and financial market institutions (such as exchanges and CCPs) interact with their clients — CFOs and corporate financial departments.

Bhd (MDEC) offers an exemption from the corporate tax for technological start-ups operating in the Malaysian digital hub. Also, there are tax privileges in the framework of the Multimedia Super-Corridor (a special technology support program) for ICT companies. In March 2017, Malaysia launched the world's first digital free trade zone, to assist local SMEs in entering the global market using digital technologies and e-commerce opportunities.

Malaysia achieved notable success in the field of hi-tech insurance, the so-called Insurtech. Some of the well-known insurance companies (Etiga Insurance Bhd, Maybank Aegeas Holdings and Zurich Malaysia) are working with IT start-ups, enabling customers to flexibly adjust their insurance policies. Insurtech is also available in the B2B segment, and its key objective is to provide Malaysian companies with an opportunity to diversify their investment portfolios and minimize financial risks.

Robust digitalisation of Malaysia's economy, including financial sector, is further supported by the fact that back in 2001 all citizens received chip-enabled MyKad biometric IDs. MyKad is mostly used as an official document, and may also be used as a bank card or an electronic wallet, thereby greatly expanding fintech opportunities.

Korea Advances Mobile Payments

South Korea is recognized as a technologically advanced country, where the world's first 5G internet for smartphones was launched. At the same time, credit services were very much behind: 40 percent of companies in Korea were unable to receive loans in the first-tier banks, and because of that, had to attract financing at extremely high interest rates. Consequently, the country's financial regulator FSC defined payments and credits as priority areas for development. This contributed to accelerating the development of mobile payments and money transfers. As a result, fintech projects such as Samsung Pay, KakaoPay, Naver Pay, Toss and others started to advance to leadership positions in the region. And by stimulating competition among credit organizations, the regulator was able in increase availability of loans for small enterprises and general public.

Korea's banks were among the first ones to engage in developing digital technologies. For example, one of Korea's largest banks created a global accelerator program Shinhan Future's Lab, to stimulate the growth of Korean fintech companies. Also, Korea intends to create a $252 million fintech fund, which will be used by the government for investments in start-ups. Also, earlier this year the government of South Korea launched a financial regulatory sandbox, to allow start-ups to test new types of financial services without regulatory obstacles. Overall, the current political leadership has made it a clear priority to develop IT start-ups to the global level.

> Currently, "Digital Kazakhstan" programme is supported by largest companies in the oil and gas, mining and transport sectors, as well as municipalities that are introducing Industry 4.0 systems

Kazakhstan Creates a Digital Ecosystem for Eurasia based at the Astana International Financial Centre (AIFC)

Kazakhstan is now launching a large-scale program to digitise its economy. This effort is geared towards an accelerated economic growth, greater competitiveness of its national enterprises in the world, as well as higher quality of social services . Currently, the 'Digital Kazakhstan' programme is supported by some of the largest companies in the oil and gas, mining and transport sectors, as well as municipalities that are introducing Industry 4.0 systems.

The Astana International Financial Centre is also actively involved in the country's digitalisation programme. Created as a financial hub for the entire Eurasian region, the Centre is currently developing its innovative ecosystem that enables the faster introduction of new digital solutions. There is a competencies centre at AIFC that collects and analyses the latest digital technologies from around the world for their implementation in Kazakhstan with further distribution to Eurasia. "At the same time, we work closely with our industrial sector to select the most relevant technologies," says Bekzhan Mutanov, Director of AIFC Fintech Department. "Because the industrialists knows better which technologies will actually reduce costs and raise productivity, and which technologies are too expensive and premature to implement."

AIFC may also consider the possibility to license the digital asset banks which not only transact in fiat currencies and work with cryptocurrency market players, but also offer banking services and loans in cryptocurrencies and other token assets. The Swiss regulator, FINMA, implemented such a project last August, having issued banking licenses to Seba Crypto AG and Sygnum banks that work with digital assets. If AIFC starts working with digital assets, it will attract players in this market segment, including digital asset banks or banks that provide services to such assets, stock exchanges of digital assets, miners, custodian depositories and institutional investors.

AIFC has already established a multifaceted innovation ecosystem to work with the latest technologies. For the types of innovations that are still not covered by the existing legislation, AIFC's regulatory sandbox (FinTech Lab) that was open on the same day that AIFC was launched, enables testing of new fintech technologies. The sandbox allows companies to launch its innovative financial services into the market based on simplified regulatory requirements. FinTech Lab cooperates with countries in Asia, Europe, the Middle East, as well as with CIS states, to build bridges in order to share best practices and monitor innovations. Also, FinTechStars acceleration program and Visa Everywhere Initiative contest were held at the AIFC Fintech Hub to support startups. All together, these initiatives form a unified ecosystem that creates comfortable conditions to develop digital solutions and launch them into the market. For instance, this ecosystem allowed to digitize almost all AIFC business processes — currently, it is possible to remotely conduct trading on AIX, and also to get registered, submit reports and receive advisory assistance.

Last year, AIFC concluded cooperation agreements with the World Economic Forum and the International Foundation 'Centre for the Fourth Industrial Revolution.' AIFC will be developing the corporate Centre of the Fourth Industrial Revolution in Central Asia together with Eurasia Resources Group (ERG). The company has 11 assets in various sectors of Kazakhstan's economy (metals, mining and coal), that serve as platforms for new digital technologies testing. Together with WEF's Centre of the Fourth Industrial Revolution, AIFC and ERG will work on technologies including AI, machine learning, blockchain and e-commerce, and involving start-ups. "At the same time, WEF's Centre of the Fourth Industrial Revolution will gain access to joint projects, innovative pilot projects implemented at production facilities, and — most importantly in the context of Industry 4.0 — to shared information and experience," says Assel Zhanassova, AIFC Chief Digital Officer. "Currently, we are selecting the technologies that will be tested in the Centre, to determine which ones are most relevant for our industry. In the future, we will be prepared to share the results of our joint work with our neighbors in Eurasia."

Due to its geographic location in the very centre of Eurasia, Kazakhstan, together with China, is also creating digital infrastructure of the Silk Road (high speed and secure infrastructure for transmitting, storing and processing of big data), which will be used to varying degrees by many countries in Central Asia and the former Soviet Union.

"AIFC is uniquely placed to play a role in this special moment in the history of humanity to catch this next wave of transformative innovation, where the technology, business models, traction across industries, and regulation are all simultaneously maturing to enable practical enterprise applications already in 2020," believes AIFC Fintech Advisor, Barbara Meynert. She thinks that establishing a connection with China's blockchain platform BSN and leveraging the digital asset ecosystem from China will allow Kazakhstan and AIFC in particular to position themselves as the 'Belt and Road' outpost for the digital Silk Road. "If AIFC has the BSN connectivity and is ready with its own regulatory and infrastructure framework when China pulls the lever on adoption of digital assets, AIFC will hugely benefit as it will be the place that people need in order to connect to this new ecosystem," says Barbara Meynert.

This way, by developing its digital ecosystem, Kazakhstan intends to become a driver for innovative technologies in Kazakhstan and throughout Eurasia. ■

Maria Sarycheva

Anatoly Valetov, Head of Moscow Innovation Cluster Foundation

As part of an effort to combat COVID-19, the Moscow Innovative Cluster has started developing digital projects in contactless payments and biometrics

—Which tracks in the development of new financial technologies do you consider key for the market? Does the picture change year to year? Why?

— Fintech has continued to develop rapidly in recent years due to the emergence and improvement of new and existing technologies. An important trend in the current development of the financial technology sector is that fintech projects are increasingly seen not only as technological solutions for large financial sector players — banks and insurance companies, i.e. B2B segment — but they also independently enter the B2C market, interact more actively with consumers, thereby replacing traditional financial institutions. This is a cause for concern for large business in the sector of finance, which is not keeping pace with the digitalisation of the industry and is accustomed to a stable market position due to its size and a traditionally conservative views of most regulators on new technologies. Today, this 'status quo' is in question. According to PwC, 70 percent of executives from the financial services sector indicated that they were worried about the pace of technology development. Their main competitors are dynamic fintech companies, often start-ups focused on a certain innovative technology, such as blockchain or artificial intelligence, or a process covering all areas: from mobile payments to insurance. Fintech solutions, on the one hand, focus on the most profitable elements of the value chain in the financial services sector. On the other hand, digital neo-banks are rapidly expanding their product line, striving to become more and more universal for customers. All this causes serious concerns among major market players.

In the recent years, bright new colors have been added to the fintech development picture by millennials who grow up, become richer, and distribute finances differently from previous generations. The age group of 25–35 year olds represent the target audience for many fintech companies, striving to provide them with solutions unique by the standards of the market, such as impact investment opportunities, subscription financial services, unconventional ways to buy housing, and much more.

— How would you describe the current stage of the fintech and blockchain technologies development around the world? When should the next round of their development be expected?

— The next round of development of fintech is happening right now and is connected, first of all, with the global COVID-19 pandemic. Technological solutions are at the forefront of fighting the economic and social effects of the coronavirus pandemic and protecting against it. Thus, large-scale self-isolation and social distancing promote the development of digital banking and contactless payment services. The rapid growth of existing fintech projects in these segments is clearly evident, and new projects are appearing.

At the Moscow Innovation Cluster, we are collecting the most cutting-edge solutions in the framework of the anti-crisis measures such as the 'i. moscowBusiness Against COVID-19.' For example, one of the solutions for the Moscow showcase is a contactless payment service employing a biometric face recognition system and a QR code, which was developed by a cluster member, the SWiP fintech company.

It is a very interesting moment now — many solutions that used to be potentially interesting for banks are now becoming vital for them and this provides a good incentive for the development of projects related to remote services.

Another example, ViewApp, is a service allowing the inspection of collateral, or insurance and leasing products or equipment remotely and independently, which eliminates the need for onsite visits by employees of an insurance company or a bank.

Or Quarta — a service providing remote access to locks for property owners (rental apartments, offices, private hotels).

But the most interesting aspect is that these services, whose common feature is elimination of 'physical presence', actually form new ecosystems. These ecosystems are becoming successfully integrated into the new type of banks — 'banks inside a smartphone', or neobanks.

— Could you provide examples of the most interesting services created on the basis of a particular technology. Which of them have the prospect of scaling, and which will remain niche products? Why would this be the case?

— Today, so-called 'invisible banks' are drawing increasing interest. These are fintech projects based on working with big data

that accurately and seamlessly provide services to customers. Such services are barely noticeable, but at the same time they satisfy the immediate need for additional financial resources. These are salary services a few days ahead of schedule, or consumer advance payments. For the development of such invisible fintech services, big data is of great importance and it should be as 'clean' as possible.

We are on the cusp of a new era — when new banks predict the behavior of their customers, rather than just form a portrait of a client.

— What kind of solutions would you expect in the market in the near future? What 'consumer desire', in your opinion, is not yet satisfied with the available services?

— Today,society is moving increasingly towards a sharing economy, whose principles are not yet fully reflected in the financial system. When providing services, financial institutions control operations from start to finish and accept full risk associated with these services. The future lies with platform solutions where, along with an intermediary financial institution, other participants in the transactions play an important role. We are already seeing this in the case of lending platforms between individuals (P2P) and the development of crowdfunding platforms. There is a significant demand for such platforms, which means that the supply side will develop as well.

The Moscow Innovation Cluster strives to provide its participants and partners with access to such instruments. For these purposes, we are now launching an investment platform which will become a foundation for interaction between investors and technological projects that are in need of capital.

The Moscow Innovation Cluster creates an extensive digital ecosystem for innovative development based on the i.moscow IT platform

— How will the nature of money change: will it at last decouple from material foundation in the next 50 years? What is the likelihood of money acquiring a 'social' element (based on total surveillance and personal ratings)?

— Digitalisation of financial services, in particular the spread of cashless payments, contribute to the greater intangibility of money. Spending has become instantaneous and ever more impulsive due to its speed — through a single click on the phone. The perception of money as a classic equivalent of value is changing and becoming more complicated. It is interesting that fintech solutions and tools respond to these new challenges. The appearance of animated financial assistants in the banks' mobile applications, target tools and piggy banks, dialogue services — all these products are designed to help the client handle digital assets.

Interestingly, central banks in many countries are already closely analysing the new generation of 'digital money,' using new technologies such as blockchain. And money is no longer just money — it acquires the qualities of a full-fledged transformable digital asset.

— Where can IFCs serve as an alternative to banks?

— Today banks are increasingly taking on the function of universal organisations, where customers can receive not only financial services, but also a number of related ones. The largest banking organisations are increasingly turning into technological platforms that aggregate the necessary services and where customers can receive a range of services far beyond the financial sector — delivery services, access to educational and entertainment content.

The same development features also apply to international financial centres, which today are more than just places that bring together financial institutions, markets and the professional community. Rather, they are full-fledged ecosystems, where residents can get a wide range of services, consultations and solutions for the most pressing development issues. At the same time, the infrastructure of IFCs is much more extensive compared to banks and this includes physical space — the city where the centre is located, as well as a special tax and regulatory regime adopted for residents of the centre. Banks, in turn, are unable to create such conditions for their clients, which makes IFCs a much more important element of the financial system, bringing together many financial organisations.

— How do you see the future of the global financial system? What role will IFCs play — leading or supporting?

— Like many other economic systems, the finance sector of today is greatly subject to the influence of technological advance; the speed of which will only increase against the backdrop of COVID-19. Acceleration of the financial sector's digitalisation and the growth of the technological sector itself leads to the gradual transformation of IFCs into technology and innovation centres. The cities that house or support IFCs are already key to the development, implementation and large-scale use of advanced technologies. They create a comfortable urban and business environment for attracting talent, capital, and innovative projects from around the world. IFCs today are also technological centres. The financial and technological functions of such cities merge and together form a single ecosystem that supports and develops business.

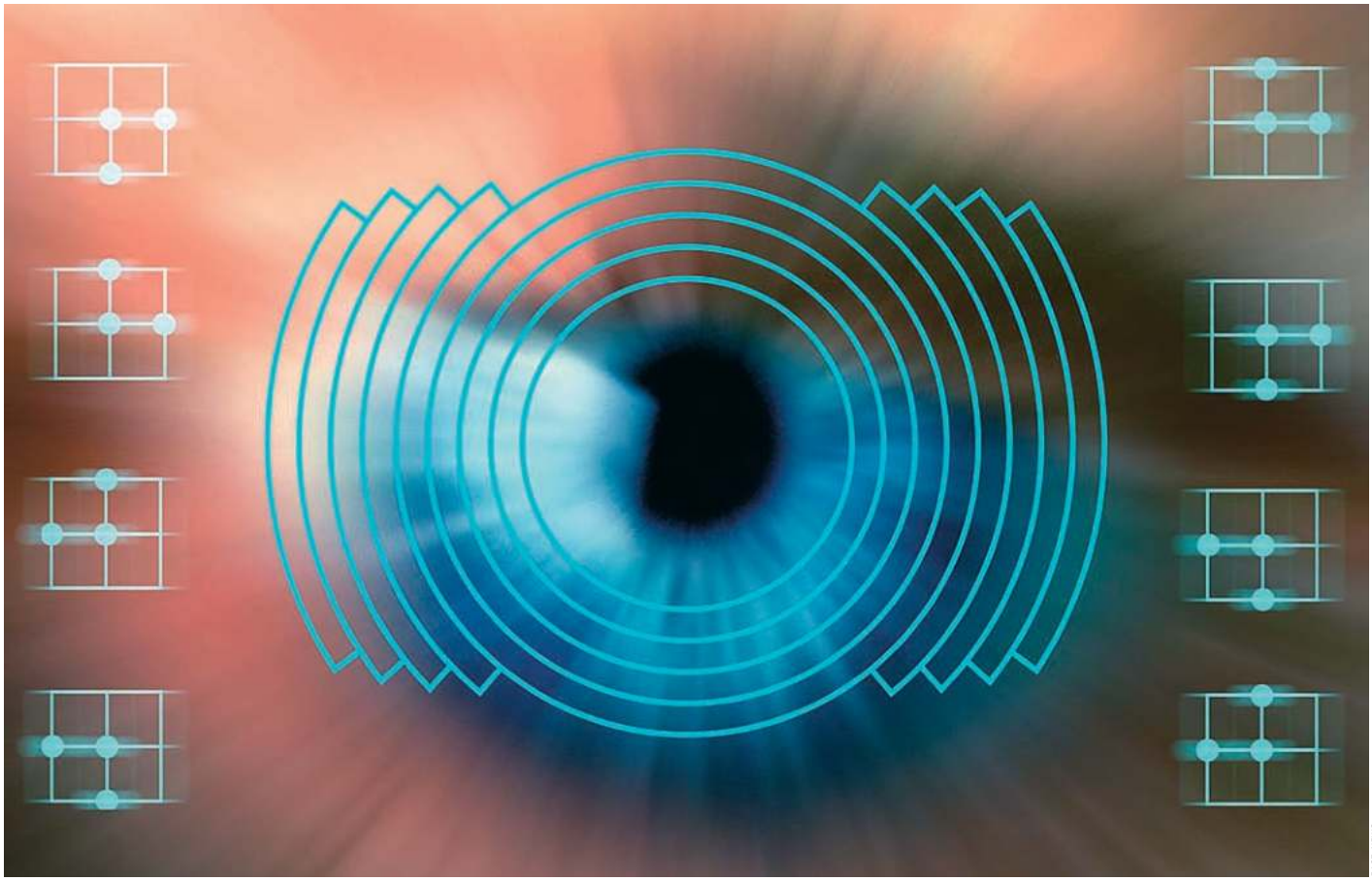
This ecosystem, as well as certain financial transactions, is to a lesser degree tied to physical territory and becomes more virtual and digital. For example, this is how Moscow is developing as a financial and technological centre. The Moscow Innovation Cluster creates an extensive digital ecosystem for innovative development based on the 'i.moscow IT platform'. We managed to integrate a number of services and instruments using one virtual platform. They are available for those who are engaged in the development of innovations or plan to attract innovative technologies to implement their projects: startups, industrial enterprises and scientific organisations.

Speaking about the role of IFCs in the future global financial system, the centres will continue to play the role of connectors and platforms, albeit more and more virtual ones. They will implement the function of financial intermediation to create special conditions and provide a wide range of financial and related services for investors to invest their capital. ■

Maria Sarycheva

A reformer of the world — how fintech creates a new reality

New financial technologies go beyond the limits of industry. Will they become the foundation of the new economy after the pandemic? What will be the role of financial centres?



EAST NEWS

Fintech industry that operates at the crossroads of finances and information technologies is claiming the role of the 'revolution's spear' in the economy. Having very practical origins, it didn't have any initial global aspirations, such aseliminating traditional financial systems. Yet, in just a few years, it reached the level of state policies in most developed countries. And along the way, it has overturned the slower-paced world of traditional banking.

These days, fintech is no longer a refuge for the geeks and marginals. Now it is the avant-garde of global technical progress and a matter of great interest for bankers, consultants, economists and futurists, as well as a headache for financial regulators and legislators. New trends are gradually shifting the centre of economic power from 'basements with old money' to the newest financial hubs that are located in the international financial centres and where the bold fintech industry resides. New international financial centres are emerging and gaining influence in the Middle East and Asia, and these are cities and territories that are accumulating financial resources due to their cutting-edge digital foundations rather than status statements that mattered in the past. New York and London are still at the top of the ratings, but Shanghai, Singapore, Hong Kong and Beijing are getting closer.

Investors are becoming much more interested in the newer ratings that rank cities and territories based on their level of fintech sector development — with an influential indicator being the Global Fintech Index from Findexable group. Actually, of increasing interest are the ratings of the emerging territories, which are showing enormous potential and already aspire to become regional leaders. International financial centres throughout the world have joined the fintech race and are competing to create comfortable conditions for the advancement of innovations: they develop favorable legislation and regulations, offer tax incentives, invite projects into regulatory sandboxes, sponsor educational programs and many more similar initiatives.

International financial centres actively compete for the newest financial technologies, attracting venture investors through the creation of accelerators, technoparks and a rush to relax terms for start-ups. For example, Dubai was able to establish itself as the leading fintech centre in the region in a very short period of time. In 2017, it set up a $100 billion fund to support innovative companies (attracting financing from both government and non-government organisations). Through Dubai's initiative, UAE accounted for 47 percent of fintech investments in the Middle East in 2019. The Centre's new projects delivered a leadership position in financial technologies in the region of the Middle East, Africa and South Asia, and allowed it to join the Top-10 list of global fintech centres. In 2018, Dubai created a virtual platform 'Fintech WorkHub',

ВАЛЕРИЙ МАТЫЦИН/ТАСС

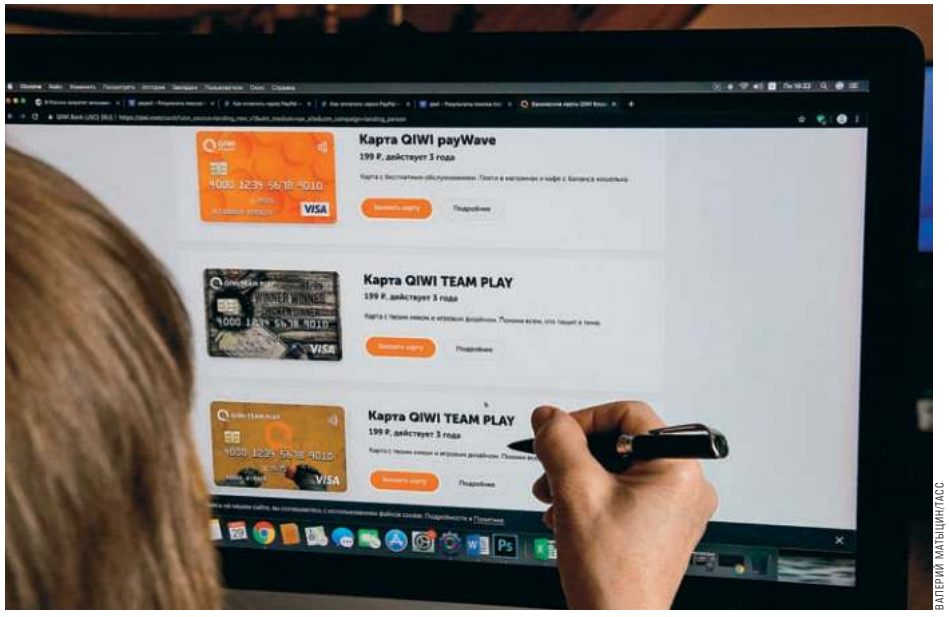
Smartphones have become multifunctional and are an inseparable part of financial technologies

which is an interactive work-space for joining up the work of fintech companies, venture funds and regional start-ups. One of the drivers of success is that the 'entry ticket' (residency visas, incorporation of the legal entity, rent and taxes, overhead and marketing costs, etc) for fintech start-ups is several times cheaper than in Europe or North America.

Singapore is in the Top-10 of global locations with the most developed ecosystems for start-ups, and in South-East Asia it is considered the best platform for opening business. The start-up industry in Singapore stands apart in terms of availability of financing. According to Compass data, there are on average 1.27 mentors per start-up, which is 35 percent more than on average in the Asia-Pacific region. The average amount of initial investments in Singapore is equivalent to $350,000–380,000, which is much less than Silicon Valley, with figures in the region of $900,000–950,000. Major venture investors that work in IFC Singapore are 500 Startups, August Capital, East Ventures, NSI Ventures and Pix Vine Capital. The start-up industry in Hong Kong began its development quite recently, but in only four years, IFC Hong Kong was able to assemble more than 3,000 start-ups, and this number is growing. We see that the advantages that attract fintech start-ups include: ease of doing business, opportunities to find venture investments and technological infrastructure, which is now among the best in Asia.

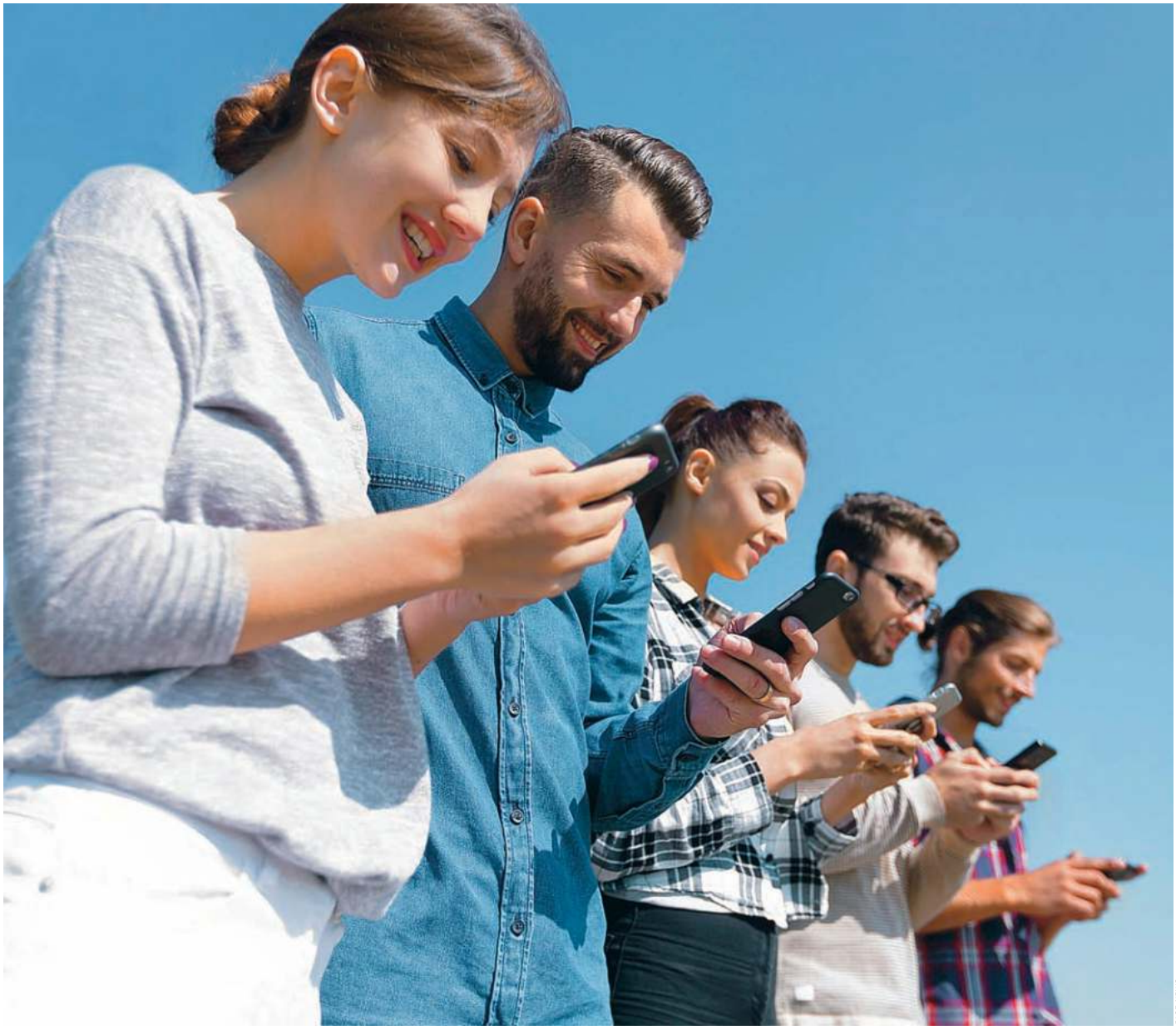
In Hong Kong, there are many international venture funds, because they view the city as a promising place for successful start-ups. For acceleration of projects, the Hong Kong Park of Science and Technologies (HKSTP), as well as Cyberport Business Park, have been created. Switzerland is considered to be among the best financial platforms in the world, where financial sector accounts for 9.4 percent of the country's GDP. Swiss CryptoValley houses hundreds of large companies and start-ups that work in the areas of blockchain and provides them with a liberal regulatory regime. There are four national, and several dozen regional, technoparks and business incubators.

Experts in finances and economics are now frequently asking: 'what may allow young and hungry IFCs win a battle against the titans? Which regions have the best chances to leap forward?'. The question becomes, will the fintech industry be the instrument of transformation of the existing economic set-up, and will it be able to consolidate the money and brains necessary to break the old rules? And finally, what role will IFCs and fintechs play in the revival of the global economy after a once in a lifetime crisis caused by the COVID-19 pandemic? Whilst claiming here to present comprehensive research, we will try to analyse the key prospects offered by the financial centres to their countries and broader regions they serve. ■



ВАЛЕРИЙ МАТЫЦИН/ТАСС

Experts in finances and economics are now frequently asking: what may allow young and "hungry" IFCs to win a battle against the titans?



EAST NEWS

Maria Sarycheva

Competition or collaboration: banks vs fintech

How is the set-up of the fintech market changing and what will it lead to?

Fintech originally emerged as an industry with a large number of small start-ups. They are often very similar — same idea at the core, same functions, similar implementation. Some of them ceased to exist due to natural causes. Others were able to attract investments at the early stages of their lives — essentially, they were paid "for the idea." Serial start-uppers appeared, who were successful in finding investors for each one of their projects. Most of these projects never made it to the fully operational stage. However, as the industry develops, there are fewer and fewer classical start-ups, and a growing number of more mature and self-reliant innovative companies. Another notable feature is that fintech is no longer viewed as a destroyer of the traditional financial market. If six or seven years ago, banks were seriously concerned that fintech will kill them, now they view fintech companies as potential partners, rather than competitors.

How Fintech Enters Consumers' Lives

According to a global study by EY "Fintech Adoption Index 2019," in the last five years the spread of fintech services around the world increased four-fold — from 16 percent in 2015 to 64 percent in 2019. The three leaders in terms of fintech adoption are China (87 percent), India (87 percent) and Russia (82 percent). In the UK, often called the "cradle of fintech", this indicator is at 71 percent, whereas in the US it is only 46 percent.

Awareness of fintech in the world is very high — up to 96 percent of consumers are aware of at least one service offered by this sector. In Russia, this indicator is at 100 percent, according to EY (which is somewhat unusual given a lack of internet and ATMs in the remoter areas). Both figures refer to payments and transfers.

The main objective of fintech is to increase the availability of financial services to a consumer. Technological solutions by the companies in this sector accelerate, simplify and make cheaper related processes, and also reduce specific risks (such as fraud). This primarily relates to the most popular segment of financial services — payments and transfers — which has been a leading driver of fintech adoption around the world.

Service categories most influenced by fintech, %

Comparison of fintech categories ranked by adoption rate in recent years

Category	2015	2017	2019
Money transfer and payments	18	50	75
Savings and investments	17	24	48
Budgeting and financial planning	8	10	29
Insurance	8	24	48
Borrowing (retail credits P2P, crowdfunding, etc)	6	10	27

Source: EY, 2019

Investors Prefer Maturity

The fintech market itself is getting more complex and is evolving into a real global economic player. Its structure is gradually changing. While at the initial stage of its development the industry mostly consisted of small start-ups that were striving to sell their businesses to large players (BigTechs) as quickly as possible; now, the industry is represented by mature and self-reliant companies. Last year's data on attracting financing in the fintech market will serve to illustrate this.

According to a study of the global market of venture investments in fintech start ups by CB Insights, in 2019 the total annual volume of investments in fintech reached a record $34.5 billion. This is 15 percent less than in 2019, when the total amount of raised funds reached $40.8 billion. But then a large share of this amount ($14 billion) accounted for a single transaction — Ant Financial, part of Alibaba Group, which attracted financing from several major investors, the largest of which was Temasek Holdings, Singapore's state-owned investment company. If this transaction is not taken into account, 2019 became the most successful year in terms of financing raised.

In 2019, there were no such major rounds like the case of Ant Financial. There were 1,913 transactions total. And the study notes a major drop — by 59 percent, or the lowest level in five years — in the number of transactions involving early stages of start-ups (seed stage and round A).

This trend is apparent in the developed markets of North America, Europe and Asia. The number of financing deals with mature and self-reliant companies has increased. About half of the total volume of raised funds — $17.2 billion — involved 83 large ($100 million and more) transactions. Last year was a record one in terms of the number of such rounds. In 2019, according to CB Insights estimates, 24 new "unicorns" (companies valued at $1 billion and more) appeared in the market, and some of them are well known to consumers (for example, Ripple).

According to the forecasts of the international analytical company The Business Research Company, the global fintech market by 2022, growing annually on average at 24.8 percent, will reach $309.98 billion. In 2018, the company valued it at $127.66 billion.

Russia's Own — Banking — Way?

Russia's specific feature is concentration of the industry around large credit institutions, without the creation of full-fledged IFCs.

According to EY, as stated in its "Fintech Adoption Index 2019," the role of banks in Russia is increasing for a couple of reasons. Firstly, due to issues the country has with venture financing wherebyonly larger banks tend to serve as investors in fintech. As a result, fintech start-ups and representatives of traditional financial business in Russia do not compete with each other, but instead are trying to consolidate.

Secondly, the authors of the EY study point to the high-level of technological advancement of major players in the Russian banking sector as another reason for consolidation. Russia's banking system is relatively young compared to those in Western countries. This factor played an important role in its development: those within the Russian banking sector have not faced the need to change centuries-old processes and were able to build everything almost from scratch and in accordance with best modern practices. This is a reason for their less conservative approache to technological development and for the introduction of innovative products. The same goes for the banking system of Kazakhstan which has developed in a similar way.

Investments in fintech worldwide, by quarter as from 2015, millions of US dollars

Q4 2015	2,584
Q1 2016	5,326
Q2 2016	4,017
Q3 2016	3,007
Q4 2016	2,731
Q1 2017	3,330
Q2 2017	5,961
Q3 2017	4,855
Q4 2017	4,489
Q1 2018	6,134
Q2 2018	6,765
Q3 2018	6393
Q4 2018	7,524
Q1 2019	7,100
Q2 2019	9,124
Q3 2019	8,915
Q4 2019	9,389

Source: CB Insights, 2019

"About six or seven years ago it was a common view that fintech start-ups threatened the traditional financial sector. But time has showed that this was not the case. Fintech helps banks to make money and complements their services," thinks Sergey Putyatinsky, Vice Chairman of the Board of the Moscow Credit Bank (MKB). "Fintech helps banks to be better and more flexible, makes them move faster and become more customer-oriented. But this is by no means a threat." In his view, in the retail segment, where competition between fintech companies and traditional banks is possible, this accounts for a very small share of the large banks' business. Banks are about corporate loans, project finance and other investment products, as well as the placement of securities and other instruments. "Fintech companies don't know how to do all that, and they don't want to do any of that, because this is not in their nature," concludes Mr. Putyatinsky.

According to Pavel Chebotarev, Head of the Financial Technologies Department at Sovkombank, fintech creates the pathway from a service to a client. In contrast to traditional banks, fintech companies are better able to react to changes in the client's psychology, in his or her requirements and financial needs much faster-due to the absence of a longer-term relationship interacting with a client, and a radically different organization of their business processes. Fintech companies are open to experiment, which is part of the very DNA of an innovative business. "In a traditional bank, a long time may pass from the conception of an idea to its implementation. A fintech company is always facing a dilemma It has to survive, and survival directly depends on the size of its client base. And this size directly depends on how sensitive the company is to the needs of a client, and how fast it can meet these needs," explains Pavel Chebotarev. In his view, collaboration between banks

Number of early-stage transactions in fintech have dropped to their minimum in 12 quarters, with increased number of Series B+ transactions taking place

Investments and transactions in fintech

	Investments, millions of USD	Transactions
Q4 2015	789	225
Q1 2016	1,695	268
Q2 2016	837	226
Q3 2016	755	232
Q4 2016	718	223
Q1 2017	796	296
Q2 2017	1,101	292
Q3 2017	988	277
Q4 2017	862	280
Q1 2018	2,080	330
Q2 2018	1,501	301
Q3 2018	1,332	299
Q4 2018	1,605	316
Q1 2019	1,454	327
Q2 2019	1,627	265
Q3 2019	1,042	281
Q4 2019	1,165	253

Source: CB Insights, 2019

and fintech, considering strengths of both sides, is a natural trend which will only grow. Banks have many clients, fintech has an ability to provide clients with ease of using banking services, and this is the formula of their symbiosis.

Millennials and Zoomers

The findings of the March issue of the World Fintech Report 2020, from Capgemini consulting company, confirm both the global trend of cooperation between financial and hi-tech companies, and preparedness on both sides for deeper cooperation rather than direct competition.

According to Capgemini, the biggest problem for traditional financial institutions is represented by the gap between their existing capabilities and the expectations of their clients. Millennials (born between 1981–1998) and zoomers (born in 2000s) require uninterrupted banking services to be provided in real time. They expect banking services that will supplement their "digital" lifestyles. If they are not getting what they want, they move their accounts to where they will in fact get what they want, and they are doing it without hesitation or concern..

Among the clients polled by Capgemini, 16 percent said that their primary bank has a limited selection of products and services, doesn't meet their needs and is bad at integrating with other platforms and applications. And 48 percent of young clients said that they are prepared to switch to another bank in the next 12 months. Accessibility of services from the point of view of cost was the main motivation that drives preference for a fintech provider over any traditional providers, according to the EY survey. Among other motives identified by EY — ease of connecting to the account, diversity of functions and a wide choice of product offering. A unique feature of the current situation is consumers' willingness to use the products of several fintech companies at the same time, which hasn't been the case up until recently. 36 percent of financial service customers in China, 23 percent in the UK and 22 percent in Japan are using products of five or more providers from the fintech category.

Key reasons clients are using services from non-traditional market players, %

Attracted by affordable pricing	70
Looking for easy to use solutions	68
Seeking fast service delivery	54
Service quality is important	39
Seeking more personalized services	39

Source: World Fintech Report 2020 by Capgemini

Among clients polled by Capgemini, 16 percent said that their primary bank had a limited selection of products and services and doesn't meet their needs

Such a state of affairs is a good catalyst for banks to implement changes with the help of the fintech sector. Innovative instruments and the client management experience that the fintech industry can provide will help banks to develop, to broaden their offering, to expand market presence and to grow their client base. "There is no "deep tech" of any kind in banking that is difficult to replicate. To the contrary, technologies are becoming accessible; the only issue is how to utilize them efficiently," says Yevgeny Isupov, Data Monetisation Director at Tinkoff Group. "Competitive advantages today are derived from creativity and systemic approaches. This is probably the only thing today that has not been automated yet."

"Not everyone will be invited to the future" he continues; those who are falling behind in this process will lose their leadership and will become niche players serving a narrower client-base. Back in 2016, PwC analysts, in their survey "Financial Services Technology 2020 and Beyond: Embracing Disruption" made the following appeal to traditional financial institutions: "By 2020, your operating model is probably going to look quite stale, even if it is serving you well today. That is because what your financial institution offers to your customers is almost certain to change, in ways both large and small. This will require important changes across, and around, the entire IT stack." 2020 has arrived and has proven that this forecast was correct.

Examples of successful collaboration between banking organisations and fintech firms include joint projects of the Berlin-based N26 bank and a British online translation service, TransferWise, and of the British digital bank (of Russian origin) Revolut and the British payment service, Currencycloud in conducting cross-border transfers. German

Competitive strengths of innovative banks and major fintech companies	
Instrument	Effect
Application of mobile-only model	Service is delivered online, resulting in reduced commissions and maintenance costs for a client
Flexible approach to scaling: release of new products factors in the micro-servicing approach	Combination of business and technologies is geared towards a fast and efficient market entry
Client focus	Intuitive service interface
Effective data management	Enables hyper-personalized services while ensuring data protection
Utilization of open platform model	Artificial intelligence and automation are used for open API-based platforms development (interfaces that enable exchange of information among independent software components)
Effective collaboration	Model enables launching and reproduction of new technological solutions, their testing, upgrading and scaling, thereby enabling continuous offering of higher quality services to the clients
Source: Capgemini	

Which technologies are designed to change in the next two years the way financial services are delivered? % of respondents. A survey of representatives from technology, media and telecommunications (TMT) and financial services (FS) companies		
	TMT	FS
Internet of things	52	36
Artificial intelligence	51	56
5G	48	39
Cloud	45	43
Big data	44	44
Blockchain	41	40
Robotic process automation	40	31
Voice technologies	40	29
Biometrics identity management	40	28
Source: PwC, Global Fintech Report 2019		

Commerzbank and IDnow have integrated machine learning from the start-up into client identification.

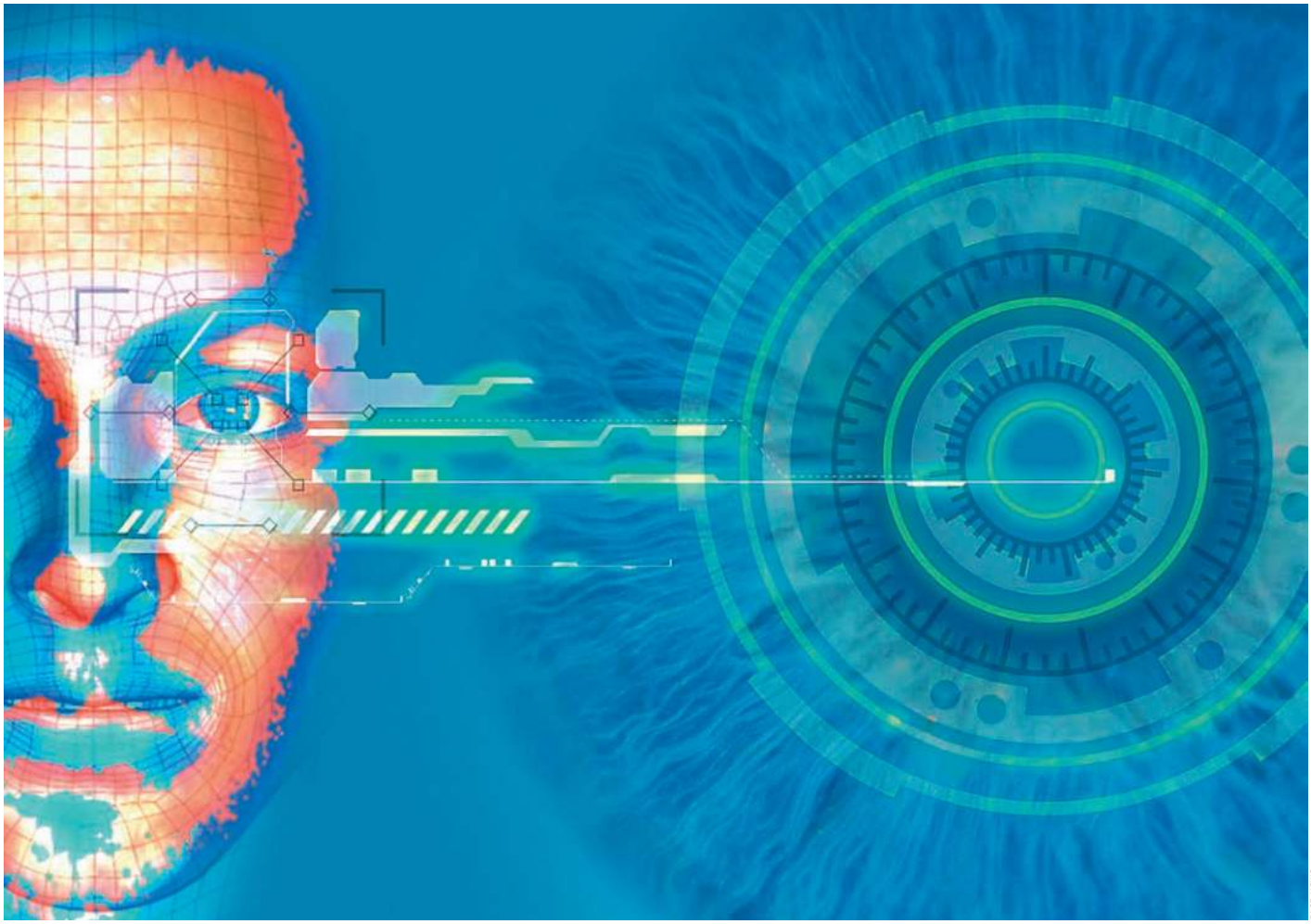
Therefore, banks and other financial institutions are forced to change quickly, responding rapidly to a changing environment and increasingly individualised client requirements. Today, the largest financial institutions are also strong IT companies with excellent digital competencies and innovative business models. “Essentially, a bank is perceived today not as a plastic card or an application, but rather as a set of lifestyle algorithms that define what you’re buying. Even trust is now “about algorithms’ and not about a human promise — algorithms will take care of the security of accounts and data in today’s banking,” believes Yevgeny Isupov of Tinkoff Group. “Ecosystems are made as the result of synergies between financial and non-financial services and various services of different types gather in one place to expand a value proposition for a client”, summarizes Dmitry Peshnev-Podolsky, Chairman of the Board of BKS Bank. “A bank and a retailer, a bank and an insurance company, and even a bank and a social network can offer a client completely new services, by new means and via new channels. A merger of financial and non-financial markets will create the conditions for an emergence of new products, services and delivery channels — some dissimilar, some duplicating and some complementary,” he concludes. ■

МАКСИМ ГРИГОРЬЕВ/ТАСС

Maria Sarycheva

AI turns out to be more practical than blockchain

Banking industry prefers technologies with obvious practical applications



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Two or three years ago, it seemed that the market for the newest financial technologies were limited to blockchain (technologies of distributed ledgers). This view was supported by the worldwide craze that developed around cryptocurrencies. The most radical visionaries were predicting a total expansion to blockchain that would result in a complete crowding out of other technologies from the financial market. But this did not happen. The fascination with blockchain receded, market participants took a sober look at the situation and realised that, most likely, the future of this technology is niche. And they switched their choice to other technologies that have more obvious applicability. Today, bankers are focusing their attention on biometrics, BigData and artificial intelligence or AI.

'Changed' and 'Invented'

EY researchers believe that all newest financial services can be divided into two categories: services of the 'changed' type and services of 'invented' type. Services of the first type have existed before. In one way or another, they have been offered by the more traditional players in the financial markets; but with the emergence of fintech, they became faster, simpler, cheaper and started to provide customers with new opportunities (for example, in currency trading).

Services of the second type are the completely new services that became possible only after an invention of a certain technology. Invented services are now the industry flagships and its most powerful weapon. In one of the key documents in Russia on fintech development, 'Main Direction of Financial Technologies Development in 2018–2020" (published in mid-2018), the Bank of Russia lists the following technologies as leading ones: BigData and data analysis, cloud technologies, artificial intelligence, biometrics, robotic process automation (RPA), open application program interface (API), distributed ledger technologies (blockchain) and mobile technologies. Applications emerging from these technologies have been developed in areas including payments and transfers, financing (P2P credits, crowdfunding), asset management (robo-advising, financial planning programs, algorithmic trading, social trading) and insurance services.

The research company, Gartner, annually publishes its Hype Cycle — a description of the maturity cycles of technologies which demonstrates a transition from a hype stage to productive use. "These technologies are a kind of reflection of interest from different di-

rections of business," explains Alexander Agakov, Deputy Director General for Commerce at QIWI. "Not all of them will plateau and will be actively used in the future, but this enables visualization of general market trends."

Any technology is either of a cross-cutting nature or is mutually complementary and fintech is no exception. For this reason, Mr. Agakov believes, it would be correct to consider which technologies will enable the creation of fintech solutions, because fintech has now moved far beyond the financial market and has become a significant player in other sectors, such as real estate or retail.

Five key AI applications that companies will be developing in 2020

Instrument	Share of companies, %
Risk management, anti-fraud and cyber-security	38
Automation of routine tasks	35
Assisting personnel in making optimal decisions	31
Collection of forecasting information	30
Automation of client processes	30

Source: PwC

Technologies globally applied in biometrical systems

Technology	Share of surveyed companies, %
Based on recognition and use of finger-prints	More than 50
Based on recognition and use of facial image	21.6
Based on recognition and use of iris	10.2
Based on recognition and use of voice	4
Based on recognition and use of vein patterns	3
Based on recognition and use of palm geometry, DNA and other traits	About 7

Source: "Overview of the international market for biometrical technologies and their application in the financial sector" by the Bank of Russia, 2018

Blockchain is Becoming Elitist

Two or three years ago, blockchain (distributed ledgers technology) was a synonym for the term 'new technologies'. Not only the professionals in fintech and financial services were obsessed with it, but so were many of the general public as well. But very quickly, the fascination receded. The view that blockchain can be used universally as a way to radically change the global financial system, hasreceeded. "The technology is now used on a wide scale, has ceased being revolutionary and has turned into one of the instruments in the IT toolbox," states Pavel Andrianov, IT Director at the National Settlement Depository (NRD).

First of all, this is related to the high-risk associated with the use of cryptocurrencies as a product of blockchain, risks that have materialized on many occasions in different countries (fraud, compromised or lost wallets, cyber-crime). Also, confidence in this technology from the financial sector has been damaged as a result of using cryptocurrencies as an instrument for money-laundering and drug trafficking. Regulators worldwide tightened control over services that are employing blockchain for payments and transfers, and as a result, it became impossible for many of them to operate legally in certain countries (for example, in the US). At the same time, legislation regulating legal use of distributed ledger technologies in the financial sector is still in a rudimentary state in most countries of the world, and is completely lacking in some countries. In addition, the development of blockchain systems requires a significant financial outlay, which complicates scaling and makes it almost impossible to use them outside of the public sector or large business.

A reduced interest in distributed ledgers, blockchain and cryptocurrencies is demonstrated by the monitoring and analysis of social media conducted by Kribrum. The number of mentions of the word 'blockchain' in the Russian-language segment of major social networks had been growing in 2017–2018. In 2017 alone, the total number of mentions in posts (original and re-posts) was approximately 3.24 million, and in 2018 this number increased to 6.7 million. However, by the end of 2018, the number started decreasing: in November–December, blockchain was mentioned 3.5 times less frequently than in peak time in late July. And in 2019, the mentions of blockchain were much less than in the prior two years — the total number of mentions decreased to 1.95 million times.

As the bubble of cryptocurrencies' initial offerings burst, many developers of innovative blockchain solutions focused on the creation of specialized blockchain applications for different purposes. This has become an important stage of blockchain technologies' development which is expected to lay the groundwork for the next generation of innovations in the area of blockchain and financial technology. Such innovations may lead to the emergence of new non-cash and contactless economies of the future.

However, this does not mean that the technology of distributed ledgers will not find its niche in the financial market and will not develop further. Rather, it will become elitist and will be used for narrow industry purposes. For example, it may change the infrastructure of exchange trading, which, in turn, can become a pivotal point in changing the set-up of the international capital markets. Professor Barbara Meynert, AIFC Fintech Advisor, believes that asset digitalisation enables radically disruptive digital financing and business model innovation that can allow any ecosystem or interest group to effectively create a customized financing structure. "Blockchain technologies will enable the trusted sharing of data and digital assets worldwide and for new modes of international collaboration on an unprecedented scale. They will drive the next digitalisation revolution, this time providing the ability to digitise anything of value and innovating on the new modes of transacting that value," she believes. However, this is still a question for the future, and one which is tied largely to a number of legislative obstacles.

Banks are Betting on BigData and Artificial Intelligence

Currently, most Russian experts tend to prioritise the emergence of AI-related technologies — especially from the practical applicability point of view. "Now the sights of financial industry players are set on technologies of artificial intelligence (AI), cloud solutions and BigData. They allow traditional banks to monetise their key competitive advantage over start-ups — the information they hold about their clients. Due to computer processing of transaction data, banks acquire a unique resource — the picture of customer preferences," notes Valery Yemelyanov, an analyst from the Freedom Finance Investment Company.

Artificial intelligence is a computer system that is capable of carrying out tasks that require human intelligence. A system that can create visual images, recognise speech, make decisions and translate from one language to another. AI has an enormous potential to replace human functions in business processes, implementing them faster and with higher quality whilst eliminating mistakes and other risk factors. Another critical track of fintech sector development — analysis and utilisation of big data (BigData) — is closely related to AI. There is talk now about integrating analytical systems and artificial intelligence to address many business tasks.

According to PwC forecasts laid out in its 2017 global study 'Sizing the Prize: Exploiting the AI Revolution. What's the Real Val-

Valery Vavilov, Founder, Bitfury

How would you describe the current stage of fintech and blockchain technology development around the world? When can we expect the next round of their development?

— The fintech and blockchain sector is maturing and is moving past early adopters into the mainstream. I expect in the next few years we will see these technologies become an integral part of many financial systems. Digital currencies, mobile money and online payments will continue to be important, especially as our world adjusts to being more remote and online. While some micro trends change year to year (for example, the advent of tokens a few years ago), generally the macro trend stays the same, which is to make financial technologies faster, safer, and more efficient.

— Could you provide examples of the most interestingservices created based on a particular technology. Which of them have the prospect of scaling and which will remain niche products? Why is this the case?

— I think the service that will scale quite well, once a satisfactory design is launched, is digital identification. It is widely used and solves many security and access issues for people around the world, including those without state-issued identification (such as refugees).

— What type of solutions do you expect to appear on the market in the near future? What 'customer desire' do you think is not yet satisfied with the available services or is not being satisfied enough?

— I believe we will see greater integration of artificial intelligence, fintech and blockchain in the near future. While fintech applications and blockchain use have already proven successful and useful, there is still a gap in customer service for people adapting to these platforms, as well as a lag in scaling financial oversight and compliance. Artificial intelligence will be able to help address these issues.

— How will the nature of money circulation change: will we abandon principles of material exchange in the next 50 years? What is the likelihood of money acquiring a 'social' component (based on total surveillance and personal ratings)?

— In 50 years, the financial system will be completely different. It is hard to say whether the money will be a 'material' or a 'social' phenomenon. But I am confident that the financial system as a whole will become much more accessible and user-friendly in all parts of the world.

— How would you evaluate the development of financial technologies in our region? What role do international financial centres, including the AIFC, play in this regard and will be able to play in the future? In what way do they contribute to the creation of a new legal regime in the field of financial technologies?

— Fintech is crucial for the development of Central Asia and for the well-being of its dispersed population. Lack of a major financial centre between Europe (London/Frankfurt) and Asia (Dubai, Singapore) may present a growth opportunity.

— Bitfury supports wider use of blockchain technology outside the bitcoin industry. What does it mean? What prospects do you see for distributed ledger technology for the economy in a broad sense?

— Blockchain is an incredible, powerful and democratising technology. It underpins the security and success of bitcoin, and I believe it can do the same for many other systems including healthcare data, identity, value transfer (including real estate) and more. In the broadest sense, blockchain can bring efficiency, enhanced security and protection from corruption to quite a few areas, thereby strengthening the economy of any country that uses it.

— What financial projects powered by blockchain will be in demand in the CIS countries and why?

— There are many potentially powerful blockchain applications for the CIS region, including: transfer of value (execution of the transfer, monitoring and transparency); blockchain-based credit scoring systems; blockchain-based data security/data access for financial sector; and more.

— What projects have you launched over the last year? Why does your company consider professional training as an important development track and what have you been able to achieve in this regard?

— Over the course of the past year, we have launched several pilots and projects around the world. First, plastic pipe tracking and labeling. Our system enables tracking of industrial plastic pipes used in construction all the way from production to installation. It delivers the double benefit of ensuring quality and authenticity of pipes used for installation, as well as their appropriate maintenance (warranty issues, claims and disputes). Second, a blockchain-based customer loyalty system. Third, a blockchain-based electronic document exchange system for supply-chain management processes. And fourth, a major government pilot for blockchain-based system of higher education diplomas and certificates to halt the turnover of fake diplomas. We are also developing a professional training program in blockchain, to help certify students and professionals in this cutting-edge technology.

— What are your company's plans in Kazakhstan? What projects are planned for implementation in the next two or three years?

— We are looking forward to continuing to support the development and distribution of blockchain technology in Kazakhstan. We are also planning to open more data centres and work with the government and AIFC to attract more international investors. We will also continue to support and grow our partnership with the UNDP to preserve and replenish large swathes of forest land across Kazakhstan.

— Has the current pandemic affected your plans? What have you changed in the way you run your business to respond to pandemic-related challenges?

— First, we have introduced protective measures across our offices. We are continuously monitoring the spread of the COVID-19 pandemic across the world. All businesses around the world are adjusting to a new normal, including more remote work and less travel — but our team is coping quite well with these challenges, particularly given that our company since its foundation in 2011 has been operating across the world.

ue of AI for Your Business and How Can You Capitalise?' the potential contribution from AI to the global economy may exceed $15.7 trillion by 2030. In PwC's view, 55 percent of this growth will be achieved through increased productivity and human resources savings. The balance of 45 percent will be delivered by transformation of products that stimulate consumer demand: the use of AI will contribute to expanding the selection of products, as well as to greater targeting, attractiveness and accessibility of these products for clients.

According to McKinsey, in 2019, AI was used in one way or another by 80 percent of the world's largest banks. In financial organisations, AI is implemented at the level of business process design — forecasting the demand for banking products and changes in the demand structure, and automated risk evaluation; at the operational level — automated interaction with clients, docu-

Bank of Russia experts note in their overview that in the recent years multi-factor authentication using biometrical technologies has been developing very fast in the financial sector


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ments' processing, as well as at the level of promotion — creation of targeted product offerings.

According to Stanislav Volkov, Managing Director of the rating agency, National Credit Ratings (NKR), the use of AI technologies and machine learning to create recommendation systems is a major leap forward that altered the nature of 'client-supplier' relations, and the potential of these technologies is far from being exhausted. "I believe that this instrument will remain key for the foreseeable future, because due to the accumulated big data of banks, telecom companies and public offices, there is enormous potential for analysing and forecasting the clients' behavior," agrees NRD's Pavel Adrianov. Carson Wen, Founder and Chairman of the Bank of Asia, believes that areas with the greatest potential for AI include the use of artificial intelligence in 'Know Your Customer' and 'Anti-Money Laundering' (KYC/AML), securities brokerage, asset management, robo-advisory services and other functionalities in the banking and financial services sector. "Using QIWI's example, I can note that implementing credit scoring and monitoring of suspicious transactions with the use of AI have greatly improved both the speed and the quality of the services," says Alexander Agakov from QIWI. However, he believes that a more comprehensive development lies further into the next decade rather than in the immediate future. Sergey Putyatinsky from MKB is more optimistic: "We are launching a project to streamline the itineraries of our money delivery trucks using machine learning. Immediately, we are enjoying savings of 30 percent, due to the reduced number of trucks and a reduced number of personnel. Why didn't we do it before? Because the human brain is unable to analyse such an huge amount of data regarding itineraries, trucks and people, and to streamline things. But a machine can. So I don't simply believe in the bright future of artificial intelligence and machine learning. I am already seeing it."

Biometrics Requires Laws

Experts note that biometric technologies also hold enormous potential for the financial markets. In its January 2018 'Overview of international markets for biometrical technologies and their use in the financial sector' the Bank of Russia defines them as 'technologies based on identifying people by unique and individual biological characteristics.' Identification is conducted using static data — like unique features acquired at birth (DNA, fingerprints, shape of hand or iris), as well as dynamic data — features that can change over the course of life (signature, gait or voice).

The technology works in several stages: it records biometrical data, extracts biometrical sample and transforms it into a mathematical code, saves it, then compares it with the presented sample during identification, and by using a mathematical algorithm, receives the result on whether they match or not.

Biometrics is actively used around the world by governments — to process electronic documents (e-passports, e-IDs, electronic drivers' licenses), in healthcare (electronic medical records that contain biometrical data), as well as for travel and migration purposes (visa processing, border control, etc). In other words, it involves critical areas of human life where the strictest account of personal data is required, and leaks and fraud need to be excluded. The financial sector is one of such areas

The Bank of Russia experts note in their overview that in the recent years, multi-factor authentification using biometrical technologies has been developing very fast in the financial sector. Among the most widely used is a two-factor authentification (for example, using a pin-code or a one-time password and biometrical factors). It is actively used in online-banking, ATMs and access to bank safe deposit boxes.

In 2018, the law allowing banks to assemble biometrical data of clients (image of the face and voice sample) to enable remote services, came into effect in Russia. Banks that comply with certain criteria set forth by the Bank of Russia, are now required to assemble such data for accumulation in the Unified Biometrical System (UBS). However, for a number of reasons (including financial limitations) this process is currently quite slow. According to Vedomosti estimates, biometrical data was being collected in fewer than 40 percent of bank branches.

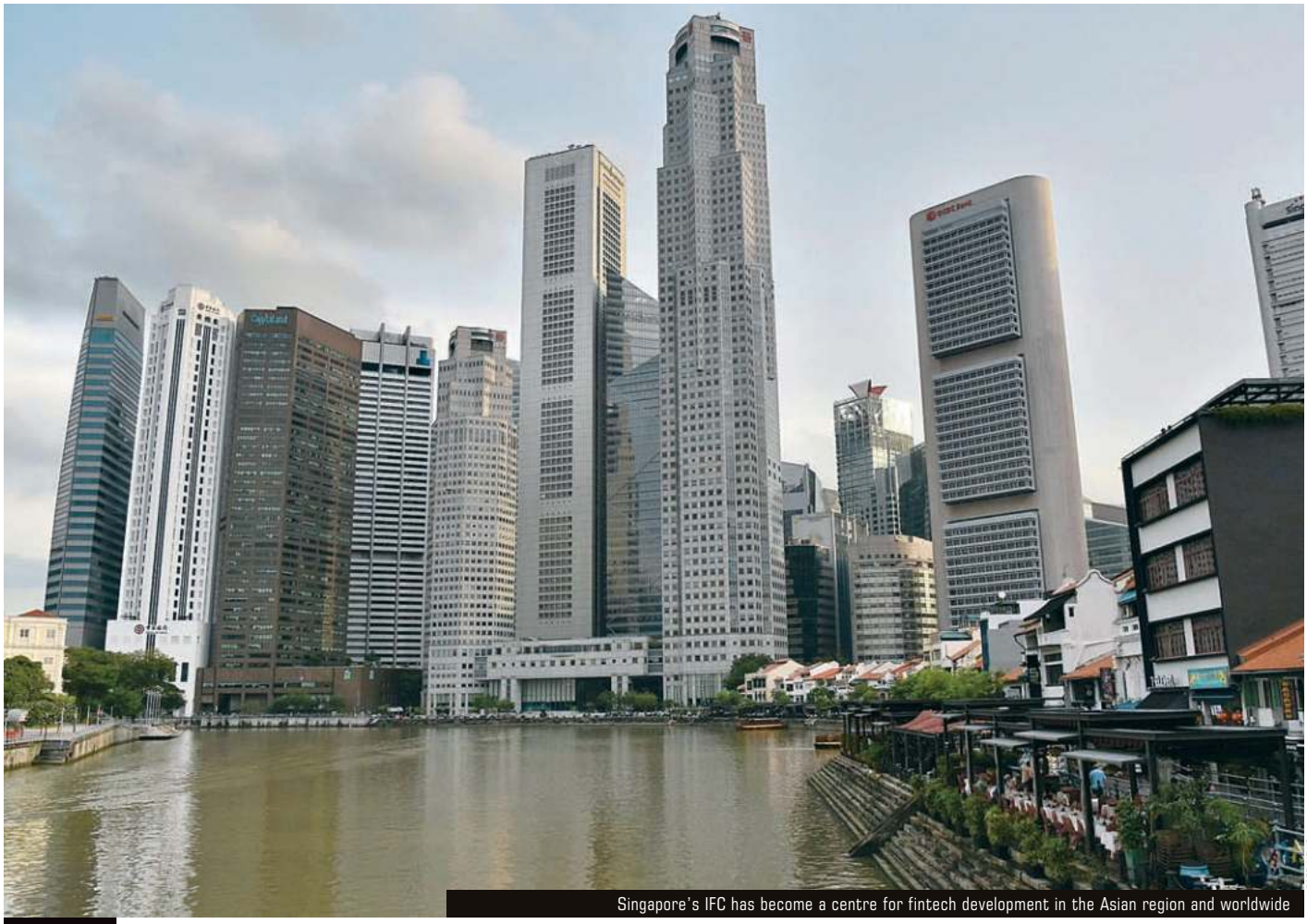
Globally, the market for biometric technologies is developing extremely fast. Its volume at the end of 2016 was estimated by J'son & Partners at $14.45 billion. The company forecasts this figure to reach $40.2 billion by 2022.

"When, thanks to biometrics, we are able to conduct full remote identification legally accepted for any type of operations, this will give impetus to tectonic shifts," says Sergey Putyatinsky from MKB. "We are already able to unlock our mobile device using the image of the face, and sign up to the mobile bank using fingerprints. This technology needs to spread to as many services as possible, including financial and others. Sometimes, it will require legislative changes. If this happens, the image of the financial and fintech markets will change greatly," believes Mr. Putyatinsky. ■

Maria Sarycheva

The centre of gravity: why IFCs and fintech need each other

How new technologies influence the status of financial centres



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Singapore's IFC has become a centre for fintech development in the Asian region and worldwide

New technologies bring about fast changes in the established models of how financial services are consumed (and hence, are sold). But this process is not limited to the financial industry. Rapid digital transformation is leading to major shifts in the economic set-up of the society. Which clearly affects the existing model of financial centres.

IFCs and Fintech: A Win-Win Strategy

Now the status of important IFCs is bestowed on cities that are able to attract a fintech industry as a driver for global economic development.

"International financial centres are more reliant on technology, and the World Alliance of International Financial Centres' (WAIFC) members have been driving innovations in the financial industry by supporting the adoption of innovative technologies, from cloud computing and blockchain to artificial intelligence and big data," says Dr. Jochen Biedermann from WAIFC. In his view, most fintech companies will try to expand globally after successfully rolling out their business model domestically. At this stage, a collaboration between financial centres can by supporting those start-ups in doing their first steps in an unknown legal, regulatory, and business environment. "Both sides will benefit: A local fintech expanding successfully will usually lead to higher revenues and more jobs at the headquarters as well. And on the other hand, a foreign fintech entering the market brings a new business model and potentially new services to the local community," mentions Dr. Biedermann.

End of Pandemic — Start of a New Business Era?

Pressure on the traditional economic set-up comes not only from the organic processes related to digitalisation across all spheres of life. Clearly, the stagnation of the global economy resulting from COVID-19 pandemic is having a major global impact. Suspension of production processes, rupture of technological chains, partial paralysis of services sector, withdrawal of large number of abled individuals from economic life — all this will necessarily have consequences and will necessitate a need to change the economic paradigm in the nearest or immediate future. Of course, the coronavirus situation has influenced and will continue to influence the economy in many countries, but it will only be possible to evaluate the consequences of the pandemic at

a later date. In the short-term, however, we will most likely face local jumps in macroeconomic and business indicators caused by the enthusiasm ofreturning to normal life. In the medium term — that is, in the next two or three years at least — the consequences of the shock will be felt very well," forecasts Stanislav Volkov from NKR. "Clearly, financial stability and solvency of many economic actors have fallen. One can expect that it will lead to cutting expenses and corporate budgets, and to reduced consumer spending of the general public. In the savings mode, people will be more selective in buying products and services. More likely, behavior will become more conservative. Business and financial institutions will be more eager to review negative scenarios and to conduct stress-tests of their risk models. Naturally, changing behavioral models and life-styles will lead to new business solutions and the emergence of new markets."

New Technologies vs Old Money

Considering rapid digitalisation of the global economy, it is inevitable that a countries' sphere of influence within the global economic system will be redistributed. The pandemic has shown how fragile the current model of a traditional centralized financial system is, relying on 200 years of Western financial institutions' supremacy. The economies of European countries are under heavy pressure, and the pandemic proved to be a great challenge for the American model too. In this environment, new IFCs that have emerged in the digital era, may gain special importance.

The preconditions for such a scenario already exist. The Cambridge Centre for Alternative Finance (CCAF), Zhejiang Association of Internet Finance (ZAIF) and TongBanJie Financial Technology Group conducted a joint study in 2018 "The Future of Finance is Emerging: New Hubs, New Landscapes". According to this study, the speed of adopting new regulations in response to a growing economic influence of fintech is of paramount importance in defining the role of IFCs in the market. "Fintech is becoming the key competitive advantage for cities and territories. Inadequate regulations in developing markets may become an obstacle." The speed and volume of raising capital also impact the process. "Investments in fintech industry are increasing annually, the quality and size of transactions are gradually growing." These indicators directly impact the number of innovative companies becoming IFC residents. The third element of success, influencing the opportunity of scaling technical solutions developed by IFC residents, is the number of potential users of a service on the territory of the country where the hub is located and in the neighboring countries.

Hong Kong is a financial and trade centre of South-East Asia

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In this respect, according to the authors of the study, China has no equals. China is #1 in the world in terms of the number of leading fintech companies (58 companies). Seven out of ten largest rounds in 2018 in terms of the volume of raised capital were conducted by Chinese companies (a total of $21.2 billion). This influences the global IFC rating, the study says — among Top-10 global financial centres, five were cities in China. China's capital, Beijing, was ranked by researchers as #1 among global fintech hubs of the world. This is China's second largest and one of the world's most populated cities. Beijing features one of the best educational systems in both the country and in the world — 10 of the world's Top-500 higher education institutions are located in the city, there is a cluster of start-ups and innovative laboratories. Beijing's financial institutions are ranked second in the world's Top-200 in terms of market value and are rapidly digitizing. For example, strategic cooperation agreements have been concluded between one of the country's largest banks China Construction Bank and an innovative company Ant Financial, between ICBC bank and fintech JD Finance, etc. Beijing is the centre of international information exchange and cooperation in the area of fintech — many global conferences and forums were held there before the pandemic on the subject of innovation (Science Expo, Global Fintech Summit, etc).

India is considered by CCAF the second fintech power of the world. Its trump card is enormous human potential: 57.9 percent

Or Klier, Senior Expert on Digital Transformation, Fintech and Cybersecurity, Boston Consulting Group

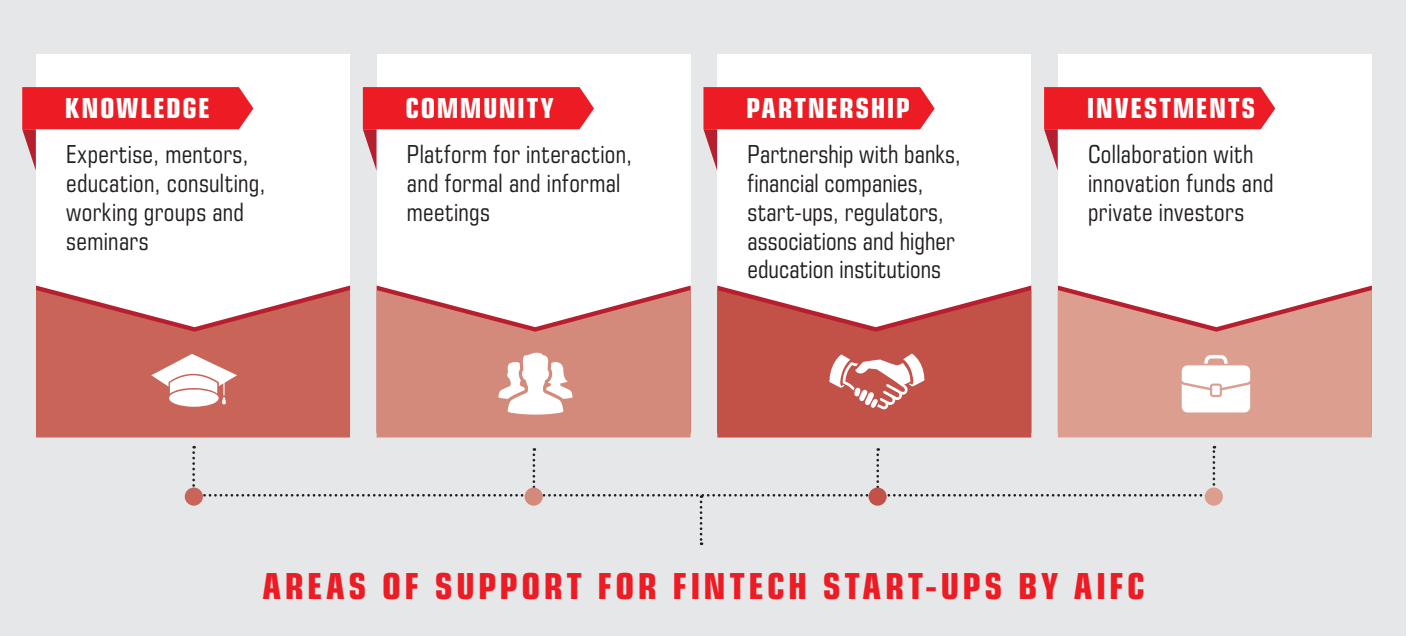
In the past few years, fintech has been developing rapidly and has reached large volumes in terms of investment (~$40Bn in equity funding in 2019) and the number of companies around the world. Financial technologies penetrated almost all sectors of the financial services sector. For most fintech companies, today's crisis is the first financial downturn in their practice. ~80% of the existing fintech companies were established after the 2008–2009 financial crisis. How the current crisis will affect fintech is still an open question. Although the COVID-19 crisis has not spared any FinTech player, each company's outlook depends on its specific circumstances. Those that have been around longer, with an established product market and higher cash reserves are generally in a better position than those that are still in the exploration phase. However, at least in the near-term, the impact is likely to range dramatically from one FinTech sub-cluster to another, with some areas even experiencing positive effects. If we take the segment of payments, which is the largest category of fintech in terms of equity funding, fintechs that specialize in trade finance, cross-border payments and foreign exchange are already experiencing significant decline in business due to the travel restrictions and reduced international trade. Despite all of the above, Every adverse situation can also present a window of opportunity, and that is certainly the case for FinTech these days. FinTechs, unlike incumbents, were set up from the start to move fast, with data-driven business models and lean organizations, unencumbered by legacy. By their very nature FinTechs have a competitive advantage in a world where physical interactions are limited and everything is becoming digital. Thanks to this, fintechs will be able not only to survive the crisis, but even position themselves better for the future to come.

of the country's population are users of fintech services, and developers of Indian origin represent a major share among specialists in this area worldwide.

The list of important regional fintech hubs developed by CCAF includes Chicago, Singapore, Hong Kong, Sidney, Seattle, Tokyo, Boston, Paris, Guangzhou, Stockholm, Atlanta, Los Angeles and others. And the greatest number of leading fintech hubs is located in Asia (nine cities and territories). The list of candidates to become regional leaders of financial innovations includes 25 newcomers: in Asia and Australia — Melbourne, Chengdu, Chongqing, Xi'an, Manila, Ho Chi Minh City, Djakarta, Kuala-Lumpur, Bangkok, Dubai, Karachi; in Europe — Barcelona, Frankfurt, Warsaw, Moscow, Geneva, Milan, Brussels, Vilnius, St.-Petersburg, Istanbul; in America — Buenos-Aires and Mexico; in Africa — Nairobi and Capetown. In the nearest future, this list may include new regional hubs — for example, Nur-Sultan where the fintech sector is promoted by the Astana International Financial Centre and the Astana Hub technopark.

Other researchers have also noted the shift of fintech activities from the countries with old capital and developed economies

"Bayterek" observation deck has become Nur-Sultan's "business card"



towards developing countries. "Rankings of global fintech hub ratings go to prove that convergence of countries with "developed economies" and countries of the "new world" is more than perception, this is a quantifiable process. Eight out of 20 largest financial financial centres do not belong in the Top-20 list of largest fintech centres. And out of 100 leading fintech cities around the world almost half are located in the countries with developing economies. We think that this matters," notes Findexable in its new study "The Global Fintech Index 2020". In the opinion of researchers, fintech as an industry and a way of thinking enables the creation of new value added chains, connects economies of the old and new worlds, as well as individuals and enterprises that used to be separated from local and global economies.

At the same time, a developed fintech city does not necessarily have to be a large and heavily populated territory in a major country, notes Findexable. The largest centres of America (New York and San Francisco) and Asia (Bejing, Shanghai and Guangzhou) are facing successful competition from small cities located in moderately sized European countries — Vilnius (Lithuania), Tallinn (Estonia), Dublin (Ireland), Luxembourg. A key feature of a technical enclave is not so much concentration of financial institutions (and hence, high concentration of capital), but flexibility of local authorities in terms of regulations. "Europe's diversity (and its custom to coordinate its regulatory activities) remains a key advantage," conclude the researchers.

Also, Findexable researchers see great potential in the MENA region. In their view, despite low penetration of banking services among the population (and maybe even because of that), Africa and the Middle East will become regions where the "future of fintech will arrive sooner than elsewhere."

Success in developing fintech does not mean success in accumulating start-ups on a particular territory. The industry may operate anywhere, but for its effective development the right policies are needed, along with mobilization of local human resources and elimination of barriers inhibiting the ability of digital enterprises to freely sell their products and services. All that can be provided at the new financial centres in the developing countries. Findexable forecasts that as a result of this process, by 2022 the contribution of digital companies to the world's GDP will reach 60 percent, and growth in each industry will correlate with growth in the digital offering.

Regulatory Sandbox as an Attraction Factor

One of the newest trends in the IFC development is the creation of the so-called 'regulatory sandboxes.' The more attractive are the conditions in the sandbox, the more opportunities fintech projects have to develop and enter the market. This in turn leads to greater competition and an increased investment attraction of both local companies and the local economy as a whole.

The sandbox mechanism, as a testing and trial environment, is widely used in the IT sector. A regulatory sandbox provides a special regulatory regime enabling testing by start-ups of their products and services in a controlled environment, without full compliance with regulatory requirements of the open market. Such sandboxes are initiated by financial regulators or central banks. They ensure a balance between promoting new technologies and maintaining the stability of the financial system, as well as protection of consumer rights. Also, sandboxes allow to reduce costs of market entry, cut the time required for full launch and scaling of projects, and bring down regulatory uncertainties in order to raise the attractiveness of a developer for venture investors.

In the view of PwC, sandboxes have the following features: they use business approach (testing is not separated from business realities and factors in all specifics of the industry and relations within it); organize cooperation (sandbox ensures interaction among all stakeholders of the business process); increase transparency (there are no black or grey zones); increase the safety and predictability of the industry.

Sandboxes are used in cases when without practical testing it is difficult to conclude whether the solution is working or not. They are designed to test the operations of the innovative approaches in a "sterile" testing environment.

The first experiment with a regulatory sandboxed was held in 2016 under the auspices of the UK's financial regulator FCA. 146 applications for participation were received, and 50 of them were approved. The most popular technology was technology of distributed ledgers (blockchain).

41 projects (75 percent of participants) were tested one year later. 90 percent of those who completed the program, continued their work to bring the projects to the market. One third of companies have later introduced significant changes in their business models. Based on this initial data, FCA concluded that most often participating companies used the instrument of limited license — that is, employed technologies with a limited number of individuals involved and not to a full extent, and this extent was determined by each company individually. The participants in the experiment themselves noted that

Astana International Exchange (AIX) was created on NASDAQ's cutting-edge platform

the involvement in the sandbox provided significant assistance in their search for investors. More than 40 percent of the first class of participating companies received financing while the experiment was still under way.

During the first trial of the sandbox, FCA developed protective measures that participants had to apply during testing, including developing a plan of exiting the experiment in case of the project's failure, with a minimal damage to consumers.

Currently, there are more than 15 regulatory sandboxes operating around the world: the UK, Malaysia, Singapore, Abu Dhabi, Australia, the Netherlands, Indonesia, Switzerland, etc. There are no full-fledged sandboxes in Russia yet. This is envisioned by the bill "On Experimental Legal Regimes (ELR) in the Field of Digital Technologies." In May 2020, the bill was adopted in the first reading by the State Duma. The bill provides for use of ELRs to develop and test innovative solutions in all sectors of the economy in Russia. The following industries are identified as key: medicine, transportation, financial sector, education, construction and industry, and state administration. "Most importantly, the sandbox mechanism must ensure a balanced decision-making process: on the one hand, there is a need to quickly change the regulations that stand in the way of new technologies and businesses that are based on them, and on the other hand, there must be protection for vital interests of individuals, society and the state," said Vladislav Fedulov, Deputy Minister of Economic Development, as quoted on the website of the Ministry.

However, a similar project with a simplified regime is conducted under the auspices of the Bank of Russia. "Most international regulatory sandboxes allow testing in the market with participation of clients who may conduct real operations using the service. In the Russian Federation, there is currently an opportunity to test the services only in virtual environment, by demonstrating the mechanics of their operation and providing detailed description of the services to the Bank of Russia. Based on that, the Bank of Russia conducts risk analysis and makes a decision on feasibility of creating regulatory regime required for implementation of the service in the open market," explains the Bank of Russia. The regime used in this sandbox enables demonstration of the functions of a service without conducting legally binding operations. "The next stage is to provide an opportunity to the services to operate in a real business environment," concludes the Bank of Russia.

Kazakhstan: Sandbox of Exceptions

In the neighboring Kazakhstan, the situation is different. Amendments introduced in 2018 to the Law of the Republic of Kazakhstan 'On the National Bank of the Republic of Kazakhstan' provided the National Bank authority to introduce a special regulatory regime. This way, a full-cycle regulatory sandbox was created. The law is geared towards increasing the flexibility of financial market regulations, development of new financial services and raising their accessibility, and introduction of new financial products. The special regime is already used by financial organizations and legal entities operating in the financial sector, and payments providers.

The specialised regulatory environment under the brand of FinTech Lab was created on the basis of the Astana International Financial Centre. The FinTech Lab allows start-ups, as well as more established companies, to test new products and technologies with real clients, gradually building compliance with regulatory requirements. Also, the FinTech Lab allows foreign licensed companies to "test the waters" in the regional market with minimal expenditures and using AIFC as the base. "The basis of regulatory sandbox's operation in Kazakhstan is different from the model currently tested in Russia," believes Pavel Chebotarev from Sovkombank. "In Russia, a project using this or that technology is being reviewed, after which changes to the legislation are initiated. And only then a practical experiment begins. In Kazakhstan, the sandbox operates using legal exceptions: if the project's business model does not carry risks, it is launched at the AIFC level without any legislative changes. In my view, this model is more efficient and is of greater interest for fintech companies."

In essence, the AIFC has already created a legal base and a professional platform for blockchain within its jurisdiction. Projects employing blockchain technologies and cryptocurrencies are subject to simplified

Lady Barbara Judge, Chairman of the Board, Chairman of Nomination and Remuneration Committee, AFSA

The past years have demonstrated considerable progress in delivering AFSA's mission of creating a fair, transparent and robust financial services regulatory environment. I am pleased to inform you that our efforts to establish a comprehensive and inclusive environment for the development of an efficient and effective financial services market have resulted in a new positive outcome. Today, out of over 460 participants, 140 firms provide financial or ancillary services, a three times growth compared to 2018. This includes market infrastructure institutions, banks, insurance companies, asset managers, brokers, investment advisories and ancillary services providers. In addition, 24 FinTech firms are accepted to operate in the FinTech Lab of AFSA, offering innovative financial services in the areas of money services/banking, digital assets, robo-advisory, Islamic finance, crowdfunding and factoring.

The strong growth of the financial markets in the AIFC is correlated with our policy initiatives over the past years. These initiatives helped to introduce a full range of financial services in banking, capital markets, insurance, Islamic finance and FinTech. We have also enabled innovative financial services such as crowdfunding, and we have created better conditions for investment management though new legal vehicles such as trusts and foundations. We have also increased the transparency of business to a new level and further strengthened investor protection in AIFC.

Although we have only been operating for two years, we have achieved significant milestones. Banks, insurance companies, investment business and asset managers have started to establish themselves in the AIFC. The AIFC participants come from a wide geographical reach of 41 countries. This is strong testament to the positive perception of the AIFC regulatory regime by the international business community.

In the future we shall strive further to adapt the AIFC legal and regulatory framework in order to facilitate business and to inspire innovation. We shall do this by providing a platform to launch financial and regulatory technologies, and products and services while always ensuring the safety and robustness of AIFC's financial system.

These are some of the challenges we face today and there will be more in the future. I have, however, every

confidence in the AIFC family to develop appropriate solutions. I believe that together we are building a solid foundation for the future successes of our centre. Our commitment reflects our plans for a long-term and fruitful goal to become an integral part of the financial development and growth of Kazakhstan. ■

regulation. Astana Financial Services Authority (AFSA), operating within the AIFC, has adopted the relevant regulatory base effective on the territory of the cluster. This way, cryptocurrency received a status of an independent object in circulation, and operations with it are considered as a separate type of financial market operations that may be conducted only by AIFC residents having licenses from cryptocurrency exchanges. It is possible that in the nearest future, first transactions with cryptocurrencies will take place on AIFC-registered cryptocurrency exchanges. In 2019, the number of applications to participate in the sandbox exceeded 50, of which 13 new participants were selected. Currently, 22 innovative companies work in the FinTech Lab. Last July, AFSA-designed regulatory norms to simplify access to alternative financing for SMEs (crowdfunding) came into effect.

Apart from the sandbox, the AIFC, in cooperation with major international companies (VISA, SeedSars, Startupbootcamp), is implementing incubation and acceleration programs for start-ups. SeedStars accelerator was created to assist start-ups in improving their competencies, and in preparing projects to attract investments. In early May 2020, the Investment Readiness Program (IRP) was launched on the basis of the accelerator, geared towards helping to evaluate investment attractiveness of a project and to raise it. 144 companies from 33 countries applied for participation in the program, and 10 projects from Kazakhstan, Russia, Ukraine, Nigeria and Georgia were granted the right to do so. The main requirement in selecting the participants was actual activity and revenue of at least $5,000 per month. SeedStars platform that seeks promising fintech projects outside of the Silicon Valley and Western Europe, served as the investor within the framework of this program. IRP is fully implemented online due to the current global pandemic.

Also, a private business incubator MOST, a partner of the AIFC, conducts acceleration of new entrepreneurs working in the field of high technologies — from developing an idea to commercial operation. MOST has a partner network in 150 countries of the world, and 70 partners in Kazakhstan. As of late 2019, the business incubator has assisted more than 6,000 entrepreneurs, and 83 projects of MOST alumni has attracted financing.

Jointly with MOST and SeedStars, AIFC is implementing an acceleration program, whose alumni include companies that already have strong market presence. For example, Smart Pay company offers online payments on its website, QR payments in retail establishments and upon delivery, online cashier solution, remote fiscal processing for websites, as well as other services, including electronic documents processing. The new company has more than 11 clients — so far, only in Kazakhstan.

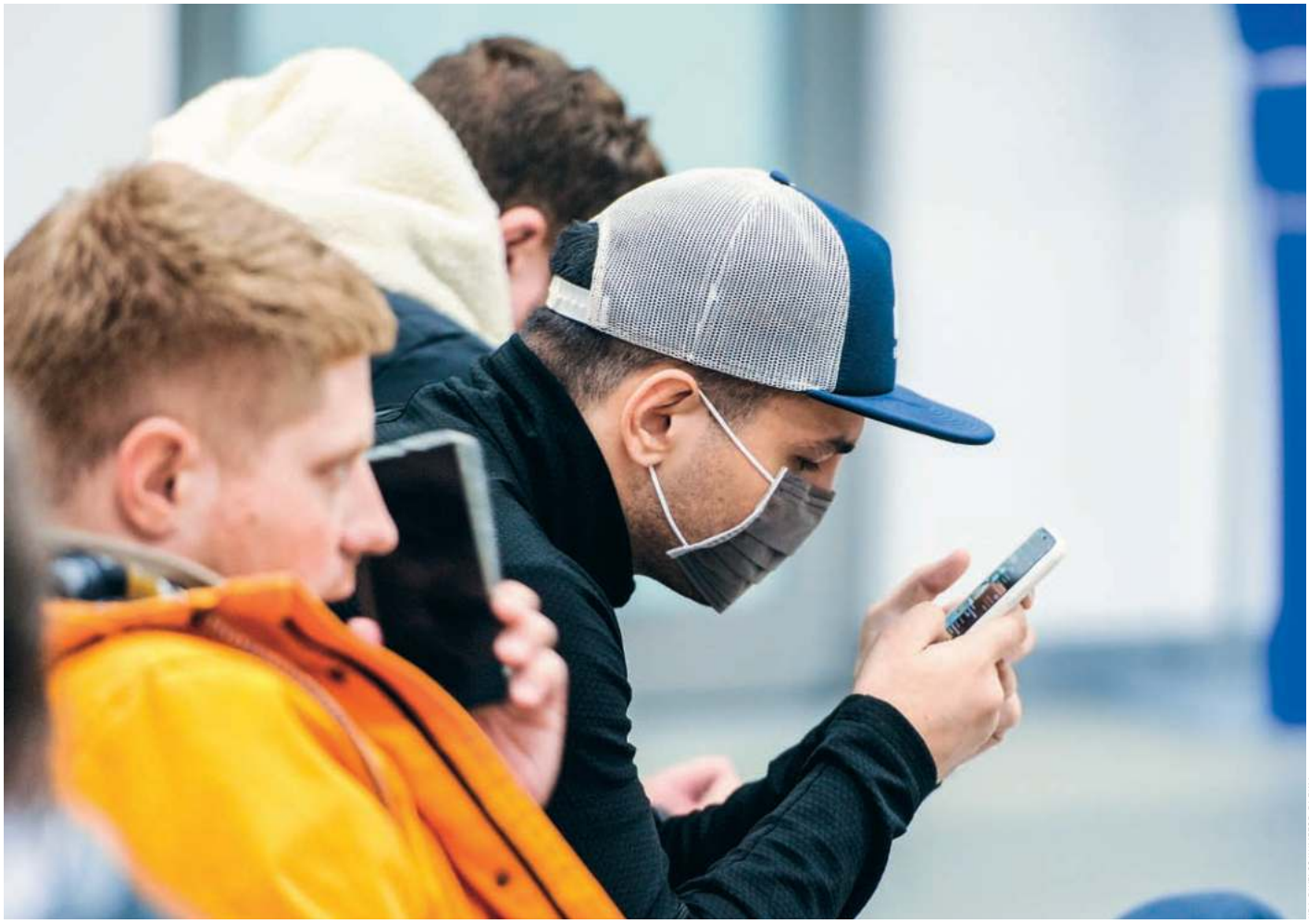
Smart Pay has been in the market for more than four years, and it serves more than 10,000 companies in Kazakhstan. An alumni of the acceleration program, ULES, provides a platform to attract loans. As the company represents, investors may generate greater revenue than in the banks, and borrowers get better terms than in the banks. The company ELIZE Invest Solutions has developed a model based on AI and machine learning that helps clients to increase revenues, streamline investment portfolios and reduce operational expenses. The company SENIM has developed and launched an application that allows to pay for many services remotely. For example, a customer may pay for parking, fuel the car, buy movie tickets and pay for a trip or hotel, and do all that without leaving his or her car. A Georgian company QuickCash offers small business to process a credit application on its site in just five minutes. A Russian company Panda Money has developed an interesting financial literacy educational program for children with an option to save money. The accelerator's portfolio also has quite unusual IoT start-ups. For example, Sunorak company has created a jacket that is able to charge mobile phones.

"We are currently developing acceleration of new projects on three tracks. First, helping to find venture financing for start-ups," says Bekzhan Mutanov, Director of Fintech Department at AIFC. "The second track — launching companies into the market. If a start-up has successfully completes testing of its product in the sandbox, it receives a license from our regulator AFSA and begins working. And finally, we recently created a department of corporate innovations that allows to bridge the gap between corporations and start-ups. So the latter will be able to understand better what exactly their future clients need." ■

Maria Sarycheva

Fintech after the pandemic: trends that will change the industry

How will the current situation around the world impact the development of new financial technologies?



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Technologies do not exist separately from human needs. They either preempt or follow them. Life has changed dramatically during the coronavirus pandemic. The need for remote services has increased enormously, both in the financial and other sectors. Fintech as one of the more advanced industries cannot avoid responding to new circumstances. Let's try to steps into the shoes of futurists: How will society change after the pandemic, what challenges is the financial sector facing and and how will fintech react?

No More Cash: Will Physical Money Cease to Exist?

Cash — a feature from the pre-digital world — is gradually decreasing its role in the circulation of money. This is a global trend influenced by numerous factors. Primary amongst them is support from the state. Cashless transactions are transparent for a regulator and are enabling control of money flows, limits to shadow transactions, better tax collection, fighting corruption and greater security of deposits. Banks are also interested in reducing the volume of cash circulation as thisbrings down the costs of accounting and handling cash.

The global leader in reducing cash transactions is Sweden: 85 percent of its population have access to digital banking services and more than 50 percent of businesses plan to completely eliminate cash turnover by 2025. In 2019, only 2 percent of transactions in Sweden involved cash. According to forecasts of Capgemini and BNP Paribas, this year the share will decrease to 1 percent.

Cash is being abandoned not only in Europe. Back in 2016, India undertook a reform to withdraw the most popular denominations of cash from circulation to stimulate the transition of the population to cashless money. And before that, South Korea announced its plans to cease cash transactions by 2020.

The rapid advance of financial technology has advanced global economic progress to the point of almost becoming irreversible. "There are three factors: first, online and mobile banking development, contactless payments, launch of the system of fast payments; second, growth of e-commerce; and, third, the arrival of non-banking payment services that enable payments without opening bank accounts," notes Dmitry Peshnev-Podolsky from BKS Bank. And 2020 events related to the COVID-19 pandemic only reinforced this trend. "In the foreseeable

Zhang Xiaochen, President, FinTech4Good

The Global pandemic has accelerated consumer behavioral change to adopt fintech and blockchain-based solutions. This will most likely dramatically reduce the customer acquisition costs for fintech and blockchain solutions. For that reason, 2020 will be the best year for blockchain and fintech development. Distributed capital market: The existing capital markets are both inefficient and exclusive. A distributed capital market can help to take middlemen and redundancy out of the system and make capital markets more efficient and inclusive.

Most likely, this process will result in a sharp drop in costs of such products. After years of research, China is ready to pilot its central bank digital currency in four cities. Facebook's Libra project released its Libra 2.0 white paper. These developments have sent a strong signal to many central banks and key market players to either jointly develop such technologies, or bring own products to the market. ■

future, physical money will cease to exist, with almost everybody interested in seeing this happen. The situation with the virus is expediting this process, due to the fact that the use of e-money is completely safe from the point of view of contamination," underscores Mr. Peshnev-Podolsky.

"Remote payment services during the pandemic form the foundation for a cashless future", adds Stanislav Volkov from NKR. According to a recent survey by a British consulting company, Foolproof, most consumers plan to stop using contact technologies for financial services (use of ATMs, payment terminals), and 80 percent intend to use remote technologies as much as possible, to ensure personal hygiene. "Even if limitations for the public are going to be relaxed soon, people are still going to have concerns for quite some time," reasons Mr. Volkov.

Experts agree that a complete departure from cash payments will not occur in the next ten years for a number of reasons (psychological, technical, infrastructure, political and others). However, within this period of time, the circulation of physical money will reduce dramatically around the world. "In the most positive of circumstances, we can be talking about reduction of the share of cash in retail to 15 percent," concludes Alexander Agakov from QIWI.

New Client Segments for Growth

A significant number of individuals still have no bank cards or accounts and are not using the traditional financial services. According to the World Bank, in 2018, 67 percent of the world's population had bank accounts, and the share of active accounts was only 53 percent (45.4 percent in developing countries). According to MasterCard Europe, 138 million Europeans did not have bank accounts in 2017. The 2017 report of the Federal Deposit Insurance Corporation (FDIC) noted that 6.5 percent of adult Americans were unbanked.

New financial technologies are changing this situation with the volume of electronic transactions growing each year, suggesting inclusion of an increasing number of consumers who previously did not use financial services. The number of financial service users is growing annually by 15–20 percent. The volume of transactions in key segments — payments and transfers, and personal and corporate financing — grows by 20 percent on average. According to Statista data, it reached $5.1 trillion in 2019, 24 percent more than a year before.

The situation with the pandemic also contributes to the growth of the number of financial clients. The number of financial services users who didn't have a choice but to join some form of remote banking process, due to travel and movement restrictions, is growing exponentially. "During the quarantine period, the interest in mobile banking and micro-loans increased, because this is now the only way to manage financial flows from home. During the pandemic, there was also an increase in the clients' digital activities — brokerage, SME banking services, online banking, cashless transfers and payments," explains Dmitry Peshnev-Podolsky from BKS Bank. He points to niches that are becoming popular again — NFC payments allowing a limiting of physical contact, and investments that became more active due to market volatility. Also, as transportation flows were restricted and borders were closed, platforms enabling a search of nearest suppliers and buyers became some of the tools to support entrepreneurs. "It's worth remembering that such clients could be rather skeptical towards services offered to them, and have higher requirements," reminds Stanislav Volkov from NKR. For that reason, it is important for financial institution not only to implement and expand remote services, but also to ensure their quality; the reliability of the services being offered, personal data security, and speed of transactions.

> Rapid advancement of financial technologies has advanced global progress making it irreversible

Robots Working, Humans Paying

Lockdowns in many countries hit by the pandemic forced faster automation of routine processes based on manual entry and control. This will support the growing trend in the use of automation in many areas, including finances. Gartner research and consulting company forecasts that in 2020, the growth in the RPA sector (Robotic Process Automation — automation of business processes based on computer software for robots or on AI systems) will reach 57 percent.

Russian banking specialists believe that increased introduction of RPA systems should be expected in the nearest future. The expected results include increased efficiency of financial institutions, reduced fraud and expedited problem solving.

However, RPA expansion process may have a side-effect — a reduction of personnel who will subsequently find themselves out of jobs. But it may not necessarily come to that, believes Sergey Putyatinsky from MKB, because an oversupply of robots would result in problems with maintaining them. "If they are connected to an interface, then it means that changes in user interface will require alterations in the robots themselves. Robots are hard to test. If there are too many of them, the cost of managing and upgrading these robots, as well as maintaining them in working condition, will be greater than the savings that they deliver," he believes. Also, the "rise of the machines" will be intercepted by the tariff policies of major vendors who make the introduction and maintenance of RPAs a highly expensive proposition. ■

Elena Pogodina

AIFC is ready to leap forward

AIFC was built according to the new economic model, but has incorporated best practices of the older and classical financial centres

EXPO-2017 building complex that houses the AIFC

According to Pavel Chebotarev from Sovkombank, the optimistic outlook on AIFC's future is based not only on an unique external environment, but also on important internal foundations. Dr. Jochen Biedermann from WAIFC agrees. He says that AIFC is a vital link connecting Central Asia with China, South East Asia, Europe, the Middle East, and Africa. "The vision of the First President of the Republic of Kazakhstan, Nursultan Nazarbayev, creates market opportunities for Kazakhstan's and Central Asian companies. They can rely on a strong financial centre in their home country, which has excellent international connections, for instance, via the World Alliance of International Financial Centres (WAIFC), of which the AIFC is a founding member," he underscores.

"Furthermore, AIFC attracts leading international financial service providers and their experience to Nur-Sultan. That benefits Kazakhstan's talent being introduced locally to international standards and best practices in the financial sector. And last but not least, China's 'Belt and Road' Initiative (BRI) brings significant investments into the region, which needs a strong financial ecosystem already offered by AIFC."

Carson Wen, Chairman of the Board, Bank of Asia

AIFC will play a pivotal role in the development of fintech in Central Asia, Eurasia and beyond, given its abundance of talents, strategic location, well developed infrastructure and connectivity, common law jurisdiction, and proximity to the IT powerhouses of China, Eastern Europe, India and Russia. It should venture to take a lead in sectors that are still facing regulatory and financial infrastructure challenges, such as digital assets and crypto-currencies. It can, for example, take a lead in digital assets friendly banking, such as those undertaken by Silvergate Bank and Signature Bank in the US, which are exceptions to the rule in the US banking market, when larger banks stay shy of doing any business with the crypto sector, leaving them unbanked even for fiat currency transactions. AIFC can provide a regulatory regime which is friendly to the digital assets sector, without compromising the robustness of KYC and AML processes. It may even consider licensing digital assets banks that not only do fiat currency banking with players in the crypto-currency market, but also provide banking services and loans in crypto-currencies and other tokenised assets. The Swiss regulator FINMA did just that last August, when it issued banking licenses to Seba Crypto AG and Sygnum. If the AIFC embraces the digital assets sector, I am sure it will lead to a migration of players in the digital assets sector to AIFC. Those players would include digital assets banks or digital assets friendly banks, digital assets exchanges, miners, custodians and institutional investors.

A second initiative that can be taken by the AIFC is to become a technology enabled, fintech savvy common law jurisdiction in the vast geography between London and the Asian common law jurisdictions of Hong Kong and Singapore. It should seek to build a fintech knowledgeable bench and legal profession, as well as expertise in construction disputes given its strategic location on the Belt and Road. With meetings through Cisco Webex, Skype, WeChat Meetings or Bluejeans being common place during the ongoing global COVID-19 pandemic, AIFC should take the lead in having court trials and arbitration hearings held digitally and remotely, and set a norm for the post-pandemic world.

A third initiative that AIFC can take given its strategic location on the Belt and Road is to be a supply chain hub coordinating the very substantial movement of goods between Europe, China and other parts of Asia, much of which would pass by rail through Kazakhstan. A lot of technology, including blockchain, big data analytics and AI, can be deployed in its construction of such a hub.

I am saying this not without self-interest. I am building my AIFC incorporated, AFSA licensed digital banking sandbox Eurasia Continental Fintech into a fintech and big data driven supply chain financing focused banking entity in partnership with China Brilliant Group, which is a leading supply chain management and logistics conglomerate headquartered in Shenzhen. Its customers include the likes of Siemens, ABB, Huawei, Xiaomi, Hitachi, Apple and Foxconn and one of its China Brilliant Express freight trains between Shenzhen and Hamburg passes through Kazakhstan each week in both directions. AIFC is an ideal location for such a banking entity given its geographical location, free movement of international currencies, common law jurisdiction and tax advantages. Given the partnership with China Brilliant Group, Eurasia Continental Fintech will change its name to CBG Bancorp after obtaining regulatory approval. ■

AIFC relies on the practices of leading financial centres which leverage the use of the English common law, but have emerged relatively recently — Singapore, Dubai and Abu Dhabi. Apart from a universal legal system, AIFC features a modern infrastructure: own Astana International Exchange (AIX), whose shareholders, in addition to AIFC itself, include Goldman Sachs, Shanghai Stock Exchange, Silk Road Fund and NASDAQ, which has provided its trading platform.

Pavel Chebotarev from Sovkombank adds that educational level throughout the post-Soviet space and specifically in Kazakhstan is very high, providing the necessary talent pool for high-tech industries in the country. Kazakhstan features Bolashak program, which covers costs of education and internships in leading Western universities and colleges for young professionals in priority segments of the national economy. There are more than 10,000 professionals working in the country who have received education and practical experience due to this program. The AIFC itself features Bureau of Continuing Professional Development that develops professionals for various sectors of the economy in accordance with international standards.

Essentially, the AIFC is a financial centre built in accordance with the new economic model, but having also adopted best practices of the older, classic IFCs. IFCs of this kind are likely to become most sought after following the coronavirus pandemic, believes Prof. Meynert: "AIFC is uniquely placed to play a role in this special moment in the history of humanity to catch this next wave of transformative innovation, where the technology, business models, traction across industries, and regulation are all simultaneously maturing to enable practical enterprise applications this year in 2020. To ensure a compelling role in this new wave, AIFC will have to grow quickly and strategically on the foundation it has been building over the past five years."

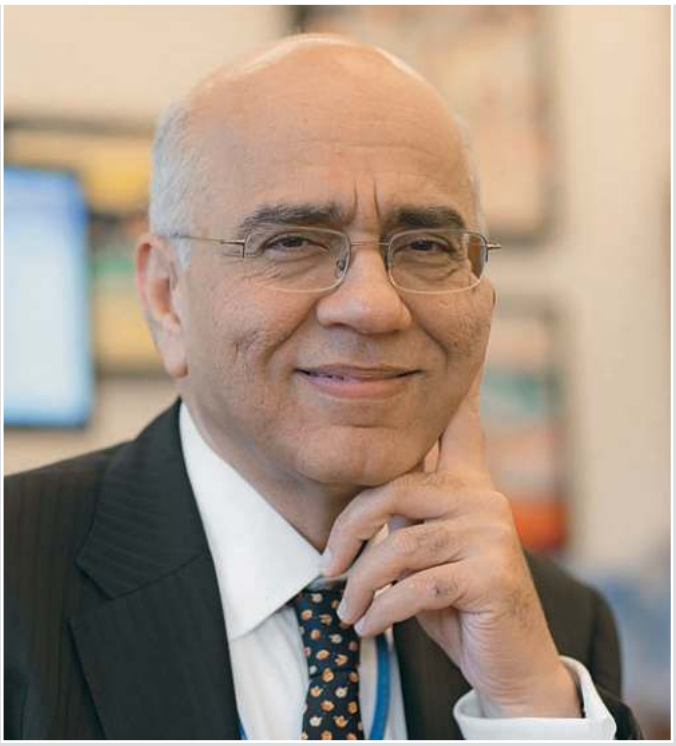
"Essentially, the AIFC is a diversified financial centre that is emerging in the fast-growing region of Central Asia and bringing together different structures. Its unique legal regime together with application of modern technologies enable its strong position in the global rating of financial centres," confirms Oleg Borunov from MKB.

For Kazakhstan, the AIFC is a critical component of the national economic and institutional reform. It plays a key role in promoting the country's economic growth and integration in the global financial ecosystem. By being at the very centre of Eurasia's East-West trade route, AIFC is able to contribute to integration within Eurasia as well.

The AIFC is increasingly viewed as the regional financial hub for market participants, and has already made a contribution to development of a project within the EAEU's Digital Agenda — creation of EAEU regulatory sandboxes.

Masood Ahmed, President, Centre for Global Development: "Investors will seek a safe haven in Eurasia"

Masood Ahmed, a leading expert on the economy of the Middle East, was a member of the LSE Middle East Centre Advisory Council, and the WEF Global Agenda Council (Middle East and North Africa). He became the head of theCentre for Global Development after completing a 35-year career at major international institutions, such as the World Bank, IMF, etc., where he worked on economic development initiatives, trade and global economic forecasts. Masood Ahmed described to The Expert how IFCs are changing the global economy, and what place in it belongs to Eurasia.



— How fierce is the competition between IFCs and providers of traditional financing, and how is it playing out?

— The global financial system is going through a transformation which the current crisis will only accelerate. First, it is moving from a bank-based system to one where people will be able to access financial services from a variety of financial institutions, not only from the traditional banks. This means a greater reliance on capital markets and on digital finance. Fintech and digital finance will play a bigger and bigger role in the delivery of financial services in the future. The other dimension of the change we are seeing is that there will be an increasing effort to ensure the financial system is there to serve the real economy. Some people are concerned that while the financial system has grown over the last few decades and has become a very important part of the economy, it is not always seen as being in service of the real economy or as improving the lives of people. The issue of the responsibility of financial institutions to their broader stakeholders will become a growing consideration in assessing the contribution of the financial system moving forward.

— How strong as competitors are new regional IFCs for global financial centres?

— I don't think of the recently developed centres and the old, traditional, established centres as competing entities. Rather, they are complimentary. The newer centres offer a way to bring the advantages of financial inclusion to businesses and households that may have previously been unable to access these services in the same way. Growth in the world comes from emerging markets and developing countries. This will be the case for the next decade, for the next two decades. As growing numbers of people in these countries join the middle class and become part of a global network, they will desire to be more connected to the rest of the world. For these populations, the emerging financial centres are the first gateway to access improved financial services. It is challenging to directly access the financial institutions and services located in the traditional financial centres, if you are in Nur-Sultan, or Almaty, or Tashkent, or Tbilisi. The advantage of these newer emerging centres is they provide the gateway and the connectivity to the parts of the world and the populations in the world who are otherwise kept outside the range of services a financial system can offer.

— What role can Eurasia play in the immediate future within the global financial system?

— For the next few months, maybe for the next year or two, we will see a degree of risk aversion in capital markets. This will be a time when capital will look for safety more than for high returns. But that capital is not just sitting in rich countries. And it is looking for safe haven. We need to bear this in mind before we get too pessimistic about the future prospects. Secondly, though it may take a year or two, if you look at the longer term trajectory, the bottom line is that this is a region that comes with a lot of resources, with many creative people and also with the geographical advantage of sitting between what will become the largest economy in the world, which is China, and Europe and the Middle East. The whole supply chain, whether it's modified or not, will be a huge part of how the future develops.

— What do you think could be AIFC's contribution to the development of the regional economy?

— AIFC has two roles. One is to be a financial centre which provides services to the participants and increases financial inclusion directly - all functions it was created to do. Additionally, AIFC is a catalyst for accelerating the modernisation of the economy and financial and governance systems in Kazakhstan as a whole. If one thinks of it as a hub and a catalyst for change, not just as a self-contained project, then they will begin to see the potential is much greater. It may contribute in terms of improving financial literacy, or by attracting to Kazakhstan world-class service providers in accounting or in legal services. It may contribute by improving the governance of financial institutions and the modernization of the banking system beyond the banks that are controlled and regulated by AIFC. It could be Kazakhstan's hub for bringing accelerated intellectual inputs for the country's development strategy. One should not view it in narrow terms, as a centre with a limited set of services. Rather, it also has a wider role as a catalyst, which in the end may well turn out to be just as important.

Finally, AIFC can assist Kazakhstan in becoming part of the emerging supply chains, rather than trying to connect to the supply chains of the past. In my mind, it would be a mistake to imagine the future only as a continuation of the past because the future will be different. Nonetheless, it's important to work and build connections with partners in China, in Europe, in the Middle East and West Asia. How can the future emerging supply chains be taken advantage of and leveraged in terms of the future growth, not just of the AIFC, but of Nur-Sultan and of Kazakhstan as a whole? AIFC's value is not only derived from setting up an internationally respected financial centre in the region, it is also the contribution the financial centre will make to the prosperity of Kazakhstan, which has to be the ultimate objective of this whole project. ■

Within the Digital Agenda, the EEC has indicated the importance of testing newest technologies that have not yet been supported by national or international regulatory approaches and rules.

Taking into account its experience of creating and managing the AIFC regulatory sandbox, AFSA has provided expert support in developing the concept and mechanisms for the EAEU's regional sandboxes.

In addition, the AIFC and EAEU cooperate on several tracks, including development and regulation of innovative financial technologies and services within the Union. ■

Elena Pogodina

London calling

How English common law is becoming a mandatory feature of financial centres

The popularity of English courts and demand for English common law around the world is hard to overestimate: 75 percent of participants in court hearings in London are foreigners. A legal system that was built over centuries based on precedent is clear and predictable, and understandably, it is trusted by millions of investors around the world. According to a study by TheCityUK, 40 percent of all corporate arbitration disputes around the world are handled by applying English common law. Most cases heard by the UK arbitration courts are international, and in 53 percent all parties are non-residents of the UK. The trade surplus in the legal services sector in the last 10 years has more than doubled and reached £6.5 billion in 2018. For this exact reason, most financial centres adopt the English common law, and new financial centres that emerge in jurisdictions different from English common law — in Muslim countries or countries with continental legal system — establish legal "oases," when these financial centres work in accordance with English common law inside countries with a Muslim legal system (United Arab Emirates or Qatar), or with continental law (Kazakhstan).

Norms vs Precedent

Historically, two models of legal systems emerged in the world. The first is a common law (Anglo-American) system that is used in the US, the United Kingdom and most Latin American countries. The second is the civil law (continental or Romano-Germanic) system that is used in Germany and most other countries in Europe. There is also the third model — Sharia — but it is much younger and is less widely applied around the world.

Key differences between these two models derive from the following: in common law the priority is given to court precedent (hence, "precedent-based legal system"), and in the civil law the priority is given to norms, i.e. code (hence, "norm-based legal system").

The best example of the precedent-based legal system is the law of England and Wales where courts essentially formulate a legal norm, as a matter of precedent, and use it in reviewing each new case. In other words, during court hearings in countries with precedent-based law a judge will primarily consider rulings already made with regards to similar cases, whereas in countries with continental law, a judge would interpret the provisions of the law. "English commercial law is transparent and delivers predictable results, legal certainty and fairness," underscores Miles Celic, CEO of TheCityUK.

Apart from general principles of reviewing court disputes, other differences between common law and civil law models gradually accumulated, as economic and financial markets developed. For instance, in the twentieth century, regulatory approaches to financial markets greatly diverged. Following the financial crisis caused by the Great Depression in the USA and later in other countries, the legal system was greatly modernised to provide protection to investors in the capital markets. One of the solutions was separation between investment and regular banks in common law countries, whereas in continental Europe there was no such division.

As a result, the so-called continental model of financial markets became customary in Europe, with a major role for banks. They are the ones who conduct most investments in financial markets, and this is the reason for the predominance of debt capital in the European markets, as well as the wide use of such financial mechanisms as deposits and insurance by private investors. In countries with the continental system of law, shareholding capital is much more concentrated. Up to 70–80 percent of this capital is owned by large institutional investors (banks, insurance companies, pension funds and industrial corporations). For example, in Germany foreign investors own about 15 percent of shares, and 5 percent belong to the state, which is more than twice as much as in the UK.

In contrast, the common law system has been gradually building favourable conditions for the development of the securities market, and in particular, shareholder capital, because it provided a more reliable and effective protection of investors' rights, a more diverse system for commercial dispute resolution, and also contributed to a reduced role for banks in the financial markets. For that reason, naturally, in Anglo-Saxon countries there is greater preference for operations in the securities market, individual investing and investments in mutual funds.

EAST NEWS

Legal System as a Competitive Advantage

English common law is applied today in 27percent of all 320 jurisdictions world-

London is the world's most recognized dispute resolution center

BROAD INTERNATIONAL RECOGNITION SUPPORTS LONDON'S STATUS AS THE PREEMINENT DISPUTE RESOLUTION VENUE AND ENGLISH COMMON LAW'S STATUS AS THE MOST APPROPRIATE JURISDICTION

5 of the 15
LARGEST GLOBAL 100 LAW FIRMS, BASED ON NUMBER OF LAWYERS IN 2018/19, HAVE THEIR MAIN BASE OF OPERATIONS IN THE UK

3 of the top 10
REVENUE GENERATING LAW FIRMS ARE BASED IN THE UK

THE LARGEST INTERNATIONAL LAW FIRMS IN LONDON HAVE BETWEEN
45% and 65%
OF THEIR LAWYERS ABROAD

THERE ARE NEARLY MORE THAN
10,000
PRACTICING CERTIFICATE HOLDERS FROM ENGLAND AND WALES WHO ARE WORKING ABROAD. THIS FIGURE HAS RISEN 80% IN THE LAST DECADE

Source: TheCityUK, 2019

Alyona Dolgova, Professor, Department of Economic Theory, MGIMO

Global investors — IFC clients — are less and less interested in studying nuances of taxation and regulation used in this or that financial centre. It is more important for them to gain access to a standardized package of financial and related services, wherever they happened to be — in London or Dubai. This is why financial centres are so much interested in using English common law when they develop their legal regimes.

wide, which makes it the most prevalent legal system in the world. A survey of 500 practicing commercial law professionals, conducted by the Singapore Academy of Law, showed that 48 percent of respondents indicated English common law as the preferred legal system for regulating contract relations.

Clearly, the use of English common law by a particular financial centre gives confidence to companies that enter the local market. "Integrity, the maintenance of the rule of law, and a strong law of contract with an independent judiciary are key factors for any international financial centre that wants to attract business," says TheCityUK's Miles Celic.

Ten out of 13 of the largest international financial centres today operate based on English common law. These include traditional Western jurisdictions like London and New York, and leading Asian centres including Hong Kong and Singapore. The importance of applying English common law is recognised in all cities aspiring to be called financial centres. Recently created financial centres in Qatar, Abu Dhabi, Dubai and Nur-Sultan prove that. In these locations, legal enclaves of English common law were created inside areas with completely alien legal regimes — civil law in Nur-Sultan, and Sharia law in the Arab financial centres.

Whose Court is Right?

According to a study by The Financial Times, when it comes to the number of cases heard by London courts and involving foreign citizens, Russia is regularly at the top the ratings. In 2018, Russia was in the third place with 20 claims out of 158 cases. British courts are also popular in Kazakhstan whose companies and citizens were parties to 31 cases. Attractive precedent law pushes Russians towards litigating in London, Cyprus and other jurisdictions that use English common law.

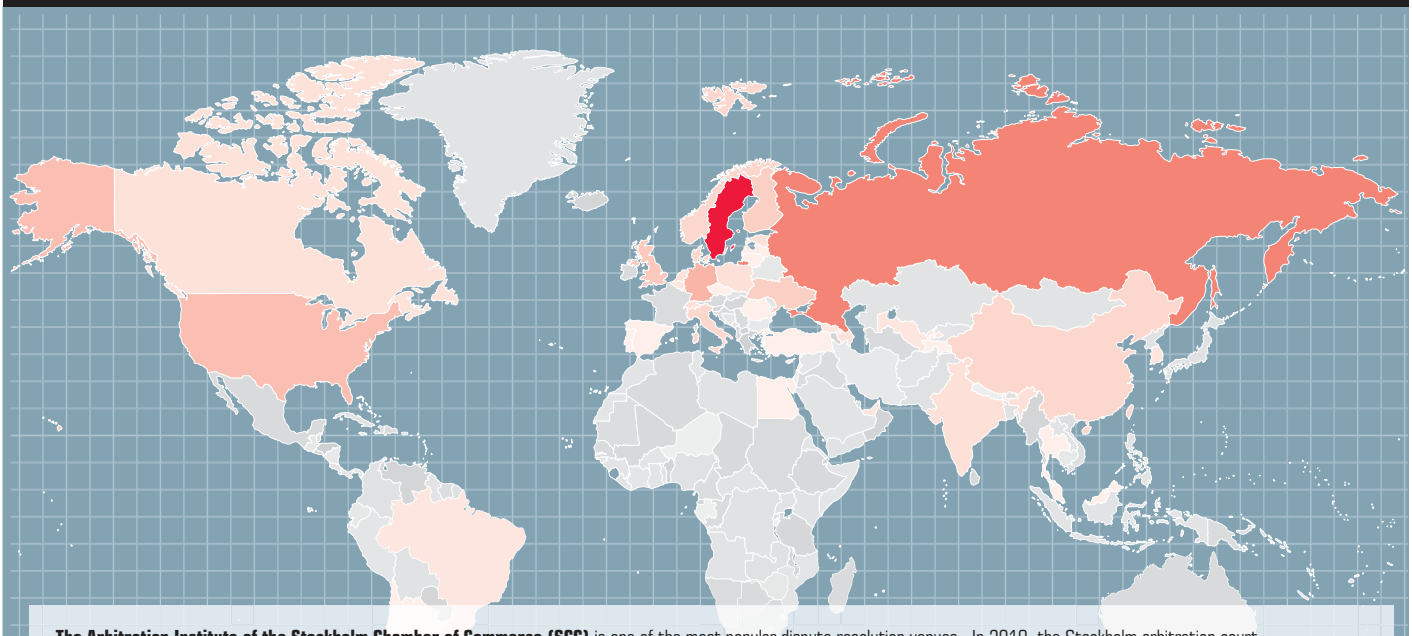
Despite continuous difficulties with interpreting Russian laws and a resulting desire of Russians to settle disputes in London courts, attempts to create a financial centre in Moscow did not envision formation of a legal enclave with a common law system. For the first time, consideration was given to creation of a financial centre in Russia in 2009, when President Putin ordered the establishment of a working group to develop a five-year workplan in this regard. The expectation was that as a result of the creation (and operation) of the Russian financial centre companies from CIS countries would conduct IPOs in Moscow, the stock exchange itself would be in the Top-12 exchanges globally in terms of the volume of shares and bonds listed, and other tangible deliverables would be achieved. The working group developed a plan, according to which it worked until 2013. In 2013, the next plan was developed, and then came 2014 — and with it, international sanctions. It became clear that the idea of turning Russia's capital into an international financial centre would have to be postponed until better times.

According to people with knowledge of the situation, there were many reasons for not making English common law the basis for operations of the Moscow financial centre. "The action plan on Moscow IFC arbitrarily included urban development activities, and secondly, efforts to develop the Russian financial market — mostly concentrated in Moscow as the financial capital. With a scope like that, issues like benefits and English common law went by the wayside. And an additional consider-

A survey of 500 practicing commercial law professionals, conducted by the Singapore Academy of Law, showed that 48 percent of respondents indicated English common law as the preferred legal system for regulating contract relations

EAST NEWS

Number of cases involving foreign nationals in the Stockholm arbitration court in 2019



The Arbitration Institute of the Stockholm Chamber of Commerce (SCC) is one of the most popular dispute resolution venues. In 2019, the Stockholm arbitration court registered 175 cases (in comparison, in 2018 this number was 152). 88 cases involved foreign nationals (from a total of 44 countries). The largest number of cases involved foreign nationals — Russia (26 cases), Germany (11 cases) and the US (10 cases).

Sweden (207)	Italy (6)	Hong Kong (3)	Monaco (2)	Egypt (1)	Spain (1)
Russia (26)	China (6)	Canada (3)	South Korea (2)	Israel (1)	Tajikistan (1)
Germany (11)	Norway (6)	Netherlands (3)	Uzbekistan (2)	Latvia (1)	Thailand (1)
USA (10)	Estonia (4)	Belgium (2)	Argentina (1)	Lithuania (1)	Czech Republic (1)
Great Britain (9)	India (4)	Brazil (2)	British Virgin Islands (1)	Luxembourg (1)	Turkey (1)
Finland (7)	Poland (4)	UAE (2)	Chile (1)	Malaysia (1)	
Ukraine (7)	Switzerland (4)	Georgia (2)	Cyprus (1)	Portugal (1)	
Denmark (6)	Azerbaijan (3)	Guernsey Island (2)		Romania (1)	

Source: The Arbitration Institute of the Stockholm Chamber of Commerce, SCC

ation, from the "friend-or-foe" point of view: introduction of English common law, even within a tiny area of Russian territory, was highly contentious ideologically for major Russian political actors," explains Yakov Mirkin, head of department of international capital markets at the Institute of the World Economy and International Relations. According to economist Sergey Glazyev, such an objective — introducing a system of English common law in the Moscow IFC — didn't even exist. "It's incompatible with the Constitution of Russia," underscores Sergey Glazyev.

Meanwhile, statistical data suggests that the Russians' love for English common law and foreign jurisdictions that apply it is alive and well, even though Russian business is not welcome in every location abroad. In 2018, despite all efforts of the government to repatriate companies and assets, the share of foreign companies with assets in Russia fell by only 5 percent. This makes it very clear that it will be a long time before Russian business switches from English common law to the national legal regime.

Is English Law the Future of Financial Centres?

The relevance of the English legal system is recognized around the world and financial centres have recently been created mostly using this legal regime. For example, a "legal oasis" was created in the Dubai International Financial Centre (DIFC) that features a separate court system, completely independent from the national one that is based on Sharia law. The DIFC Court and Arbitration review civil and commercial disputes on the national, regional and international levels.

Kazakhstan studied the experience of Dubai and other financial centres when designing the court system of the Astana International Financial Centre (AIFC). The AIFC Court, independent from the national court system, and International Arbitration Centre (IAC) operate here. The Chief Justice of the Court is Lord Mance, former Deputy President of the UK Supreme Court, and the Chair of the IAC is Barbara Dohmann, QC, one of the UK's leading commercial barristers, who formerly worked at the High Court of England and Wales and in the Qatar International Court.

"The new AIFC Court, which has the benefit of engaging several UK judges and lawyers, provides a common law court system that operates to the highest international standards to resolve civil and commercial disputes in the AIFC. The judges, procedures, practices and standards at the AIFC Court will be familiar to businesses currently operating in the UK and other major financial centres around the world," noted TheCityUK's Miles Celic.

In order to create a legal enclave within a continental law system, former President Nazarbayev initiated creation of an international financial centre in Nur-Sultan as part of his program "Plan for the Nation — 100 Concrete Steps" in 2015. A Constitutional Law of the Republic of Kazakhstan "On the Astana International Financial Centre" was adopted, and in 2017 amendments to the country's Constitution were introduced. Afterwards, the AIFC Acts were adopted, based on the English common law principles and standards of the leading global financial centres, and a world-class team of judges was assembled. In 2018, Kazakhstan's capital hosted the launch of the financial centre featuring the Court and the International Arbitration Centre. Important elements of the AIFC ecosystem also include its own regulator, AFSA, and the Astana International Exchange (AIX).

Today, the AIFC jurisdiction is actively applied in commercial contracts. As of March 2020, more than 1,900 contracts concluded with the AIFC jurisdiction clauses. In addition to business, AIFC was noticed by the legal community — today, 150 lawyers have registered with the Court and the Arbitration Centre from Kazakhstan, countries of Central Asia, Russia, the UK, Europe, the USA, India, the Middle East and Asia (Singapore and Hong Kong in particular). All of them can represent parties in the AIFC Court and Arbitration Centre.

Barbara Dohmann QC, IAC Chairman

As of May 2020, the IAC had 78 cases for both mediation and arbitration. All matters relating to their disputes are strictly confidential to the parties, but generally the cases have tended to be mainly contractual disputes.

Considerable work has already been done to build the IAC which now has excellent physical and online infrastructure. We plan further improvements with forthcoming launches of additional services to ensure that the IAC always provides the most advanced modern service to its users. In 2020, we will launch adjudication rules and an adjudication system as an alternative to arbitration, mediation, and litigation. We will also launch third party funding and pro bono initiatives. During the outbreak of COVID-19, we are delivering a comprehensive online webinar programme which has proved to be very successful. Post COVID-19, we will as soon as possible host and participate at conferences and we will host our mock arbitration competition.

So far, there has not been an increase in the number of claims related to non-performance of obligations under contracts, but we expect such an increase in the future.

Considerable work has already been done to build the IAC which now has excellent physical and online infrastructure

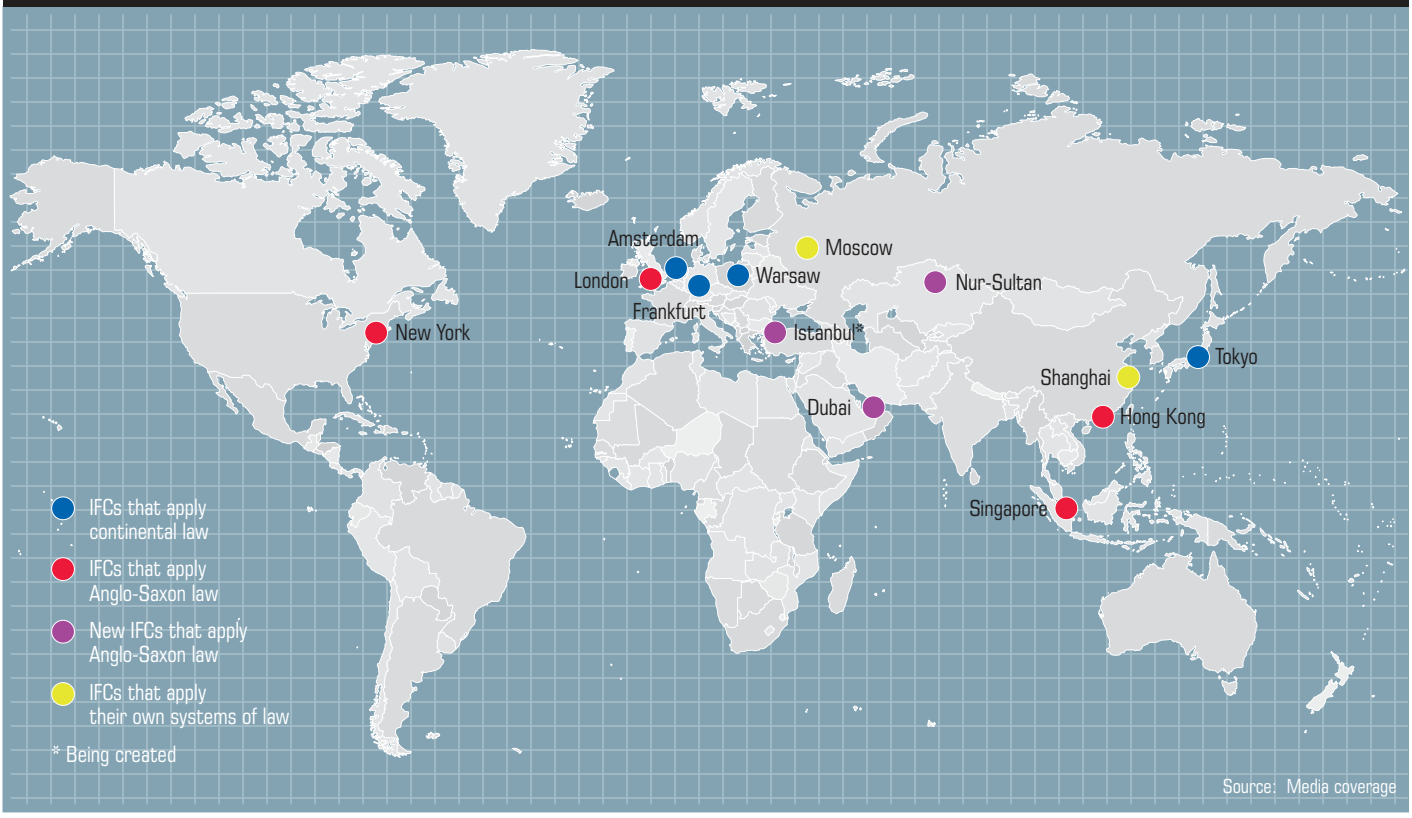
Enforcement proceedings are fully set up at the AIFC Court and IAC. If the assets in question are in Kazakhstan, then according to the Constitutional Law, decisions of the AIFC Court and Arbitration Centre are enforced according to the same terms and within the same time limits as decisions of national courts and arbitration bodies. If the assets in question are foreign, decisions of the AIFC Court are executed in accordance with bilateral or multilateral agreements in effect. In 2018, AIFC Court joined the Standing International Forum of Commercial Courts (SIFoCC) which includes 35 jurisdictions. The memorandum signed under the auspices of this organisation will further streamline the enforcement procedures for court decisions. In addition, the AIFC Court and IAC signed 17 memoranda on cooperation with leading dispute resolution centres in Asia and Europe in 2019.

Not Only Law, but Also Education

The creation of legal enclaves in jurisdictions remote from the common law — like in Arab countries or in Kazakhstan's Nur-Sultan — has another effect, apart from attracting business accustomed to English common law to a financial centre. It helps raise the professional qualifications of local judges, arbitrators and lawyers to an international level. It took Dubai and Qatar only ten years to produce local professionals with the necessary qualifications who are able to conduct proceedings in the courts of these countries' financial centres on par with the UK judges.

Let's consider Nur-Sultan. Over the last two years, lectures within an education-

International financial centers' law systems



al program organized by the AIFC Court and IAC have been attended by more than 500 legal professionals and students of Kazakhstan's law schools. Lectures were given by leading practitioners and professors from top UK universities and dispute resolution centres. Currently, AIFC Court and IAC are considering the possibility to offer this course online, to avoid interruption of the curriculum, but also to expand it to the whole of Eurasia and make it accessible to lawyers from different countries in this region. In addition, at the height of the pandemic, the AIFC Court and IAC jointly held a series of webinars with partners that included lawyers from global companies such as Baker McKenzie and Kinstellar, for example. The webinar topics included solutions for resolving potential disputes and a review of court practices to resolve controversial and force-majeure situations that frequently happen during crises.

Experts believe that the key to success for international financial centres is the application of international practices and standards at the local level for the development in key areas — capital markets, the legal system and others. According to Michael Mainelli, co-founder of Z/Yen, the creation of an international legal environment using best practices has become one of the conditions for the success of the financial centre in Kazakhstan.

"You don't need to create these international standards. As you grow in maturity, you join and become a more valued member of the international community and you're able to influence those standards. The truly successful places are those that have just adopted international standards and not fought them," concludes Mainelli.

Business Prefers Arbitration

Arbitration remains now the most effective and, therefore, most sought after method of dispute resolution. In the last couple of years, the number of cases heard by international arbitrations increased by 10 percent, and Stockholm Arbitration even

Andrew Oldland QC: "Introducing a modern and user-friendly legal system is just one component for a successful financial centre"

What are the fundamental differences between case law and continental law, how to make a financial centre an attractive place for doing business, and how Kazakhstan's legal system can benefit from the presence of an "oasis" of English law in the country — **Andrew Oldland** QC, the senior partner of Michelmores Law Firm, tells The Expert.

— Why is English common law so attractive to investors? What are its main differences from continental law?

— Familiarity and flexibility are, in my view, the two most attractive aspects of the English common law system for investors. Because of London's prominence as a financial centre for hundreds of years, the financial world is used to conducting transactions under English law, but when you add to this a common law system, the law is able to adapt to the fast evolving world of international finance — the Courts can interpret legislation and can 'fill in the gaps' (if in the interests of justice) with judgments which themselves then form part of the law.

Civil law systems are based predominantly on overarching and detailed codes. Although civil law Courts interpret and apply those codes on a daily basis, there is, usually, no resulting body of case law which binds future courts and any gaps left by the Code can only be bridged by amendments to the Code and this can take time.

— As someone who has been engaged in the development of the AIFC and its legal system from the outset, how can you assess the demand for AIFC as a jurisdiction to structure projects? How do you see the future and what do you think AIFC should be doing to make it a more attractive destination for doing business?

— I believe that the AIFC as a commercial jurisdiction is well placed to take advantage of, and to assist in, the growth of the Eurasian region. It provides a new route for the raising of capital and debt to fund projects. Initially, I believe this is likely to compliment rather than replace existing routes. Counterparties delivering projects in the region can now choose to have their contracts governed by AIFC law, which is much simpler than, say, English law, and has been tailored to meet local needs. They can also choose to have any disputes resolved by the AIFC Court or Arbitration Centre — both of which are far less remote than many leading dispute resolution centres.

AIFC law may well prove to be an acceptable compromise between local law and English law (which currently governs many international contracts). Introducing a modern and user-friendly legal system is just one component for a successful financial centre. The independence of, and trust in, the judiciary and regulators will be key to the AIFC's success in the future. Equally important is political support and stability. For me, however, the development of human capital within the AIFC and its participants are vital to making the AIFC a more attractive destination for doing business.

— How do you assess the competitiveness of the AIFC's legal mechanisms in comparison with other international financial centres? What arguments do you give to investors who choose what rules and of which international financial centre to use for contracts with partners? What role does the timing of cases and cost play in the issue of competitiveness?

— The AIFC's legal mechanisms have the advantage of being created from a blank sheet of paper but are derived from international best practice. They have been tailored for the local market. The AIFC, as the only centre of its type in region, definitely has a competitive advantage in the region for this reason. The rules of the AIFC are comprehensive but also much simpler than those in many established financial centres.

I believe that the AIFC will prove to be an excellent vehicle through which to invest in the region whether through capital or debt.

Competing effectively against other financial centres outside the region will be difficult and will take time. The exception may well prove to the ability to 'opt in' to the AIFC's dispute resolution facilities. If both parties to a dispute wish to have it resolved speedily, fairly and cost effectively, the AIFC Court and Arbitration Centres are a very attractive option.

— How do you assess the impact of the AIFC's legal institutions on the development of Kazakhstan's legal system as a whole?

— The AIFC's legal institution will undoubtedly assist in the development of Kazakhstan's legal system as a whole, but the opposite is also true. The AIFC is first and foremost a financial centre, however, and much of the business that will pass through it is likely to be related, in some way, to the mainstays of the economy of Kazakhstan, namely oil and gas and mining. If a commercial activity within the AIFC is not governed by the AIFC acts and rules, then the law of the Republic of Kazakhstan will apply. It is likely therefore that AIFC judges and arbitrators will need to understand the operation of the law of the Republic of Kazakhstan in these areas.

As we speak, Kazakh lawyers are becoming experts at advising on AIFC regulations and rules whilst also advising the same clients on the effective AIFC law and the law of the Republic of Kazakhstan. Their understanding of and expertise in AIFC law will undoubtedly assist Kazakhstan's legal system in dealing with complex international commercial transactions and disputes in the future. In the future, there will be Kazakh trained lawyers sitting as judges in the AIFC Court.

reached its historical record in terms of the volume of claims with €13,3 billion. The trend is easy to explain: in contrast to court proceedings, arbitration provides parties with greater opportunities to control the process, it is less time consuming and, in some cases, it is also less expensive.

International arbitrations using English common law are attractive for foreigners. Almost three-quarters (71.7 percent) of clients of Hong Kong arbitration are foreign citizens, at the Singapore International Arbitration Centre this indicator is at 84 percent, and in London (which has become native for so many Russians) most of those served by the International Arbitration Court (80 percent) are foreigners. Taking note of how sought after the arbitration process is for business around the world, IFCs establish arbitration venues for dispute resolution. The AIFC Arbitration Centre is one of the closest to Russia among international arbitration tribunals operating in accordance to English common law. Will Russian corporate lawyers who prefer to execute deals in international jurisdictions select Kazakhstan over London?

The Rt. Hon. The Lord Mance, AIFC Court Chief Justice: "I am confident that the AIFC Court will earn a reputation on par with other major commercial courts in the world"

The Expert has discussed with **Lord Mance** how the court system at the AIFC works, how English common law and continental law systems interact in Kazakhstan, and what advantages business derives from English common law.

— How does the AIFC Court interact with the national legal system of Kazakhstan?

— The AIFC Constitutional Statute is designed to ensure complete independence of the AIFC judicial system with the AIFC Court operating independently of the local Kazakhstan judicial system. The interaction between the AIFC Court and the local Kazakhstan legal system is one of friendly cooperation, at both personal and business levels. Under the AIFC Constitutional Statute, one element of the AIFC Court's jurisdiction is over cases transferred to the AIFC Court from Kazakhstan courts by agreement of the parties. AIFC Court judgments are immediately enforceable through the enforcement authorities of Kazakhstan. The local Kazakhstan court system is aimed at ensuring the rule of law throughout Kazakhstan, while the AIFC Court is a more specialist court ensuring the rule of law in disputes arising from the activities of the AIFC generally as well as disputes between businessmen and concerns who elect to use its facilities and who will be operating, very commonly though not necessarily, at an international level.

— How many cases have already been considered by the Court? What is the main subject of disputes between the parties?

— It takes time to develop a case load, and the timeframe experienced by the AIFC Court is ahead of that experienced by similar courts in other international financial centres. The AIFC Court is understood to have been written into numerous commercial contracts as the jurisdiction of choice in the event of dispute. The existence of a Court with developed procedures and facilities applying the common law and ready to adjudicate upon business and commercial issues can itself mean that parties settle, rather than litigate. Two cases have so far been considered by the AIFC Court giving rise to judgments. The first judgment was given in April 2019 and involved a contract non-payment dispute. The judgment was enforced in Kazakhstan by the Kazakhstan Republican Chamber of Private Bailiffs with the close support and supervision of the AIFC Court Registry; the whole judgment was paid by the judgment debtor. The second judgment was given in May 2020 and enforced an interim arbitration award that had been awarded by the International Arbitration Centre of the AIFC.

— The AIFC Court has introduced the practice of online court proceedings. Did the regulatory framework change in any way, or what additional rules or requirements were introduced?

— The AIFC Court introduced its online case filings and video hearings system earlier this year. While we changed our administrative arrangements to provide our online service, it was not necessary to change the principles underlying the AIFC Court's regulatory framework and we have not had to introduce any regulatory changes. Under the AIFC Constitutional Statute there are two sets of statutes relating to dispute resolution in the AIFC: the AIFC Court Regulations and the AIFC Arbitration Regulations. Both statutes are modern, include or enable appropriate regulatory powers and are designed to cater for future changes, including technological changes, without need for amendment.

— How can you assess the work already done to build the judicial system in the AIFC and what important steps are still ahead?

— As a result of the work of my predecessor, The Rt. Hon. The Lord Woolf CH, and my Registrar and Chief Executive, Mr. Christopher Campbell-Holt, who worked with Lord Woolf to establish the AIFC Court and has been with it continuously since then, we have a fully formed and accessible judicial system with a solid legal basis founded in the common law. The steps ahead consist of ensuring that the dispute resolution facilities offered by the AIFC Court are ever more generally understood, and that commercial concerns and businessmen inside and outside Kazakhstan take full advantage of them. This they can already do, and many already do so, by including in their agreements jurisdiction clauses in favour of the AIFC Court. The AIFC Court deserves and will, I am confident, earn a reputation alongside that of any other of the major commercial courts around the world.

— Is there already an increase in the number of claims related to non-performance of obligations under contracts? Or perhaps you expect an increase in the number of such claims?

— I have already mentioned the position regarding the AIFC Court's caseload. In summary, the AIFC Court features as the court of choice in some thousands of commercial agreements. That is a factor which can itself conduce to the amicable resolution of disputes without resort to litigation, which is one of the functions of any existing, effective court system. Last year the AIFC gave its first judgment and that was enforced in its entirety by the Kazakhstan enforcement authorities in close cooperation with the AIFC Court Registry. The AIFC Court has this year given its first judgment in an arbitration enforcement matter. The position regarding mediation and arbitration also merits mention. We have succeeded in building the reputation of the AIFC as a centre where mediation is now very well accepted and is undertaken on a regular basis, using our facilities. The total number of such cases in the IAC and AIFC Court itself is in excess of normal expectations at this stage of development, compared to the experience of other international commercial courts. We expect a general increase in workload in all areas of the AIFC Court's and IAC's activities over the next years.

Christopher Campbell-Holt, Registrar, AIFC Court and International Arbitration Centre

The arbitration centres and commercial courts in the world today are competing not only in terms of the cost of administering the process, but also in many other factors. It is true that over the past ten years, Asian arbitration centres have attracted more and more customers, and more and more businesses are considering cases there. But I want to note that we have several advantages that make us more attractive than Asian arbitration centres. The first is how quickly and efficiently the cases are heard. We do not have thousands of cases now, as our Asian colleagues do, and we are prepared to start work immediately. Second, we are more economically attractive.

Last summer, we introduced a moratorium on all fees at the AIFC Court and the IAC. The company pays only to a law firm for transactional support, and administration of the process in our court and arbitration centre is free. Third, we provide world-class services to our clients, since we have access to a broad pool of experts in the legal community. Fourth, we are continuously improving our technological capacity. Many courts and arbitrations began to develop online services with the onset of a pandemic, and we have been ahead of this trend. The eJustice online platform has been operating since February 2019. It allows parties to file claims with the AIFC Court and the IAC in electronic form from anywhere in the world without the need to be physically present in Nur-Sultan. The AIFC eJustice platform was developed jointly with our Singapore partners at IT company CrimsonLogic. It was developed on the Chrysalis legal application platform and is the first e-justice system in the Central Asian region. Generally speaking, eJustice is an online portal that allows to file claims with the AIFC Court and the IAC in electronic form from anywhere in the world. It also assists with electronic document processing. Judges, arbitrators, clients and case managers can participate in the hearing of a case from different places around the world. We plan to develop and implement programs of client focus, pro bono service and payments of fees by third parties at AIFC Court and IAC.

We will also continue to train our specialists so that they not only meet international standards in their work but exceed them. I will give a couple of illustrative examples of how the AIFC Court and Arbitration Centre work. In one case, a judge issued an execution order on interim measures in 68 minutes on Friday night before the holidays. In my 20 years of professional experience, I've never seen anything like this. In another case, we managed to appoint an arbitrator in a matter of minutes, since we have good personal contacts with arbitrators around the world. Let me remind you that in arbitration tribunals in Europe and Asia, clients can wait for

months for arbitrators' appointment. All these advantages have already been appreciated by companies in Kazakhstan and other countries. For example, Chevron Oil Corporation has chosen our Arbitration Centre, switching from its previous arbitration venue. It intends to conclude 2,000 contracts with the proviso of our arbitration as the location for the settlement of disputes. The number of such contracts is growing, and I am sure that we will be able to attract customers from the Asian financial centres.

How Arbitration Became International

As an institution, arbitration began to take shape in England back in the tenth to twelfth centuries, when arbitration tribunals came to be used as a more expedient way to resolve trade disputes at a time of rapid growth in commerce. Soon arbitration tribunals became permanent establishments, but they were formally legalised as an institution only in the seventeenth century. In later centuries, a wide range of industry-specific arbitration institutions emerged such as the London Grain Trade Association Arbitration, the International Grain and Feed Association Arbitration, the Arbitration of the London Association of Cocoa Exchanges and many others. Eventually, stock exchanges and other institutions in the City of London created their own dispute resolution procedures.

In the twentieth century, arbitration principles became widely used around the world and commercial arbitration became truly international. After the English Arbitration Act was adopted in 1996 that, among other things, provided for a possibility of seizure of the dispute subject and other enforcement measures, and the constitutional reform of 2005 took place, the position of the UK arbitration tribunals only strengthened.

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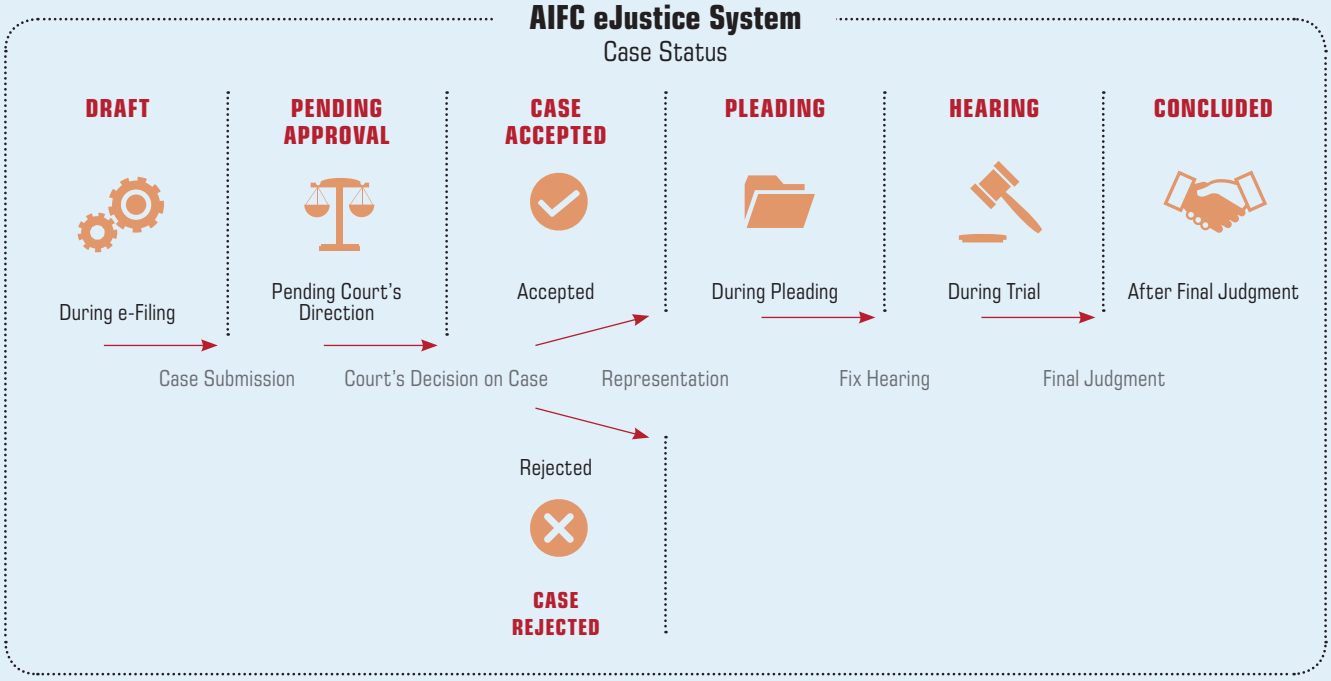
AIFC Arbitration Centre is one of the closest to Russia among international arbitration tribunals operating in accordance to English common law

Case Life-Cycle



Gradually, arbitration's corollary institutions emerged — mediation and expedited arbitration. At the same time, the role of pretrial settlement increased: the procedural reform of the Supreme Court of England and Wales in 1995 introduced wide implementation of alternative dispute resolution (ADR), including for commercial disputes. This process implies negotiations and the search for a compromise solution with help from a mediator and sometimes a judge. Also, the parties may refer the materials for review of all contentious issues, or part thereof, to an expert.

Currently, international arbitration courts are the most popular way of resolving commercial disputes in the world. There are several reasons for that. First, a traditional court requires open hearings, appointment of a judge, use of English language and predetermined rules. In the case of arbitration and mediation, things are less complicated: parties may appoint the arbitrator themselves, determine procedural terms of review — for example, in accordance with UNCITRAL (United Nations Commission on International Trade Law, which developed the arbitration regulation used around the world) rules — or develop their own arbitration regulation. An additional benefit of mediation is the ability to arrive at some type of hybrid solutions which are not always possible within a more rigid court process.

Also, arbitration and mediation are attractive for those who are not willing to go through extended court battles. Moreover, an obvious factor is the enforceability of decisions by international arbitration courts in more than 160 countries around the world that is provided by the New York Convention of 1958. The arbitration courts of many countries, including Russia, are lacking such legal force.

Number of cases involving foreign nationals in London's commercial courts (March 2018 — March 2019)

407 cases Great Britain

37 cases the US

36 cases Kazakhstan

29 cases Russia

29 cases India

25 cases Ukraine

22 cases UAE

Source: Commercial Courts Report 2019, Portland Communication

As an instrument, arbitration is gaining popularity among Russian business representatives. According to estimates by the Russian Lawyers' Association, national arbitration courts reviewed 20,300 corporate disputes in 2018, or 10 percent more than in 2017. International arbitration is also in high demand among Russians for several reasons. They include a lack of trust in the Russian legal system in general, the location of many assets of Russian companies in foreign jurisdictions, various negative precedents (e.g., the case of Baring Vostok), and a noticeable trend of civil cases turning into criminal cases.

The situation has not changed, even after 2014 when the sanctions radically changed the international environment for Russian businesses. In 2017, the law firm Yegorov, Puginsky, Afanasiev and Partners asked corporate lawyers of Russian companies a question: in what jurisdiction they would prefer to execute their deals. Only 34 percent named Russian legal space.

Areas of Competition

International arbitration courts are in a rather fierce competition for clients amongst themselves. Last year, Dentons Law Firm noted an increase in the number of contracts with the arbitration clause providing for dispute resolution in arbitration courts in Asia. Singapore and Hong Kong started to take away clients from Paris (International Chamber of Commerce Arbitration) and other European arbitration tribunals thanks to their agility — arbitration centres in Asia offer their clients to settle the

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Arbitration began to take shape in London in the 10–12th centuries

dispute within six months from the time of tribunal appointment, and also offer expedited terms for enforcement measures (within one week after the ruling of the tribunal).

An important competitive factor among international arbitration court is the cost of the process. Despite all of the above advantages, the amount of administrative expenses and arbitrator honoraria may become an important argument against taking a case to an international arbitration venue. In 2018, Stephenson Harwood Law Firm conducted a study of the cost of process in various arbitration courts. By a huge margin, London arbitration took the lead, featuring cases like the following: an applicant in a case worth $106,000 had to pay $70,472 for the services of the tribunal of three arbitrators.

Experts believe that a combination of factors, including management competencies, technological endowments of courts and arbitration tribunals and procedural costs, will be key criteria for selecting a dispute resolution venue. Law firms note a growing interest from business in new dispute resolution venues such as AIFC court and IAC. "Several of our clients have already enquired about these platforms," says Mukhit Eleuov, partner at Kinstellar Law Firm. He added that the suspension of administrative fees of the Court and IAC should contribute to a greater number of those who would be willing to bring their cases for review at these institutions.

"For me as a former lawyer, it is very important that a very impressive court and dispute resolution platform was created, and an arbitration court that is staffed with really top-notch British and international legal talent. You can adjudicate disputes there just as you can do it in London and probably at lower costs than in London or Stockholm. This is something that was missing in the post-Soviet space," notes Ariel Cohen, Director of Energy, Growth and Security Program at the International Tax and Investment Centre.

Clearly, Kazakhstan made a good start in creating a financial centre that operates based on English common law. Collateral factors seem to be favourable as well as Russian business is not welcome in every jurisdiction. But only time will tell how business will view the new court with English origins in Kazakhstan, and how soon it will believe that it is perhaps no different from the one actually located in the UK. ■

Sofiya Zhylkaidarova, Managing Partner, SIGNUM Law Firm

In the nearest future, one can expect an increase in the number of court cases. The crisis will bring about wide-spread violations of contracts, due to various reasons. Cases that have an international element to them will be complicated by differences in approaches to the current situation in countries of Eurasia. While it looks like in Kazakhstan these situations will be viewed as force-majeure, most other countries leave it up to the courts to decide this on a case-by-case basis. Interest to new venues — the AIFC Court and IAC — will be growing, in part due to suspension of administrative fees by them, which is quite important for business now.

Generally, I see this interest to the AIFC Court and IAC as multifaceted: some businesses view this as a bold initiative, some are more conservative. Everybody appreciates involvement of independent judges with enormous experience in the UK system. The inability of Kazakhstan's system to manage complicated or highly specialized cases is another consideration. Another objective reason is that our courts are overwhelmed. Each of the judges being responsible for numerous cases, and such circumstances, it is often impossible to review each case in a comprehensive and thorough manner. Overall, business tries to take major cases to global venues for review, obviously — like the London Court of International Arbitration. But a certain group of cases can be heard in local courts. And then it would be reasonable to select the AIFC Court and IAC. ■

IGOR SHAPOSHNIKOV

EAEU: a new player on Eurasia's map

Tectonic geoeconomic shifts from West to East, rise of our neighbor China, reformatting of globalisation from a centrifugal unipolar model to regional unions, trade wars, and finally, coronavirus pandemic as an additional boost for changes — all these events give reason to re-consider the role of the Eurasian Economic Union formed only five years ago. Why did we create the common trade space without customs duties among our five countries, if we still occasionally raise internal barriers? And in the wake of the pandemic, we may be forced to limit trade, if not shut it completely. There is already talk in Russia about the need to expel (or establish special controls over) migrant workers from neighboring countries. Is this not a first step within the global trend to self-isolate, forecasted by some of the experts who we have spoken with?

Also, let's not forget about experience that has been recently gained and the foundations laid. Global companies and banks are well established in all our countries, and our economies are integrated in the global trade. But the emergence of a common market with a population of 200 million citizens and total GDP of $1.9 trillion is a unique global event, particularly since this market features free trade, connectivity of production chains, lack of barriers and a joint development program. And this is happening at the time of regional economic fragmentation. EAEU's agenda includes some key global trends: digitalisation, fintech, as well as emergence of international financial centres. The Union provides for a joint digital and finance space, and industrial cooperation. And alignment between EAEU and BRI is already taking shape. Doesn't this all represent our strong arguments and our immunity to the "econo-virus"? Wouldn't it make sense now, albeit after a short period of self-isolation, to accelerate developing our advantages, as the rest of the world is doing? And perhaps, if we are able to overcome the self-isolation, we will soon be able to establish ourselves as a new centre of gravity in the Greater Eurasia, with an assured place in a new reality. ■

Aleksandr Labykin

EAEU can hold a punch

Over the five-year period, EAEU countries have built up good experience of cooperating in the common market. If integration is not interrupted, this foundation should help soften the impact of deep recession for economies of the member-states of the Union resulting from the pandemic

The world's youngest regional geo-economic union is going through its first major test. Having quickly simplified a common trade regime and established common import duties, EAEU has already positioned itself for expansion in the external markets. EAEU's supra-national institutions manage to resolve internal contradictions when setting up external tariffs and resolving internal trade disputes. This means that correct mechanisms for integration have been selected, and they now only require fine-tuning to complete establishment of common markets in energy resources, as well as industrial and consumer products. This may enable EAEU to become an important international player that occupies an enviable central position in Greater Eurasia. It remains to be seen how the Union will manage the crisis resulting from the pandemic, whose consequences are still difficult to predict. Governments of EAEU countries are essentially facing a choice: suspend integration till better times to achieve immediate benefits for national markets, or sustain and leverage liberal trade regimes to overcome the recession jointly.

Regional Alliance: Friendship is Not Easy, but Profitable

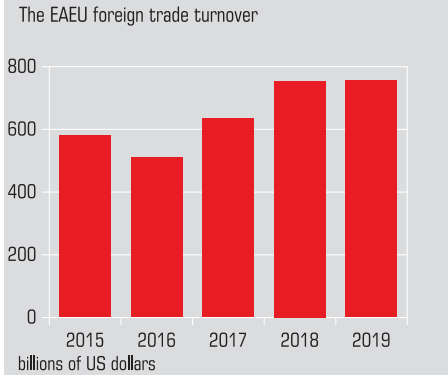
Regional economic unions have been created to establish new regional power centres. But their international effectiveness depends to a large extent on the countries' ability to set fair terms of trade amongst themselves.

The crisis of the Euro-Atlantic globalisation model, the dominant position of the US and a growing impotence of some international institutions have naturally resulted in strengthening of regional economic unions. Regional political and economic unions (European Union, NAFTA, ASEAN, MERCOSUR, EAEU and others) have a chance to become the foundation of the new multipolar structure of the global economy.

A paradox, but the first trade and economic union — the EU — emerged exactly in the cradle of globalisation. Signed in 1957 by several European countries, the Treaty of Rome on free movement of goods and people in the end resulted the first in the world union of sovereign states with supra-national governance, oversight and finance bodies (Council, Parliament, Commission as a quasi-government, Court and a joint Bank), and later on, with a joint currency. But the European Union also was the first one to demonstrate main weak points of regional unions. The most sensitive of them is lack of self-sustainability of some of their members. When less developed countries joined (Greece, Baltic and East European states) with the same social rights as other member states, this seriously affected European economy, particularly after the 2008 crisis. Excessive bureaucracy in the European Parliament and the European Commission has not allowed for more than five years to agree on a new joint digital, energy, trade and banking policy (the so-called "deep union"). The UK considered new trade rules within the Union unfair, and after an influx of immigrants from the Middle East and Africa, decided to leave

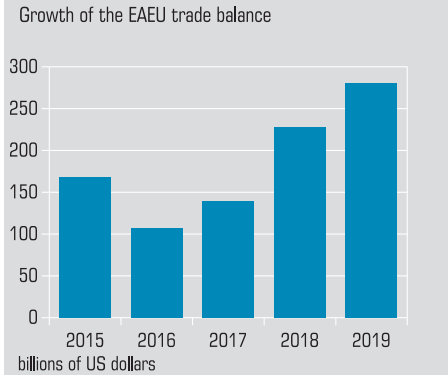
In response to European consolidation, almost 30 years ago the US initiated an integration process on its continent, having offered a trade union to its neighbors Canada and Mexico

The EAEU foreign trade growth follows the growth in production



Source: EEC

Foreign trade balance growth riding the wave of import substitution



Source: EEC

Mexico can sell to the US only cars assembled by highly-paid workers

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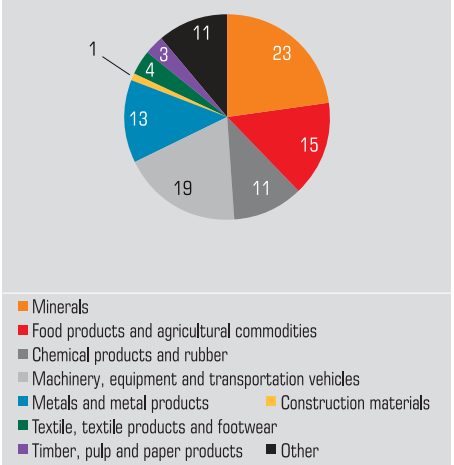
the Union altogether. Brexit has seriously undermined the EU's image as the most reliable and successful regional union in the world. And finally, completely unexpectedly for everyone, members of the EU have essentially abandoned each other during the pandemic and global economic crisis, not willing to share even the most needed items. "The European Union is clearly the most vivid example of the international economic integration," says Oleg Buklemishev from the Moscow State University. "But many felt ashamed to see what happened with the EU when pandemic hit: countries have locked down, closed down borders and almost fought for lung ventilators. After Brexit, Europe seems to be disintegrating before our eyes."

In response to European consolidation, almost 30 years ago, the US initiated an integration process on its continent, having offered a trade union to its neighbors, Canada and Mexico. But in contrast to the EU, the initiative came not from the top, but rather from the grass-roots — from largest corporations that were encouraging their governments to cooperate closer. The first Canada-US Free Trade Agreement (CUSFTA) in 1988 did not actually result in a full-fledged free trade agreement. When it became clear that North America will need to bring together its economic interest to stand up to a stronger Europe, in 1994 the North-American Free Trade Agreement (NAFTA) was concluded among Mexico, Canada and the US. It envisioned elimination of customs and passport barriers; stimulation of flows of goods and services among member states; creation of conditions for fair competition in the free trade zone; investment promotion in member states, as well as many other provisions, with the exception of social and labor matters. Trade turnover among the three countries increased five-fold in the first ten years after the agreement, and was later growing not as fast. Mexico gained a lot from the agreement, having increased its share in the global trade even more than the US. Canada was continuously losing its share of the global trade, but was increasing it vis-à-vis the US, which somewhat distorts the classical picture of an all-around growth for all members of an alliance.

The very process of creating a joint market of key goods within NAFTA lasted for 14 years, and only the 2008 crisis brought about abolition of trade tariffs among the three countries (except agriculture). At the same time, the US introduced tariffs on steel and aluminum, and only agreed to reduce them in 2018, during the trade war with China. During this period, NAFTA was replaced by a new treaty, the United States — Mexico —Canada Agreement (USMCA), which is also a completely defensive measure directed against external pressures, coming from China and the EU in particular. The Agreement stipulates that zero tariffs will only be applied to automobiles, two-thirds of which are produced in the US, Canada or Mexico. Also, the US pressured Canada into granting American farmers free access to Canada's market. And major pharmaceutical transnational companies received an even greater benefit in Mexico and Canada — exclusive rights for original drugs have been extended from 50 to 70 years. This means that throughout this period, in Mexico and Canada nobody will be able to produce generic analogues to new drugs, which will enable the producers to enjoy for longer periods of time their substantial margins of 500–1000 percent and more. In general, Mexico and Canada, albeit with certain reservations, were satisfied with the new agreement, because it enabled them to increase exports of their automobiles to the US. The new USMCA, contrary to NAFTA, also covers social matters. Going forward, Mexico will be penalized if it does not adopt and then if it does not implement a law on trade unions and generally, labor legislation, and if it does not protect the rights of women. Partners will be buying from Mexico only automobiles assembled by Mexican workers who earn at least $16 per hour, three times more than other skilled workers are making in that country. This means that NAFTA got buried because it only regulated markets and was not geared towards leveling the playing field among economies of participating countries. Apparently, Donald Trump realized that no border wall with Mexico would protect the US from an influx of immigrants, if Mexico's government does not keep them at home by offering decent salaries and reasonable

The share of commodities and food products within the mutual trade turnover is significant

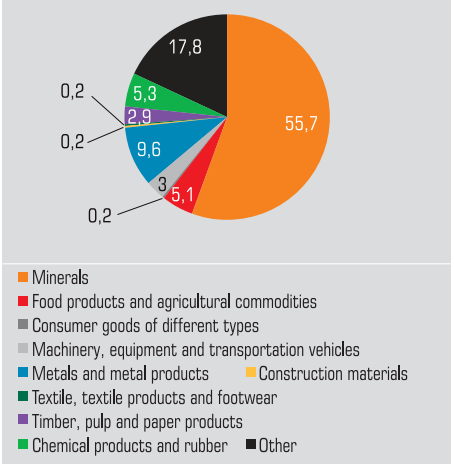
Industry breakdown of the EAEU mutual trade (2019), %



Source: EEC

Commodities still dominate the EAEU exports

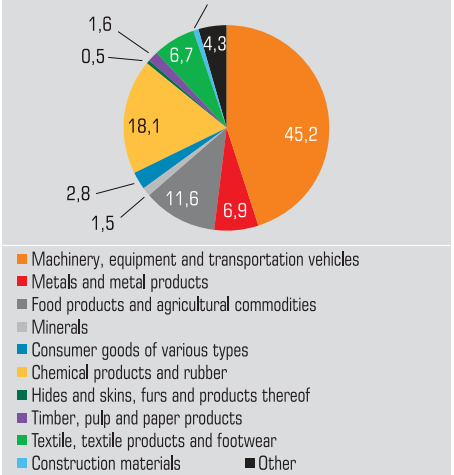
Industry breakdown of the EAEU exports to third countries (2019), %



Source: EEC

Machines and equipment account for most of imports

Industry breakdown of imports to the EAEU from third countries (2019), %



Source: EEC

work conditions. Still, USMCA inherited from NAFTA a sanctions-based and protectionist type of relations.

Asia Gains from the Battle of Giants

The state of affairs within ASEAN is even more dramatic, yet seemingly, with a more positive future. This region since 1950s was an arena of struggle between communism and imperialism — USSR and China on one side, and the US on the other. Apart from the Vietnam war, numerous smaller conflicts flared. Nevertheless, as early as in 1960s, countries in the region started looking for rapprochement, culminating in ASEAN agreement among Indonesia, Malaysia, Singapore, Thailand and the Philippines (later joined by Brunei, Vietnam, Laos, Myanmar and Cambodia). Originally, this was only a military and political alliance to defend against external forces. But as of 1990s, ASEAN started transforming into an economic union with a quite active supra-national governing body, Secretariat (supreme governing body is the council of heads of member states), and finally it emerged into a respected international player. A free trade zone, industrial cooperation and creation of an investment zone brought significant capital inflows. However, the alliance faced continuous difficulties (in part, to this day) due to high levels of crime, corruption and poverty in many countries. Singapore was the first country to pursue radical change, by not only offering special economic conditions for investors, much more favorable than in the rest of the region, but by also putting an end to corruption and consequently, to crime. Eventually, the country developed into an international financial centre that has now expanded its role from regional to global. Singapore's economic "miracle" has contributed to the regional economic growth (Singapore accounts for more than half of ASEAN countries' combined GDP). Today ASEAN is an alliance with a growing 642-million population, an expanding $2.7 trillion GDP and foreign trade at $2.5 trillion (which is still half of MERCOSUR's $4.437 trillion).

Having become a platform for economic interaction between East and West, ASEAN has assured uniquely favorable external environment for itself. And it decided to further pursue its successful practices — in 2018–2019, it canceled customs duties on almost 100 percent of goods traded within the alliance, and the process of relaxing trade regulations continues. Singapore, being the smallest in terms of territory yet the richest country among member states, does not attempt to dominate by imposing conditions favorable for itself, but is rather scaling the best practices of its financial centre throughout the region. Malaysia has also successfully established its IFC internationally. ASEAN remains a perfect example of a successful and mostly seamless (with very minor exceptions) integration in an aggressive external environment.

EAEU has Filled a Void on the Map

The process of creating the common trading space within the Eurasian Economic Union involves some problems for local businesses. But the countries' ability to address their differences at the level of the Eurasian Economic Commission provides for a positive outcome based of overall synergies.

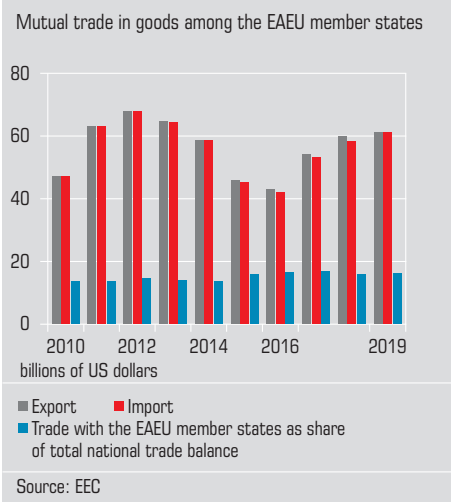
The new regional alliance, the Eurasian Economic Union, appeared on the map of Eurasia five years ago. It has one obvious goal — contribute to growth of economies and enhanced well-being of citizens of the member states. The idea of creating the economic alliance was first proposed in 1994 by the First President of the Republic of Kazakhstan Nursultan Nazarbayev during his lecture at the Moscow State University. But then, soon after the collapse of the Soviet Union, very few people realized the need for integration, although technological and production chains of the former USSR were destroyed, financial system was in ruins, barter arrangements prevailed, pensioners and employees of state enterprises barely survived, and dollars were used for payments even at street kiosks. All post-Soviet states were busy trying to establish their own independent relations with the external world, as well as securing loans from IMF and the World Bank (which contributed to the survival of our economies). But the first grouping of the future alliance emerged. In 1995, Belarus, Kazakhstan and Russia, and later, Uzbekistan, Kyrgyzstan and Tajikistan signed the first agreement to create the Customs Union, which was later transformed into the Eurasian Economic Community. In 2011, the Customs Union became operational in terms of application of its primary tool, a common customs tariff for imports into the three member states. Also, distribution of shares from income derived from inbound duties into budgets of member states was defined. Gradually, customs posts were relocated from internal borders to external (only border and migration controls have remained at the internal borders). The first time serious differences among members of the Customs Union emerged when Russia joined the WTO. Then all Union countries had to lower inbound duties due to international requirements, creating problems for

domestic producers. But soon the dispute was resolved, more so that both Kyrgyzstan and Armenia were already members of the WTO, so they were used to such requirements. Kazakhstan joined the WTO in 2015, already largely in compliance with many of the Organization's requirements, in part due to practices in the Customs Union.

But customs posts are not the only obstacle on the way of goods and services. Real expansion in production and trade can be enabled by implementing unified regulation of key market segments. In each of the member states, there are numerous regulations, norms and rules that are often inconsistent within a country itself, let alone with neighboring countries. To harmonize them, a different structure and integration principles were required. Even being geographically close to each other, enterprises cannot ensure real cooperation. And so on May 29, 2014, the Eurasian Economic Union (EAEU) was established, endowed by supra-national governing bodies — the Supreme Eurasian Economic Council, the Eurasian Inter-Governmental Council, and the Eurasian Economic Commission with Ministries and the Court. Initially, the agreement to establish EAEU was signed by Presidents of Kazakhstan, Belarus and Russia. Later, the Union was joined by Kyrgyzstan and Armenia. Primary goals are the usual one, whereas the methods to achieve these goals are taking into account the experience of other leading regional alliances. The EAEU used the majority of agreements within the Customs Union and the Eurasian Economic Community as its legal basis, to leverage past experience for achieving a more ambitious goal — by 2025, to create common markets for energy resources, finances and consumer goods on the territory of Eurasia, and also to establish common transportation space, employ coordinated agro-industrial policy and eliminate administrative obstacles for business.

The five-year anniversary of EAEU looks quite positively in terms of key figures, particularly taking into account that the Union was created the same year when unprecedented trade and financing sanctions were levied against Russia, and national currencies devalued following a drop in oil prices. The Union strengthened during the global economic decline of 2016 and at the height of the trade war between the US and China in 2018. Nevertheless, in 2018 the combined market of five member states with the population of 184 million people reached $2.2 trillion (almost the level of ASEAN), the volume of trade increased by almost one third and reached $60 billion. Domestic turnover of goods grew by only 9.2 percent per year, whereas external trade reached $750 billion in 2018. The

Mutual trade within the EAEU is volatile



Source: EEC

export of EAEU countries grew by 26 percent in 2017 and by about 45 percent in five years, and imports reduced by only 13 percent in 2017 and by 7.5 percent in five years, suggesting a growth in domestic production. The annual total export of EAEU countries last year reached $460 billion. According to the study by the Vienna Institute of Comparative International Economic Studies (WIIW), due to creation of the Customs Union, mutual trade in 2010–2014 was three times higher than it would have been without the Union. And in 2015–2018, trade within EAEU increased by 23.6 percent.

Obviously, in large part these indicators were defined by the external economic developments and market volatility, in some part — by individual growth of member states. So far, it is difficult to clearly determine what exact contribution to the overall development was made by the EAEU. But the very existence of this contribution is a definite fact, because trade logistics, and approaches to industrial production and to delivery of services in Eurasia has greatly changed in these five years. Most sectors of the industry are already employing common standards and regulations. Dozens of excessive and duplicating control and oversight requirements have been eliminated. Simplified cargo processing has expedited exports. While in 2017 exports accounted for 63 percent of the growth in external trade of EAEU member states, in 2018 this indicator was at 87 percent, and this happened despite the recession. Exports of EAEU member states to third countries was growing faster than imports. "This is a direct result of the efforts by the Eurasian Economic Commission to eliminate trade barriers, exceptions and limitations in the domestic market," says Ivan Timofeev, Program Director at the Russian International Affairs Council (RIAC). "The possibility to move goods across internal borders without customs posts, without customs declarations and official controls (transportation, sanitary, veterinary, phyto-sanitary, etc) — all this reduces costs, and as a result, contributes to larger sales in the internal market of EAEU and to greater competitiveness internationally."

In 2018, the new Customs Code came into effect, designed to further simplify foreign trade. Electronic customs declarations, automatic operations, reduced term of goods release, increased number of certified economic operators (we are behind developed countries in this respect), scaling of the "one stop shop" principle — all these measures are being introduced. Yet once again certain duties will be reduced or eliminated (including components, wires, organic chemical products, grain, etc) — this is a continuous process that depends on the overall market situation. Over the last two years, relevant Ministries from all five countries have eliminated non-tariff limitations related to control and oversight. Expansion of trade and timely correction of internal and external customs duties, albeit

Andrey Kurilin, Chairman of the Board, Citibank Kazakhstan JSC

Russia and Kazakhstan are the growth engines and pillars of stability in Eurasia. For this reason, they are playing a major role in any regional project. Russia is a world-level consumer market, while Kazakhstan is one of the most open countries for foreign investment. Kazakhstan has already attracted investments valued at two times of the country's GDP. Two countries are united by geography, history and culture, both have an extended border with China. And finally, both Russia and Kazakhstan are great examples of a successful transition from state-planned to market economy that allowed to improve the quality of life for many of their citizens.

Improvements in the investment climate of the EAEU member states contribute to higher national rankings in the world's main business rating			
Rankings of individual EAEU member states in the Doing Business rating			
Country	2015	2017	2019
Armenia	45	38	41
Belarus	57	37	37
Kazakhstan	71	35	28
Kyrgyzstan	102	75	70
Russia	62	40	31
Source: OECD			

Taxation levels in the EAEU countries are determined independently by each state, and are far from being harmonized				
Country	Profit tax	VAT	Personal income tax	Social security
Armenia	20	20	9-15	0
Belarus	10-25	10-20	9-15	29
Kazakhstan	10-20	12	10	9.5
Kyrgyzstan	20	12	10-20	17
Russia	20	20	13	22
Source: Tax services of the EAEU member states				

indirectly, stimulates production growth. According to the Eurasian Economic Commission data, the volume of EAEU's industrial production in 2019 reached $1.2 trillion and has increased by 2.5 percent compared to 2018. Processing industries accounted for 63.1 percent in the overall structure pf EAEU industrial production in 2019. And 18 out of 20 industries were growing, with the highest growth in mining industry — by 25 percent, and in processing industries — by 10 percent. The largest increase in industrial production occurred in Russia (25 percent), in Kazakhstan (15 percent) and in Belarus (11 percent). Fastest growth took place in automotive and paper industries, printing, wood processing, pharmaceuticals and furniture production. Almost two thirds of mutual trade was in highly processed goods, one third in medium-processed goods, and only one-tenth — in low-processed goods. "We could develop mechanisms of strengthening our cooperation in ensuring self-reliance in food supplies, maximum production of our own finished products, entry into external markets and sharing best practices in agrosciences," said President of Kazakhstan Kassym-Jomart Tokayev in April during the Supreme Economic Council's working group meeting. "An important direction of our joint work may become creation of regional technological production facilities. We can start creating regional value-added chains based on the competitive advantages that our economies enjoy."

Synergy Means Progress

It is a widely held belief that most benefits from joining EAEU are received by newcomers — Armenia and Kyrgyzstan, mostly due to the effect of low base. Initially, business in these countries was vehemently opposed to opening borders, but later found itself new advantages instead of local monopoly position that it had occupied before. "In five years of Kyrgyzstan's membership in EAEU, its GDP grew by 35 percent," says Sergey Glazyev, EEC Minister for Integration in Macroeconomics. "Growth in Armenia in the same period of time reached 34 percent. At the same time, industrial production and investments in Armenia grew by 57 percent, and exports — by 67 percent."

Kyrgyzstan also demonstrates growth in industry and investments by 25 percent, and in exports — by 9 percent. Kyrgyzstan began to supply more clothes and ore. Another contribution to the country's GDP comes from relaxed regime for labor migrants, whose inbound transfers at times amount to one third of Kyrgyzstan's budget. It has also received from Russia duty-free supplies of oil products for domestic consumption.

Armenia has expanded exports within EAEU by more than half — mostly, consumer products (beverages, clothes, footwear, tools). Armenia expects that EAEU integration will contribute to implementation of two major projects: construction of Armenia-Iran railroad, and creation of a free economic zone on the border with Iran. EAEU has also provided Armenia with financial assistance in the amount of $175 million.

When joining EAEU, Belarus made its key condition granting of preferential terms for Russian supplies of oil. Parties agreed that Belorussian budget will receive all export customs duties from exporting oil products produced at Belorussian oil processing plants from the Russian crude. As a result, the country received $2.3 billion from 2015. At the same time, Belorussian exports within the Union have been growing as well — mostly, tractors and other transport machinery, electric machinery, foodstuffs, ferrous metal products, wood, pharmaceutical products, etc.

In 2018, Kazakhstan became the leader in terms of its share of intra-industry trade with EAEU member-states. Mostly, it has been supplying products of mining and fuel and energy industries. In 2018, 31 percent of Kazakhstan's exports within the Union were in ferrous metals or products thereof, 20 percent — in ore, and 15 percent — in mineral fuel. A substantial share belongs to inorganic chemistry, and the share of other groups of products is under 5 percent. Intra-industry trade of Kazakhstan with EAEU member-states is most developed in extractive and metals industries: in 2018, volumes of Kazakhstan's exports and imports within the Union were approximately equal. In the framework of creating a common market within EAEU, Kazakhstan has agreed with Russia to temporarily suspend supplies of certain types of oil products, partially opening the market of Central Asia for it and enabling accumulation of additional profits for the purpose of upgrading it oil processing plants. Modernized facilities will be able to produce fuel of higher environmental class at a reasonable price, thereby opening prospects of exporting it to European countries.

More than one third of Russia's exports within the Union accounts for energy supplies, including mineral fuels. In 2015–2018, Russia continuously expanded its exports within the Union of electric machinery and equipment, plastic, paper, rubber, aluminum, production components and consumer goods. Overall, the economic impact from integration is not yet obvious, although it is estimated at 2.3–3 percent of GDP over the last five years. The reason is that Russia accounts for 80 percent of population, 86 percent of GDP, 88 percent of industrial production and 65 percent of trade of EAEU. So the growth of trade within EAEU doesn't change much for Russia in terms of overall circulation of goods. But according to estimates of the Centre for Studies of Post-Industrial Society, potential contribution of Russia's dominance within EAEU may be equal to the combined size of the economies of other member-states —

АРТЕМ ГЕОДАКЯН/ТАСС

Russian Agency for Agricultural Oversight, under the pretext of violations of sanitary norms by certain Belorussian producers, in 2017 banned imports of dairy products from Belarus, causing an almost global scandal

more than $310 billion, or almost 25 percent of Russia's GDP. Actually, calculation of direct positive effects for EAEU countries of the integration is a somewhat futile exercise — because the key objective of the Eurasian economic integration is to achieve synergies from bringing together technological and logistical chains, and creation of common markets able to access external markets. This is the only type of cooperation that may form a reliable economic foundation for Eurasian countries.

Disputes Make the Union Stronger

Regular economic disputes among the member states serve as a sort of test for EAEU. This is part of the reason why, having missed all deadlines, we still do not have key common markets — gas, oil and oil products, electric energy and transportation. If in such basic industries things don't come together, it is hard to expect efficiency in other segments. It comes as no surprise that there are disputes about these matters even at the level of heads of states. The most well-publicized 'economic thriller' is a dispute between Russia and Belarus regarding oil preferences. Russia's tax maneuver (zero export duties and higher Mining Tax) deprives Belarus of tens of billions of dollars that it is not receiving from the margin between the global price for Russian oil and the price for the Republic (without the duty, which will no longer be included in the global price either). So it will be impossible to make money on reselling oil products.

In turn, Russia considered itself practically abandoned by its neighbors when in the year of the EAEU creation, soon after introduction of anti-Russian sanctions and retaliatory measures (mostly, higher duties on agricultural products), prohibited products started coming in huge quantities through neighboring countries as re-export. Neighbors rushed to make money on the shortage of imported foodstuffs. Although heads of EAEU states supported Russia's right to retaliate symmetrically, re-export has not ceased to this date and is estimated at hundreds of thousands of tons annually. Perhaps, this is silent sabotage from the neighbors: Russia managed to actually gain from sanctions — by stimulating its agricultural sector, within a very short period of time it managed to achieve self-reliance with regards to many products, and even become a world leader in some subsegments. And again, integration-related problems emerged — as soon as Russia's dairy industry started growing, it started competing with Belorussian dairy sector which historically had been developed better. Belarus has also started to subsidize its enterprises, while keeping this support quiet. And so the 'milk war' started. In response, the Russian Agency for Agricultural Oversight, under the pretext of violations of sanitary norms by certain Belorussian producers, in 2017 banned imports of dairy products from Belarus, causing an almost global scandal. Case in point — this dispute was resolved by the Eurasian Economic Commission. It ruled that a ban of imports within the common free trade zone can only apply in a targeted manner specifically to the enterprises that were in violation of regulations. Russia had to open the borders. "Russia dominates in the EAEU by simply accounting for 85 percent of the Union's economy, which can be seen as a verdict," stipulates the economist Oleg Buklemishev. "Unless Russia accepts the idea that being the largest member of the Union, it will have to yield to its partners more, serve as an example of following the Union rules, and not abuse even reasonable exceptions from the common rules."

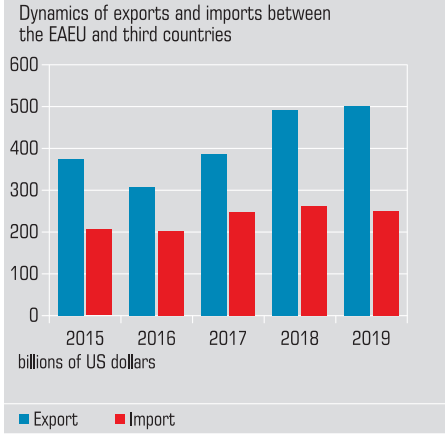
Kazakhstan also has to yield to some extent, when defending its market in the dialogue with its partners. When in 2015 Kazakhstan joined the WTO, it had to reduce import duties for 3,500 types of goods. Because sugar has been depreciating in EAEU markets for several years due

to production surplus (last year, its price was less than cost of production), the unified customs tariff (ETT) was raised by all EAEU countries. On Kazakhstan's border, sugar happened to be cheaper, and the Republic permitted, as an exception, to bring it in from the EU via free trade zones with minimal duties. But in a meeting of the Intergovernmental Council, a decision was made to stop this practice of exceptions, and Kazakhstan agreed. Earlier, Kazakhstan protested against introduction of EAEU anti-dumping measures (increased ETT) towards transnational producers of herbicides. Kazakhstan did not raise import duties on more effective European herbicides that mostly Russia tried to protect against. But then Kazakhstan agreed with the decision by the EEU's Intergovernmental Council that anti-dumping measures should be the same for all. Finally, last year Kazakhstan and Kyrgyzstan lost the opportunity to bring prohibited sanctioned products by transit through Russian territory. This happened after the WTO's decision that Russia had the right to prohibit the transit of sanctioned products through its territory "based on national security considerations." However, afterwards Russia also yielded to Kazakhstan and Kyrgyzstan by allowing them to bring certain sanctioned goods through its territory.

"Such disputes are normal over the course of any integration process," says Sultan Akimbekov, Director of the Institute of Asian Studies. "For example, in Kazakhstan imports from Russia in the end are exceeding exports from Kazakhstan by 2.5 times. But here in Kazakhstan, they understand that integration is a series of mutual concessions. However, there is a fair question to Russia: why has Kazakhstan eliminated all non-tariff barriers, and there are still a lot of such barriers in Russia on the way of trade, there are occasional additional checks, prohibited by the EAEU regulations, etc?"

This is actually a curse in Russia, with its omnipotent bureaucracy. As of March 2020, in the EAEU there were a total of 66 obstacles to normal operation of the internal market. Most of them are in the technical regulations area, energy, transportation and tax policies, and public procurement. This number keeps going up and down. For example, in 2016, there were 60 barriers, in 2017 — 71, and by this year, five have been eliminated. According to a survey of business conducted by the EEU, non-tariff barriers account for 15–30 percent of the cost of exporting products and reduce the volume of mutual investments by 26 percent. And the effect of eliminating non-tariff barriers on trade in goods and services, and on mutual investments among member states

Export to third countries is growing steadily



Source: EEC

may reach an additional 0.6 percent of GDP annually, estimates the Russian Presidential Academy of the National Economy and Public Administration.

Non-tariff barriers is a worldwide problem. In the last 25 years, starting from the establishment of the WTO in 1994, non-tariff barriers overtook import tariffs as the main instrument of trade protection for countries and their alliances. In the period from 1997 to 2015, the average ad valorum cost of global import tariffs reduced from 12 percent to 5 percent, while the average ad valorum cost of non-tariff barriers increased from 20 percent to 57 percent.

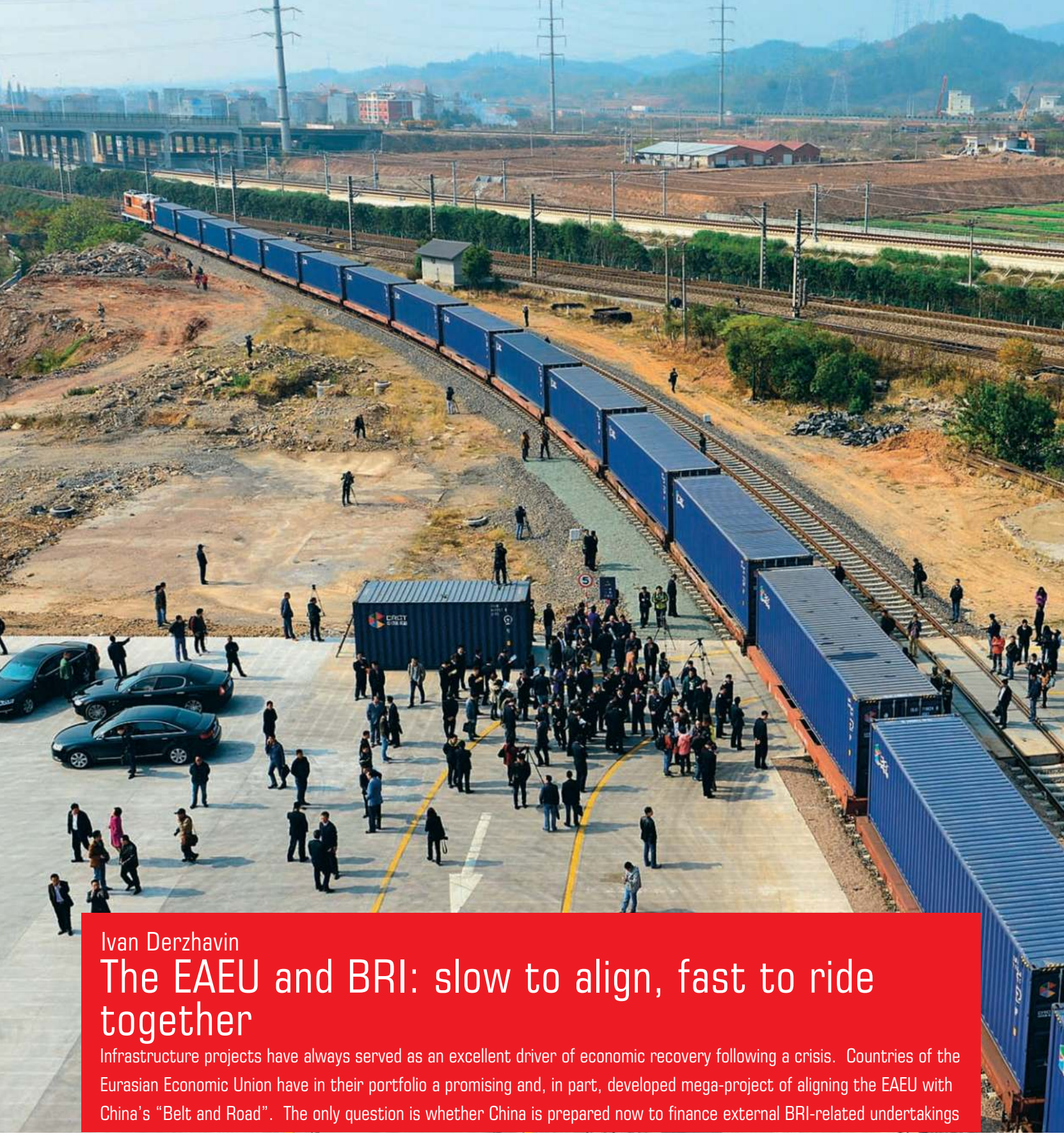
Self-Isolation or De-Integration

The EAEU countries are now concerned with finding new points of growth to restart economies after the stagnation caused by the pandemic. The main risk is a retreat into deep self-isolation.

Against this background, the main question is — will the EAEU be able to handle today's crisis caused by the global economic recession due to the COVID-19 pandemic, with all the unsolved internal problems? Minister Sergey Glazyev estimates Russia's losses from plant closures at 3.5 trillion rubles. Estimates in terms of proportion to GDP are similar in other EAEU countries. "How deep the economy falls and how fast it rebounds will depend, among other things, on the monetary policies implemented by the EAEU's largest economy," says Sergey Glazyev. "Revival of domestic credit mechanisms will support business that is collapsing due to pandemic-related restrictions, and will finance its fast recovery after restrictions are lifted. Prior to restrictions, the potential capacity for growing production in the industry was estimated at 40 percent, based on the production load. Today, due to pent-up demand, it has increased to 60 percent, which gives hope for an explosive production growth (at least, 10 percent annually), if about 15 trillion rubles from the National Wealth Fund are brought back into the Russian economy."

Oleg Buklemishev of the Moscow State University is pessimistic about the prospects of EAEU integration in the post-crisis period. "We have seen that all major countries and regional economic alliances during a crisis prefer to "stay at home," and this time everyone will dig in deeper and will prefer to survive on their own — recent events in Europe and the US being case in point. And I believe this long-term de-integration trend will remain around the world," says Oleg Buklemishev. "For us now it also makes no sense to forcefully promote integration, taking into account how much it costs our countries to go through local trade disputes, as well as the protectionism of the strongest players. During crisis, such erroneous decisions may be deadly for some EAEU member states." In 2018, the EAEU adopted a new program of common markets for gas, oil and oil products. Such difficult questions will definitely have to be postponed indefinitely simply because now this is no time for experiments, particularly with oil at the rock-bottom prices. "But the very process of integration should not be stopped even during crisis," believes Sultan Akimbekov. "Important foundations have been laid, a lot of legislative issues have been accumulated, and they are better to be addressed now, in order to not get distracted later, after the crisis." Foundations do indeed exist — all norms for common markets for alcohol and tobacco have been created (due to come into effect in 2024), pharmaceutical market will also become unified soon. Common regulations have been developed for construction and services sector. Already, 43 service sectors (advertising, leasing, rent, film distribution and others) are operating within the common regulatory regime, and last year nine were added. And hopefully, successful practice of trade dispute resolution by supra-national institutions have given our countries an immunity enabling a less painful joint recovery from the post-pandemic crisis.

In any event, statements by heads of state indicate that countries are not interested in retreating into deep self-isolation. "There is no doubt that our countries and our union will prevail and will overcome this unheard-of crisis," President Kassym-Jomart Tokayev said in April. "At the same time, we should consider the lessons of the pandemic, analyze practical experience of this period and be prepared for new challenges. I propose that the Commission prepares a draft of new proposals on cooperation with the governments of member states in this regard." ■



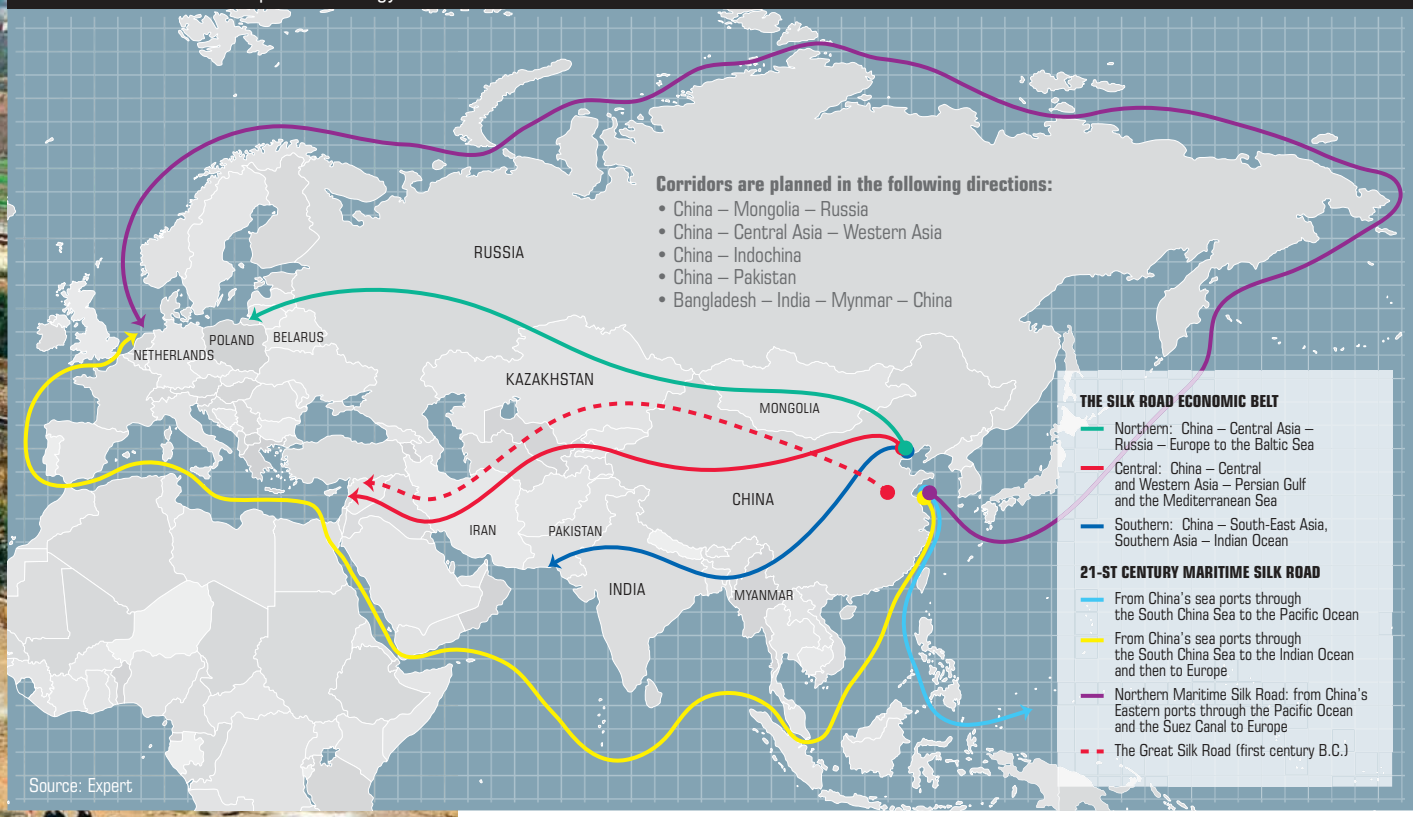
Ivan Derzhavin

The EAEU and BRI: slow to align, fast to ride together

Infrastructure projects have always served as an excellent driver of economic recovery following a crisis. Countries of the Eurasian Economic Union have in their portfolio a promising and, in part, developed mega-project of aligning the EAEU with China's "Belt and Road". The only question is whether China is prepared now to finance external BRI-related undertakings

The alignment between the Eurasian Economic Union and China's global project Silk Road Economic Belt (part of the "Belt and Road" Initiative, or BRI) in Greater Eurasia is of interest for all parties, and may in the future radically expedite cargo flows between Asia and Europe. It is not yet clear, when China will recover following the pandemic-induced crisis, how the trade wars will end, and when global economy will recover, so all long-term projects may be suspended. But there is a possibility that China will choose to activate external infrastructure mega-projects. This will be an excellent chance for the EAEU countries too. More so that Kazakhstan, as the gateway of BRI project in the EAEU, has laid the foundations for aligning the "Belt and Road" with the EAEU. It has created considerable amount of logistics infrastructure, built a transportation hub near the border, and did more than anybody else to improve the investment climate. The Astana International Financial Centre is operational, having assembled major Chinese credit institutions prepared to finance BRI projects in Eurasia, as well as global investors. Kazakhstan itself, long before the emergence of BRI, started

Belt and Road (BRI) development strategy (as of 2019)



Source: Expert


EAST NEWS

modernising its transport infrastructure, enabling it to become now a common logistics hub of the EAEU countries.

In the Centre of Eurasia

When looking at the map of Eurasia through the lens of a logistics specialist, it is clear that there is no shorter way from India or China to Europe other than via countries of the EAEU (and other countries of Central Asia and Caucasus). Geographically, Kazakhstan is the most optimal gateway to this region for China. It is no accident that Xi Jinping, the leader of China's Communist Party, in 2013 announced "One Belt — One Road" project in Astana, the capital of Kazakhstan. This project was immediately perceived as a unique opportunity for the whole region to modernize its logistics infrastructure, with future development of production facilities around transit routes and long-term sources of revenues from the transit of growing cargo flows from China. The year when the Eurasian Economic Union was created, President Vladimir Putin and Chairman Xi Jinping signed a memorandum on the alignment between the EAEU and the "Belt and Road", enabling free trade, joint logistics and energy infrastructure, simplified trade regulations, free economic zones, harmonised regulatory base, etc. The idea of alignment envisions selecting from the whole BRI agenda common areas that can be implemented at the first, second and third stages. EAEU projects include newest transportation networks, unified cheap energy network that reduces railroad transportation costs, development of enterprises and resource extraction enabled by the new roads. All this is necessary for China, and because of this, the country is prepared to finance some of these projects and is already taking part in some of them, and at the same time, getting more and more involved in the economies of the five member states. Last year, the volume of trade between China and the EAEU countries reached $102.7 billion, one-third more than in 2016. It can increase more robustly when provisions of the new agreement are implemented — free movement of goods, capital, human resources and services, equal access to transportation and energy infrastructure , as well as common rules for customs and tariff regulations and support for joint investment projects. "China's initiative "One Belt — One Road" should be perceived as a natural extension of the EAEU potential in terms of infrastructure and logistics," noted the First President of the Republic of Kazakhstan Nursultan Nazarbayev in 2019, during the meeting of the Supreme Eurasian Council. "We are aware of the criticism against this initiative, how it impacts us. But we also know that we will be able to control it and make it profitable for our countries. This will provide us with an enormous economic effect, will enable achievement of both internal and external goals of our alliance."

Blessed Be the Peace-Makers

The first reason why Kazakhstan became the focal point within the EAEU itself and also in its alignment with the "Belt and Road" is its neutrality and historic uniqueness. Being the most developed region in Central Asia and being located in the centre of the triangle Europe-the Middle East-Asia, Kazakhstan is bound to be the axis for integration in Greater Eurasia. Pursuing an open foreign policy, Kazakhstan at its own initiative became the platform for resolving the international conflict in Syria. Making peace is not an easy task.

Sandra Ro, CEO, Global Blockchain Business Council

AIFC is a bastion of innovation and modernity in Central Asia. AIFC's embrace of capital markets and new financial technologies has positioned Kazakhstan as a growing financial centre in the region. Furthermore, with the rise of the development of "One Belt, One Road" initiative, Kazakhstan plays a critical role and therefore, will be a key influencer and changemaker in cross-border trade, payments, and innovation. ■

"Kazakhstan plays an outsized international diplomatic role by gaining temporary membership in UN Security Council, by being the chairman of OSCE, by being the host of Astana process for the Syrian conflict, and by trying to bring the Iranians to the table," says Dr. Ariel Cohen. "Kazakhstan has demonstrated many times the quality of their diplomatic core, of their Foreign Ministry and of their presidential leadership."

Industrial Foundation

The second reason for Kazakhstan to be a conduit of the Belt and Road within the EAEU is the country's solid resource foundation and fast industrialization that makes it attractive for investors from the EAEU, the US, Europe and Asia. Kazakhstan's key sector, most attractive for business, is fuel and energy. So far, priority elements of it are oil, natural gas, coal and ore. In recent years, Kazakhstan has significantly modernized the facilities of KasMunaiGas, the national company which, among others, is being prepared for privatization via the capital market. Among the EAEU countries, Kazakhstan maintains the closest corporate integration relations with Russia. There more than 6,000 Russian-Kazakh companies in Kazakhstan, and about 100 joint projects valued at approximately $20 billion are slated for realization. These projects involve major Russian companies, such as Gasprom, Lukoil, INTER RAO UES, Mechel, RUSAL, Rostech, Rosatom, Rostselmash, AvtoVAZ, Vympelcom and EvroChem, among others. The most notable corporate events include an agreement executed in June 2018 between Lukoil and KazMunaiGas to develop Zhenis field in the Kazakhstan sector of the Caspian Sea, as well as a friendly resolution of a dispute between the government of Kazakhstan and Karachaganak Petroleum Operating consortium, one of shareholders in which is Lukoil. China is also a participant in major energy projects in Kazakhstan, including joint international oil and gas ventures PetroKazakhstan Inc., CNPC-Aktobemunaigas and Karazhanbasmunaygas.

Kazakhstan laid the foundation for its key technological endeavor — enterprise modernization — back ten years ago, when the program of the country s modernization was announced. Within its framework, in 2010–2019, 1,250 projects valued at $108 billion were launched. Last year, industrial production grew by 3.8 percent. This growth was dominated by processing industry with the increase of 4.4 percent, whereas mining industries grew by 3.7 percent. As of the end of 2019, machine building industry grew by 20.9 percent, reaching $18.6 billion. The volume of passenger cars increased 1.5 times (to 44,077 units), trucks — 3.4 times (4,247 units), buses — 2.6 times (1,076 units) and tractors — 2.6 times (897 units). Today, every second passenger car sold in Kazakhstan is produced domestically. Kazakhstan was the first country in Central Asia to start producing superpowerful 500-megawatt transformers. This year, the third five-year industrialization stage begins, with the objective to create conditions for competitiveness of processing industry domestically and in the international markets, while taking into account commitments associated with the membership in international organizations. During this five-year period, the plan is to transition from pursuing sector-specific priorities to supporting efficient producers in all processing industries. At the same time, productivity should increase not by 22 percent, like in 2015–2019, but by 70 percent, and the volume of processing industry exports should increase not by 19 percent, but 2.3 times. New enterprises will be created in the mining sector, agriculture, construction and, importantly, in machine-building. As a consequence, Kazakhstan's industrial production is consistently growing in non-commodity sectors: light industry, machine-building, pharmaceuticals and beverages. Since the creation of the EAEU, the number of Kazakhstan's joint projects with Union member-states has increased by 67.4 percent and has exceeded 10,000. Production of tractors and components has been launched in Kustanay oblast jointly with St.-Petersrburg-based Kirovets tractor plant. Currently, a launch is planned of a joint venture with KamAZ to assemble trucks and produce components.

Common Pathways from the Crossroads

But the main reason for Kazakhstan to become a convenient "assembly point" for "Belt and Road" projects is transport infrastructure which was upgraded in advance, over the last 20 years, and which enables it to become a multi-functional logistical hub for the whole of Greater Eurasia and for Belt and Road projects in particular. In 2014, First President of Kazakhstan Nursultan Nazarbayev announced the new economic policy which combined plans to develop the Silk Road, and its key component — high-speed transportation route, Eurasian Transcontinental Corridor. In the last 10 years, about $30 billion were invested in developing transportation and logistics infrastructure and national competencies in this area. This allows Kazakhstan to open five new railway and six automobile international routes from the border with China to Europe. (Russia is yet to complete the construction of its part of the highway from Kazakhstan to the European border). One of Belt and Road routes is already operational in Kazakhstan — recently, Kazakhstan—Turkmenistan—Iran—Persian Gulf railroad was launched. In part because of that, in 2018 the volume of transit cargo shipments through Kazakhstan increased by 10 percent compared to 2017. On the Caspian Sea, Aktau port with the capacity of 26 million tons, a starting point of the route to Caucasus, Europe and Iran, has been expanded. Also, a ferry complex Kuryk has been constructed on the Caspian Sea. This is a part of Trans-Caspian route for shipping goods from China, Central Asian countries, Russia's Urals and Siberian regions, to Turkey, Europe and back. The port's territory is still under construction, with plans to launch a modern shipyard, as well as plants producing steel constructions and caissons.

Transit from China through Kazakhstan and Russia now covers about 1.6 percent of trade between China and Europe, a marked increase from 0.7 percent in the last decade. And the route Europe-Western China as part of the "Belt and Road", was built by Kazakhstan without participation of China's banks. Kazakhstan is also completing construction of railroad Khorgos — Almaty — Taraz — Shymkent — Qyzylorda — Aktau, which is an infrastructure foundation for Kuryk ferry complex. Another railway route connects Urumqi — Dostyk — Omsk — Moscow — EU countries. Maritime Silk Road also includes parts that go through Kazakhstan's territory, connecting to Caspian and Black Seas: first route is from Urumqi through Kazakhstan's port Aktau and then to the EU, using Georgian ports, and second route — from Urumqi via Kazakhstan and Central Asia to Iran and Turkey. According to KazakhInvest, within

the framework of an agreement with China's State Infrastructure Development Committee, 51 joint "Belt and Road' projects are being implemented or planned, valued at $27 billion (infrastructure, oil processing, oil and gas, agriculture, industry, innovations and energy).

"Cooperation between China and the EAEU depends on the complementarity of each other's industries. For example, China has accumulated the traditional, medium and high-end manufacturing capacity, the technology and talent, at the same time the EAEU has the advantages in energy, mineral, agriculture, animal husbandry and raw material resources," says Wang Songhua, CEO, China Construction Bank, Nur-Sultan branch. "EAEU's economic structure can be improved by taking advantage of China's manufacturing equipment and technology for cooperation in processing industries."

Back in 2015, transportation and logistics centre "Khorgos' was created on the border between China and Kazakhstan, and it is developing now. It is set to become new gateway for China to the West, being one of the first sites in the new format of the "Belt and Road" project. This project is the first one in Kazakhstan financed by a private investor based on the public-private partnership model and is the largest one in Central Asia.

All these projects in fact represent the alignment between the EAEU and the BRI. The Eurasian Economic Commission has approved a list of joint projects, of which 39 are geared towards construction or modernization of transportation infrastructure (construction and modernization of roads, creation of transportation and logistics hub and development of key transportation junctures). Streamlining of customs and other procedures within the EAEU allowed in the last two years to reduce by 3–3.5 times the time it takes to deliver cargo from China using the East-West Corridor compared to the maritime route.

Other Union member states also have own transportation projects that will be in some way complementary with the Belt and Road. For example, Armenia is constructing roads within the North-South Project, which essentially is part of the Belt and Road. The development of the railway route Armenia—Iran will connect the existing railroad system of the two countries, and that way, connect Armenia via Iran with Kazakhstan, China, etc. It will provide direct connection by railways with Iran and enable land transit of cargo from these countries to other parts of the Silk Way. Belarus is modernizing the West-East transport corridor, having already managed through digitalisation to greatly streamline the passage of transit shipments from China to Europe. Belarus together with China has created an industrial park slated to become a global digital services hub (this project has already been joined by the European logistical hub). The EAEU transportation projects envision construction of railroad China—Kyrgyzstan—Uzbekistan which will open access for shipments to markets of Western Asia and the Middle East. Chinese business ties high hopes with the development of the infrastructure of the Northern Sea Route that will cut in half the length of the maritime route to Europe for Eastern and Northern provinces of China.

China already has goods to transport via the Northern Sea Route — Silk Road Fund has become a shareholder in Yamal LNG and NOVATEK projects. Russia is proposing to China to combine northern BRI projects with the Russian project Trans-Eurasian Belt Razvitie (TEBR) and modernization program of the Trans-Siberian and Baykal-Amur Mainlines. This will be a direct corridor from China's Northern provinces to Europe. TEBR program is designed to bring together plans to create integrated new generation infrastructure and financing instruments of strategic investments in order to create a capable transportation and communications foundation of Eurasian integration. For this purpose, an international consortium and corporation will be created. "TEBR program and corporation are designed to implement many different investment programs. These programs require financing sourced from connecting TEBR with mechanisms of long-term cheap financing available in Eurasia," says EEC Minister Sergey Glazyev. "These could be development institutions, funded through the supra-national currency issuing centre, or via central banks of the stakeholder states, or Eurasian capital markets, state-owned or international finance institutions. In order to finance the implementation of the program, tradeable mutual investment funds can be set up, whose participants may include Eurasian state-owned development institutions (intergovernmental and state-owned international development institutions, investment funds and banks). Russia's contribution, apart from land plots, could

Michael Mainelli, Executive Chairman, Z/Yen Group: Kazakhstan — A Switzerland of Central Asia?

When you're looking at things like the end of the commodity super cycle, the Fourth Industrial Revolution, or sustainability, what you're really looking at are changes in the supply and trade chains that people function depend upon. I would include credit chains and the credit system. Trade chain and credit chain changes transform financial centres. At the end of the day, a financial centre is about trade.

When one sees a change in trading patterns, one anticipates change in finance, which is a supporting system for trade. That all sounds extremely abstract. But I see Kazakhstan particularly well-placed at the centre of a global trading system because of China's "Belt & Road" initiative. China is talking about 'plus one' strategy where, in many cases, it anticipates deliberately sourcing goods from outside China, at a lesser level perhaps, but at the level that means that there is redundancy in the supply chains. Many multinational companies are pursuing "plus one" strategies themselves, only in the opposite direction. They have been perhaps too dependent in some cases on China or other countries and begin to realize that they need to have a resilience, robustness, redundancy, fat, if you call it, in their systems.

Geographically, wherever you look, 'plus one' means a little bit of redundancy on shipping, which pushes more rail and other overland transport through Kazakhstan. It also means that, given the choice of countries that one might switch to, Kazakhstan would still be a central node in many new networks. For example, if I am a Northern European firm currently reliant on China and I wish to alter my supplies, say more from India or Vietnam, Kazakhstan still a node on that trade route.

Kazakhstan has a central geographic advantage. Sure, Kazakhstan is landlocked, and this is a problem. But if it is able to replicate Switzerland's success, it would not be bad at all. By almost any statistical evaluations, Switzerland should be a basket case. It's landlocked, few natural resources, awkward geography, internal transportation is problematic, multi-languages and most of its neighbors have fought wars within the last two generations. If you applied that statistically to Africa, you'd get Burundi, but actually Switzerland thrives. And if you look at Kazakhstan, I think it can genuinely become a "Switzerland of Central Asia" because of that. New realities will change the trade flows, but as long as you're flexible about it, particularly with regard to energy, I think that Kazakhstan could have a bright future. ■

Xie Duo, Chairman, Silk Road Fund Co., Ltd

As a strategic partner of AIFC, Silk Road Fund is impressed by the achievements you have made in building a regional financial centre in Nur-Sultan of Kazakhstan, where Chinese President Xi Jinping proposed the 'Belt and Road' Initiative for the first time. The establishment of such an international financial centre is a catalyst, unlocking market vitality, injecting fresh momentum into the national economy and forging a new engine for high-level and innovation-driven development.

AIX is the first project of China—Kazakhstan Production Capacity Cooperation Fund and a milestone of Silk Road Fund's investment in Kazakhstan and Central Asia. This platform is of great strategic significance in terms of promoting multilateral economic and investment cooperation. We are pleased to hear that an increasing number of global investors and Chinese institutions are participating in it. The IPO of Kazatomprom demonstrates a successful initial step of implementing the state privatization program on AIX platform. We are expecting more investment opportunities as AIX continually expands its regional influence in Central Asia.

AIFC has also made impressive progress in developing offshore renminbi (CNH) market, enabling renminbi capital to be better utilized to support the local projects financing and regional infrastructure development. Silk Road Fund will work closely with AIFC and our other partners to together promote the synergy between the "Belt and Road" Initiative of China and the 'Bright Path' economic policy of Kazakhstan. We look forward to a greater success of AIFC in the near future.

include information assets based on geological information, rights for exploration and development of mineral deposits, forestry, agricultural and maritime resources." Currently, a new EAEU transportation project — passenger and cargo high-speed mainline "Eurasia" — is being developed. The project envisions construction of a 9,500 km-long high-speed railroad from China to Europe through Kazakhstan, Russia and Belarus, and then through Poland and Germany. The total cost of the project is estimated at about $155 billion. Key participants of the project include national railway operators of the transit countries — Russian Railways, Kazakhstan Temir Zholy, Belarus Railroad and China Railways. "There are five railway and six automobile international routes that pass through the territory of Kazakhstan and connect China and other Asian countries with Europe and the Middle East. This allows to deliver cargo from China to Europe and back in 15 days, whereas maritime shipment takes two or three times longer. And the state program of infrastructure development Nurly Zhol implemented in Kazakhstan and aligned with China's "One Belt — One Road" project will enable the revival of the former glory of the Silk Road," stated last year Kassym-Jomart Tokayev, President of Kazakhstan.

A Magnet for Investments

But there is another important argument in favor of Kazakhstan's integration potential. It has the most favorable conditions for doing business among all EAEU countries. In the Doing Business 2020 rating it occupies 25th place, having raised by three positions in one year. Kazakhstan is still one of the world leaders in terms of "enforceability of contracts' and "protection of minority shareholders" (4 and 7 places respectively). This is a result of work conducted in the framework of OECD recommendations on raising investment attractiveness. Amendments were made to laws regulating intellectual property, tax and customs administration and public-private partnership.

Efforts to improve the investment climate culminated in the creation and launch in 2018 of the Astana International Financial Centre, an unprecedented institution for the region of Greater Eurasia featuring an independent legislative regime and regulatory environment in accordance with international standards. From the start, AIFC was in part geared towards implementation of BRI projects, including their alignment with the EAEU. Shanghai Stock Exchange became a shareholder of the AIFC stock exchange in its first year of operations, and the same year, China State Bank and China Construction Bank became its participants. In 2018, China's Silk Road Fund acquired the status of shareholder of the Astana International Financial Centre's stock exchange. Being the largest organization involved in the implementation of the "Belt and Road" initiative with capitalization of $40 billion, it engages different participants in the BRI projects, including from among AIFC residents. It also considers opportunities for structuring investment and financial transactions based on instruments and the platform offered by the AIFC. Over the first year, the AIFC attracted more than 100 participants from 20 countries of the world (the US, the UK, China, Hong Kong, Singapore, UAE, Russia, etc), and currently the number of participants is more than 500 from 40 countries. "Investors from global and other financial centres are constantly in search of new opportunities, particularly now, during crisis," says Sergey Sukhanov, head of SOVA investment company. "And here they find several benefits — a large, $2.3 trillion market of the EAEU, infrastructure projects supported by the governments (which suggests guarantees), operational (albeit small) capital market, and direct access to Chinese credit organizations present at the AIFC. Many still remember how they made good money in the newly-opened market of the former USSR. Possibly, post-crisis strategies will be connected with markets of the EAEU, Mongolia, Transcaucasia and others. I think in this case, the AIFC will be a perfect hub for global investors."

The AIFC regulator has agreed with China's Commission on Securities Regulation (CSRC) and Commission on Banks and Insurance Regulation (CBIRC) regarding the opportunity for professional capital market participants from China to carry out their activities at AIFC. After that decision, major Chinese brokers, such as CITIC, CICC and Shenwan Hongyuan, became participants of the AIFC Stock Exchange, allowing AIX issuers to attract capital from a wide and diversified pool of investors, including for BRI projects. Today, a specialized market has been set up at AIX to attract investments for BRI projects from international investors, and primarily, Chinese investors.

And finally, AIFC has created a pool of prospective creditors for BRI. It hosts representative offices of China's largest financial institutions — China Construction Bank (with capitalization of $1 trillion) and China Development Bank (capitalization of $70 billion). China Construction Bank has dual listing, including Hong Kong, allow-

ing companies from the EAEU countries to work with it directly at AIX platform. Recently, China Construction Bank issued at AIFC Hawk bonds for one of BRI's projects (yet undisclosed). Also located at AIFC is Eurasian Development Bank which has in its portfolio more than 400 projects in the EAEU, including those related to BRI.

Last year AIFC was visited by Li Zhangshu, Chairman of the Standing Committee of the National People's Congress. Askar Mamin, Prime Minister of Kazakhstan, and Dr. Kairat Kelimbetov, AIFC Governor, acquainted the guest with AIFC activities in the BRI framework. Chinese participants of AIFC — representatives from China Construction Bank, Shanghai Stock Exchange, CITIC Securities, China Development Bank — described the current status and prospects of cooperation between China and Kazakhstan within AIFC, including the creation of the settlement and clearing centre for operations in renminbi.

"AIFC should become the main project factory for the whole country," stated Kassym-Jomart Tokayev, President of Kazakhstan. "Key transactions to finance main projects should be structured here."

When Will the Road Continue?

So far, all governments are busy putting out fires in their economies, trying to reduce the number of bankruptcies and levels of unemployment. Nobody really understands the depth of the crisis, and very few are in a position as yet to calculate pathways to overcome the consequences from the damage caused by the pandemic. For EAEU countries, these pathways could include BRI projects. Obviously, they are currently suspended, as are most major projects, because China itself is busy trying to revive its economy. And experts expect radical geo-economic shifts. "Everything will change — relations between countries, trade rules, approaches to large joint projects and even their content and directions," believes Anatoly Gavrilenko, founder of ALOR Group and Member of the Board of the Russian Stock Market Union. "So the question now is not even when, but whether China will want to continue BRI, if it's already suffering heavy losses in its trade war with the US." "I believe that now China will take a holding stance for a while and will self-isolate from external projects: it's being accused from every direction of infecting the whole world, the US is applying pressure on trade matters," says Oleg Buklemishev from the Moscow State University. "For that reason, EAEU countries — even after the pandemic is over — should reassess the status of these projects and shift to domestic interests."

True, China has launched large-scale construction, as an anti-crisis measure, to revive medium-size business and to reduce unemployment. But soon the economy will require additional measures. "For China, BRI is a very long-term strategy to abandon it because of temporary events like a trade war or a pandemic. Furthermore, it actually emerged as a diversification tool in case of heightened tensions with the West," reasons Sultan Akimbekov, Director of the Institute of Asian Studies. "China was the first one to overcome the last crisis exactly because of infrastructure projects, including those abroad."

It is quite possible that soon domestic construction will not be enough to revive the economy in China, and it will resume work within the BRI. Alexander Gabuev, Head of Russia in the Asia-Pacific Program of Carnegie Moscow Centre believes that it will be logical for China to look for growth drivers in the EAEU countries, where there are already comfortable conditions and AIFC infrastructure exists. "For China, projects like BRI are an extension of the domestic infrastructure driver. In the EAEU, parts of modern infrastructure are already in place, new logistics terminals, railways and industrial parks already exist." Earlier, it took a long time for projects to advance, because after some setbacks in other countries, China started calculating things more carefully. "But maybe considering the need to increase employment they will not be so strict in terms of profitability. And new opportunities will emerge for EAEU countries," believes Alexander Gabuev.

Maxim Orlovsky of RenCap is confident that involvement of the state in infrastructure projects will ensure access to capital at lower interest rates. "Debt instruments for all projects — and I underscore, all, including major infrastructure ones — are destined for success among investors, if these instruments are guaranteed by the state or by supra-national institutions. For example, if governments of one or several countries guarantee an issue of infrastructure bonds to construct roads, these securities will be in high demand at the stock exchange primarily due to their secure nature, obviously if they comply with market realities and the necessary regulatory base is available."

So public officials may concentrate on eliminating legislative and regulatory obstacles around OBOR projects, while the international economic activities are recovering after the crisis. This could be a nice contribution to the alignment between the BRI and the EAEU. ■

Sultan Akimbekov, Director, Institute of Asian Studies

It will be a major problem for the EAEU if China, one of key economic drivers in Eurasia, faces serious problems due to trade war with the US, and its ability to implement BRI is abruptly lost. On the other hand, even before the crisis and trade wars, China was trying to diversify the directions of its economic activities. "Belt and Road" is an element of China's strategy, and I don't think they should be abandoning it. Moreover, they may even try to intensify this process. Previously, this process was mostly related to investing in infrastructure, another part of the same Chinese strategy of domestic development. This way they were ensuring work for their industrial enterprises, looked for new markets, ensured access u financing transport corridors. We have seen how they're subsidising transportation to Europe. And that means that they will maintain this driver for recovery and development — BRI. Especially since a lot of the investments have already been done — Western China — Western Europe road is competed in Kazakhstan, and is being built in Russia. Since a lot of work has been done, I believe China will not suspend the BRI, but may actually activate it further. Because China is China, and external trade will remain its main source of GDP revenue in any event. Following the recovery, at the next growth stage it will need alternative trading routes, and the main are located in EAEU.

Aleksandr Labykin

How pandemics and IFCs will change us

"The world will never be the same", a phrase that became a meme during the pandemic, makes economists and futurists increasingly wonder — what will this world actually be like. So far, most agree that intensified trade wars, increased restrictions of various kinds and self-isolation will carry on after the crisis as well

This will happen on the global level. On the micro-level, a prevalence of remote methods of interacting and making a living that we were forced to adopt in order to protect against COVID-19, will get fully imprinted in our conscience. Consequently, this will boost the adoption of new digital and financial technologies and in turn, contribute to a transition to the fifth economic set-up that will follow the current Fourth Industrial Revolution. We can also confidently predict that international financial centres will be transformed too, and they will generate even faster the new technologies and instruments for financing the real economy.

Obviously, a lot will depend now on how fast the world will defeat SARS-nCov-19. According to preliminary forecasts, close to one million people will die from COVID-19 around the world, while others will get infected and recover. According to the most optimistic forecasts, the pandemic will end in the Fall of this year, whereas pessimistic ones are projecting it well past the end of next year. However, a lot depends on the coronavirus which, as virologists joke, itself regrets attacking the world. It has started mutating — on the one hand becoming more contagious, and on the other, less deadly. In all likelihood, it is now here to stay, like the regular flu. And it is clear that healthcare will change radically. After a program of streamlining of the healthcare system (reduction of the number of state clinics), during the pandemic some countries of Europe and the EAEU have faced shortage of medical facilities, medical personnel and simple personal protection items. At the same time, telemedicine and pharmaceutical companies received a powerful boost enabling faster creation of new medical technologies, like nano-pills that can support the immune system, as well as micro-chips that can function as a personal doctor. Just imagine — a virus will be detected before a fever hits. And with the first minor symptoms, the chip will connect you with your doctor online, or will itself provide recommendations on the necessary therapy and will assign the required medication. Such technologies already exist and their development is being completed, and so their arrival to the market is simply a matter of time.

It's anybody's guess how dark or bright our future will be after the pandemic, but we cannot avoid the conclusion that the history of mankind is the history of wars. Having mastered a stone, then a stick, then fire, the prehistoric man turned them into a weapon to fight with his own tribesmen for power, and with strangers for resources. It comes as no surprise that each new technological stage results in world wars as globalisation emerges and culminates. The loss of control over colonies resulted in World War I, followed by the Great Depression. In turn, the Depression accelerated the industrialization whose rapid expansion triggered illusions of world dominance and led to World War II. Discovery of nuclear energy and space exploration directly or indirectly led to Cold War that periodically heated up (in Vietnam and elsewhere). And finally, a transition to a digital economy created new weapons of mass destruction, giving birth to hybrid wars, when real-life conflicts don't cease, but get complemented by information attacks, sanctions and trade wars that waken economies of whole countries and regions, and in the future are capable of destroying the world's economic system.

The world for several decades has been going through the process of de-globalisation, which gives power to regional economies, so far mostly in Asia. Economists are confident that the pandemic will accelerate this process. Before our eyes, the European Union started disintegrating and its member states are distancing from each other. Tourism came to a standstill, and global technological chains have ruptured. Macroeconomists predict strengthening of all these processes in the future, making the

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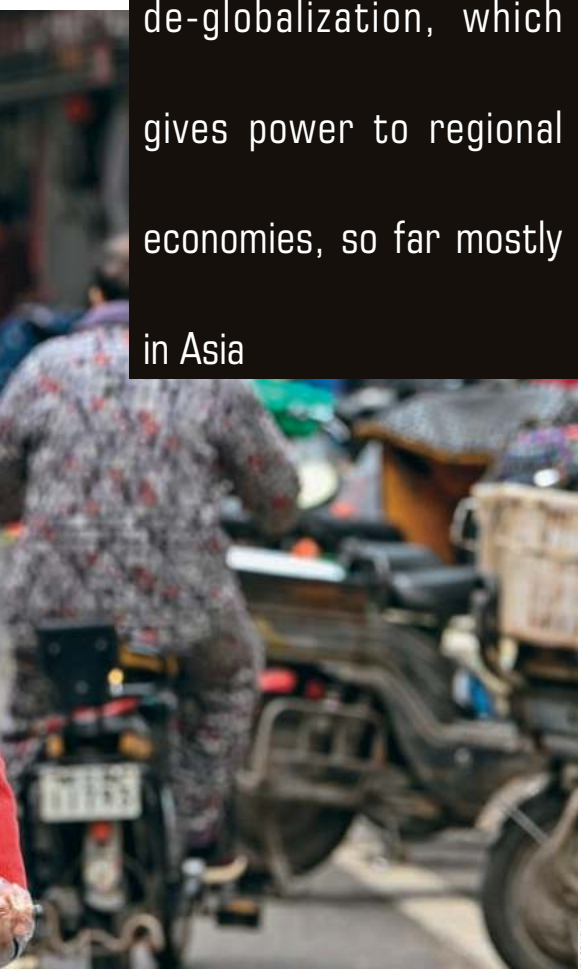

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world more divided in the span of the coming decades.

Most likely, the pandemic will reformat the political systems of many countries, increasing the role of state within economies. As a reminder, China was able to overcome the crisis faster than everybody else due to digital and financial technologies. Systems of digital accounting of citizens, analysis of big data of purchases and movements, face recognition systems in 'smart' cities saturated by cameras resulted in total surveillance and enabled timely isolation of those who were not willing to self-isolate. In some democratic countries self-isolation regime was perceived as an attack on democratic freedoms. However, most people around the world, including the post-Soviet states, perceived restrictions on movement and jobs as a necessary measure to save lives and health of nations. For that reason, there is a common belief that total surveillance in the framework of increased restrictions will become a necessity and will strengthen under the pretext of ensuring national security.

The pandemic will undoubtedly accelerate the transition to a new technological world order. Beneficiaries of this crisis include high-technology companies (Zoom, Yandex, Google and others), who saw demand for their products increase. This activates creation and upgrading of digital products — virtual, additive, information technologies, internet of things (IoT) and artificial intelligence (AI). Governments will expedite construction of smart cities, and business will move towards unmanned production. In this regard, futurists predict that in 20–30 years an overwhelming majority of the population of the world will live (have fun, travel) off welfare, and work will be done by robots and AI. However, for that we need to solve the problem of cheap energy. Already now digitalisation leads to a massive increase in the demand for electricity, data centres demand more of it each year — to assemble data and to cool the servers. And alternative sources of energy so far are not that effective, and do not allow to build a digital future. However, many believe that AI will be able to help with that. If so, we will arrive at technological singularity faster than Ray Kurzweil, a famous futurist and technical director at Google, predicted (he believed that this would happen in 100 years). Technological singularity is a new reality when technologies will appear so fast that humans will be unable to comprehend it. Only machines will be able to do it, by producing new technologies even faster and thereby accelerating the very singularity. And so, as the great Stephen Hawking predicted, we will become slaves to artificial intelligence — something that SARS-nCov-2 has already pushed us towards.

And finally, a global reformatting of the financial system awaits us. Even now the United States is issuing 'free money' to the whole world, undoubtedly leading to bankruptcy of inefficient companies and re-possession of their assets by major banks. This is already causing lack of trust in the banking system and a pivot of business towards international financial centres to attract investments through capital markets. As a result, IFCs themselves, already being generators of the newest digital and financial technologies, will change. Furthermore, new IFCs are increasingly featuring new services for business, and becoming international forums and platforms for creating new hi-tech projects. Yesterday's students from the Silicon Valley are today running global companies (Google, as an example). Next, finance professionals believe, IFCs will inevitably merge with another development institution — free economic zones. IFCs will not only become a more attractive alternative to the banking system, but also an integral part of life for the whole population of the world. For example, it is in the IFCs where new digital platforms appear that allow even housewives to earn money without leaving houses, by using bots and with support of professional brokers. Adding to all that, IFCs have greater flexibility than governments in improving regulatory regimes, which is necessary to bring new technologies to the market. Because a growing number of countries will acquire their own IFCs, a complete re-formatting of global capital re-distribution centres will occur, along with faster development of all countries.

Another question is whether this future will be peaceful. In the Soviet Union, they used to say that if the Earth is attacked by aliens, the world's greatest antagonists, the United States and the Soviet Union will unite in fighting the aggressor from another world. And such an aggressor appeared all of a sudden — SARS-nCov-2. Did anyone unite in fighting it? No, and moreover, the world became even more divided. The US is making calls to increase pressure on China, and to "present it with the bill" for allowing the spreading of the disease. If deterioration of democratic institutions and divisions among countries become a long-term trend, the development of new technologies may only serve a catalyst of new wars. 'Brave New World' from the books by Aldous Huxley and Yevgeny Zamyatin will prevail, and we will all live in abundance but strictly following orders.

Whereas distant future belongs to futurists, the immediate future is something we can comprehend. We know that each fall is followed by a rise, and a crisis is followed by recovery. We see signs of that already. They include technological advances that have not yet resulted in greater productivity, but very soon — with the right technologies — will yield results. Technology development programs are implemented by many countries and by most large corporations. After investment activities recover after the crisis, these foundations will transform themselves into new ways to create value added. Great hopes are associated with the international financial centres — new centres of economic power that feature ecosystems for developing financial and digital technologies, as well as human capital. They are presenting new opportunities to greater segments of population, opening access to financial markets, expanding investor base and improving the well-being of citizens. Without a doubt, this will accelerate the transformation of economy and customary way of life, and it means that the world of tomorrow will be different yet much more interesting. ■