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Realizing Russia's Potential
CHANGES TO THE INVESTMENT CLIMATE IN THE CIS
Panel Discussion

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Moderator:

Sergei Naryshkin, Chairman, State Duma of the Russian Federation

Panelists:

Esko Aho, Executive Vice-President, Corporate Relations and Responsibility, Nokia Corporation, Member of Nokia Leadership Team

Anatoly Artamonov, Governor of the Kaluga Region

Kirill Dmitriev, Chief Executive Officer, Russian Direct Investment Fund (RDIF)

Viacheslav Fedorischev, Dean Assistant, Russian Presidential Academy of National Economy and Public Administration

Talia Habrieva, Director, The Institute of Legislation and Comparative Law under the Government of the Russian Federation

David Kamenetzky, Vice-President of Corporate Affairs, Mars Incorporated

Kairat Kelimbetov, Deputy Prime Minister of the Republic of Kazakhstan

Viktor Khristenko, Chairman of the Board, Eurasian Economic Commission

Alexei Likhachev, Deputy Minister of Economic Development of the Russian Federation

Igor Maksimtsev, Rector, FINEC

Andrei Nikitin, General Director, Agency for Strategic Initiatives

Clyde C. Tuggle, Senior Vice-President, Chief Public Affairs and Communications Officer, The Coca-Cola Company

James Turley, Chairman, Chief Executive Officer, Ernst & Young Global

S. Naryshkin:

Good afternoon, esteemed colleagues and friends. I am happy to welcome you all to the St. Petersburg International Economic Forum, and to our roundtable dedicated to analysing the investment climate in the post-Soviet states.

This is undoubtedly an engaging topic from the perspective of trends, the complicated events currently taking place on the financial markets, in the national economies of Europe, and around the world. It is also an engaging topic from the perspective of increasing the speed of global integration, and specifically of the integration of Eurasian economies. As I am sure you remember, as recently as 15 years ago Russia was at the very bottom of the list of countries aspiring to join the World Trade Organization. Today, we find ourselves literally one step away from joining the world's most important and influential global trade regulation organization. In just a couple of weeks, the State Duma will ratify the previously signed agreement to formalize Russia's entry into the World Trade Organization.

In addition, in recent years, Russia and its partners have formed the Eurasian Economic Community, and Russia has taken on an active role in the Customs Union and the Common Economic Space. This integration is already showing positive results. Last year alone, the volume of trade between the three countries forming the Customs Union – Russia, Belarus, and Kazakhstan – was nearly a third higher than it had been in 2010. We can already see that this year, the trade turnover between members of the Customs Union continues its steady rise.

I must say that during the negotiations that led up to the Russian Federation joining the World Trade Organization, Russia advocated not only its own interests, but also the interests of the Customs Union as a whole. All these actions are aimed at allowing the leaders of business communities and of our countries to work together unhindered on solving pressing economic issues. These are the type of open and transparent cooperation mechanisms that are required to foster favourable investment conditions in the post-Soviet states and the Eurasian Economic Community.

Of course the concepts of investment and business climate are hard to define. It would take more than a day to carefully examine each component of the concept we call economic climate: every development, every political, economic, and social event has an impact on the investment and business climate. Still, we will attempt to examine changes in the key components of the investment and business climate in the CIS countries and their impact on these countries' further socioeconomic development.

My first question is addressed to Tatiana Valovaya, Minister for EEC Integration and Macroeconomics. Tatiana, as I mentioned, in recent years, we have witnessed very active integration trends in the post-Soviet states, especially in the economic sphere. For me, the turning point was the events of the autumn of 2007, around September or October, when the leaders of three countries met in Dushanbe to sign the framework agreements to create the Customs Union. How has the macroeconomic situation in the post-Soviet states changed since then, and how has the integration process affected this situation?

T. Valovaya:

Thank you, Sergey.

First, I have to tell you a secret: Sergey had an active role in signing these agreements. I think he is the perfect man to chair today's roundtable, not only as Chairman of the State Duma, but also as the member of the government of the Russian Federation in charge of the integration process in the most important and complicated period in history. He, and the work performed under his leadership, laid the foundations for the first breakthrough agreements in 2007.

The path of integration in our country has always had its twists and turns, and our progression down this path has been inconsistent: at times, we felt we were taking one step forward only to take two steps back. First, we would make a serious decision, and then we would begin to second-guess it: are we getting ahead of ourselves? Are we ceding our sovereignty? Should we proceed more carefully? In 2007, there was no second-guessing the decisions.

In my opinion, we have to thank the global financial crisis that would soon descend on the world for forcing our hand. The Eurasian states, along with every other country in the world, began looking for ways to minimize the fallout of the crisis and find additional incentives for growth. It is no wonder that the countries that would go on to make up the Customs Union (Russia, Belarus, and Kazakhstan) decided to look for solutions in further integration. The regulatory and legal foundation was already in place; all that remained was to streamline and sign all the necessary agreements. So in fact, the crisis became a sort of midwife for the birth of our integration process.

Then, everything changed. The integration process has its own dynamics; it constantly requires further integration. But the crisis made that impossible. Developments in Europe are a vivid example of how stagnation of the integration process and delays in making important integration decisions can turn into a sudden crisis. I was happy to hear our European colleagues say here, at the Forum, that in their opinion, the way out of the current situation lies not in clamping down on integration, but on moving forward, toward closer fiscal integration, toward forming a taxation alliance, and so on.

So the crisis hit in 2008, just as we were undertaking the practical integration process. We were faced with the problem of how to evaluate its macroeconomic indicators. Without the crisis, it would probably have been much easier to evaluate the situation: our external parameters would have been consistent. But the parameters have changed. I believe that without the crisis, last year our reciprocal trade volume would have grown by much more than 30%.

I will give you an example of how the creation of the Customs Union has changed the nature of trade. Reciprocal trade between Belarus and Kazakhstan is showing much higher growth than, say, reciprocal trade between Russia and Kazakhstan, or Russia and Belarus. Russia finds itself at the centre of this integrated union, with very close ties to both Belarus and Kazakhstan. But the Customs Union has reshaped the playing field: Belarus and Kazakhstan are becoming more integrated. Another example is mobilization of foreign investments. Let us take a look at the

statistics. In 2009, the first year of the crisis, foreign investments in Belarus totalled approximately USD 5 billion; in 2011, this number reached USD 13.2 billion. This is significant growth: close to a trebling of investments. Russia is also showing some growth, but not as much: USD 36.5 billion in 2009, compared to nearly USD 53 billion in 2011. Kazakhstan has seen practically no growth. I think this is due to the crisis, and to the fact that initial investments in Kazakhstan were an order of magnitude greater than those in Belarus. In 2009, their investments came to USD 19 billion; now they are at around USD 20 billion.

Belarus is a perfect example of the increased investment appeal of member states of the Customs Union. Today, investors who visit one of our countries can see that the market of the entire Customs Union lies at their feet. In the past, investors working in Belarus or Kazakhstan were targeting individual national markets with populations of around five, ten, or 15 million; today, they can target 200 million people. This puts their investments in a completely different league. And of course countries like Belarus and Kazakhstan benefit greatly in terms of investment appeal. Now, let us take a look at other important indicators. You know that our countries do not rank very high in terms of business conditions. In some aspects, however, the three countries differ significantly. Last year, the *Doing Business* ranking gave Kazakhstan the Ease of Doing Business rank of 47, while Belarus ranked 69th and Russia ranked 120th. That is a significant disparity! Luckily, thanks to the Customs Union and the Common Economic Space (CES), our countries are beginning to compete for investors. Now, investors have the opportunity to choose to invest in the country with the best Ease of Doing Business rank and consequently fewer administrative hurdles. And since we cannot create any new hurdles within the Customs Union, national services such as customs and healthcare will be forced to adopt the best practices of their colleagues. This is another excellent example of opportunities for improving the investment climate.

We know what we have to do now. It is clear that the Eurasian Economic Union will be fully operational by 2015. There is a lot of discussion about the innovations this Union must bring to the integration process. I think we must approach the currency

question very carefully: we must not rush the decision and repeat the mistakes of others. What is imperative is that we use the European experience in coordinating macroeconomic policies, and not just in terms of criteria. In the past, the Europeans talked of macroeconomic convergence. Some were convinced that nominal convergence along currency exchange rates, inflation indicators, and so forth, was enough to build an alliance under one currency. But many economists warned us that this was not the case, that we would need real convergence. And they were right. Now, we will take this experience into account.

One last thing. It is great to see another powerful integrated union forming right next to the European Union. It is always good to have two unions: we can incorporate our neighbours' experience, and learn from their best practices as well as from their mistakes. Of course we are mainly working with the experience of the European Union; however, in some respects, we are already moving faster than our European colleagues. The Eurasian states, for example, agreed to create the Anti-Crisis Fund as far back as 2008; by 2009, it was fully operational. Meanwhile, the corresponding European fund did not go into effect until 2010, although it is designed to meet the same challenges. The ability of integrated unions to share experience with each other will also help us increase our investment appeal.

Thank you.

S. Naryshkin:

Thank you for those fascinating remarks.

We have some esteemed experts here with us today. At any point in the programme, they may add a short statement to any speaker's remarks or ask a question, even if it is designed mainly to provoke or challenge the speaker. The more controversial the question, the better our discussion will turn out to be.

Vladimir Mau, you have the reputation of being the biggest provocateur. Let us see if you can justify your reputation. I see your hand is already up.

V. Mau:

That is news to me, but I will do my best.

Are there any plans to transition to a single currency across the integrated union, taking into account the EU experience and the discussion we had during the Forum?

T. Valovaya:

That is an excellent question. I think the long-term plans of any integrated union must include transition to a single currency. Of course this is not part of our short-term plan, and I agree with those who say that we should not jump the gun in the next ten years.

That is nothing new. Maybe some of you are not aware that the EU had planned to transition to a single currency as far back as 1980. At that time, the Soviet Union was still trying to build communism. The USSR did not get its communism, and the EU did not get its single currency. It would not be implemented until 20 years later. First of all, there must be internal demand for it. A single currency should be implemented only if doing so will lead to a decrease in business expenses and have a positive impact on the economy, and the states which adopt this single currency must meet certain necessary criteria. During the last session, Alexei Kudrin said that the fewer euro, the better. It is true: less is more. Secondly, external factors must be present to drive demand for this single currency.

S. Naryshkin:

Thank you, Tatiana. My next question is addressed to James Turley, Chairman and CEO of Ernst & Young, a global financial company. Mr. Turley, your company has a truly global reach, including a presence in the post-Soviet states. Can you tell us how the influence of the post-Soviet states on the global economy has changed in recent years?

J. Turley:

Thank you for the question. I think that the influence of this entire region has increased around the world in recent years. It is really a fascinating environment. I have had the pleasure of co-leading with members of the Russian government, working with the prime minister for over a decade, and leading the Foreign Investment Advisory Council (FIAC), so we have 40 big, global foreign companies who are heavy, long-term investors in Russia.

They come together and work with the prime minister's office and the ministry, to talk about what could make Russia, and more broadly the entire region, more effective and more important, and more attractive to foreign investment.

This process started 17 years ago. I have only been involved for the last dozen, but we have seen dramatic improvements and we have seen these companies, and many others which are active investors in Russia, be able to realize some of the benefits of this improved investment climate, frankly.

I think it has come from very candid dialogue back and forth, talking about things like the Customs Union, talking about things like migration policy and tax policy, energy policy, and an array of different things. I think because of the long-term commitment of the zone here to listen to foreign investors, that Russia and the broader free zone has gotten much more important globally.

What I was also encouraged by yesterday was hearing President Putin talk about the three things that are happening in tandem. The privatization of state-owned assets, the continuing focus on attractiveness to foreign investors, but very importantly, a further effort to support local entrepreneurship and innovation, and the appointment of an ombudsman to help support that and other very specific steps to improve that.

The way I look at things around the world is that when privatization takes place and state-owned companies need to get more commercially competitive, sometimes that results in job shrinkage. Both local entrepreneurs and foreign direct investments are essential to job growth. So I think working together to make this zone and the investment climate more attractive is a continuing focus of the government and of the private sector, and I think there is great success.

We commented yesterday, and we have commented for years, that a further important element is administrative barrier reforms. Needing five hundred permits to open an office, or to open a plant, or to set up a company is very inefficient, globally uncompetitive, and creates too much opportunity for corruption. It is all negative when there are that many barriers in the way of progress, so I think that is also on the screen.

At this point the pieces are in place and it comes down to execution. It comes down to how effectively the entire zone here can execute the plan in place.

We are both optimistic that the execution will be effective, and we are committed to helping that execution as best we can.

S. Naryshkin:

Thank you, James.

Panel members, we have an opportunity to conduct a poll on changes in the influence of the post-Soviet states on the global economy. I would like to ask one of our experts, Ivan Fedotov, to tell us what we need to do.

I. Fedotov:

Colleagues, all of you have voting devices. Please key in your answers to the question posed by Sergey. If you think the role of the post-Soviet states in the global economy has changed drastically in the last five years, please press 1. If you think it has not changed, please press 2. If you cannot say, please press 3. First, please press the green button.

S. Naryshkin:

Vladimir, could you comment on the results of our poll?

V. Mau:

These answers reflect the optimism of our audience. I have to be perfectly honest: I pressed 2. I think the role of the post-Soviet states has not changed enough. But the

results are interesting. This might be partly due to the economic crisis, which has affected the post-Soviet states to a lesser degree than the developed countries. By the way, a number of the Forum's panels addressed the fact that the countries of Central and Eastern Europe have not been as affected by the crisis as the more developed Western countries, which, in turn, have been less affected than the countries of Southern Europe.

S. Naryshkin:

Thank you, Vladimir.

Let us continue our discussion. I would like to yield the floor to Alexey Likhachev, Deputy Minister of Economic Development of the Russian Federation.

A. Likhachev:

Thank you very much, esteemed colleagues.

I think our Ministry has evolved into a sort of integration headquarters. On the one hand, we are developing a number of solutions and proposals for the government that address our integrated unions. On the other hand, the Ministry of Economic Development is working with researchers, experts, and the esteemed Vladimir Mau to develop proposals or issue decisions aimed at improving the investment climate. This is how our ministers – both Ms. Nabiullina and our current Minister Andrey Belousov – have always framed our objective: to examine the integration process as a serious opportunity to improve the investment climate in our country and, as a result, in the countries with which we form integrated unions. We have already mentioned the macroeconomic indicators: the volume of international trade and investments speaks to the success of the integration process.

Let us also take a look at this situation from another perspective: rather than examine the macro-level, let us consider microeconomics at the level of individual companies. How do specific companies benefit from working together with each other and with our territorial state agencies? The Free Trade Area of the Commonwealth of Independent States includes eight countries, with another

country, Uzbekistan, ready to join. This is more than a step toward a common market: it is a definitive action aimed at creating it. We are talking not only about joint trade and elimination of duties and tariffs, but also about the unification of technical regulations, customs procedures, and intellectual property protection methods: basing them, I must stress, on corresponding WTO framework agreements.

This is the basic outline of our new Free Trade Area agreement. It is a new grade of integration. Our colleagues in the audience know that in the past, all we had was a set of bilateral agreements. The initial framework agreement (a short symbolic statement) was never ratified by the Russian Federation. Now, we have a completely new platform for mutual trade, as well as for investments and solutions for a number of issues I mentioned earlier.

I will briefly return to the question raised by Tatiana Valovaya about the Customs Union and the Common Economic Space. In my understanding, this is a positive breakthrough, primarily from the perspective of investment climate.

I have always thought that an appealing investment climate is fostered in conditions based on three principles: a predictable regime, transparent procedures, and consistent reform. These are the foundations of all 17 framework agreements to create the CES. The Eurasian Economic Commission is a unique agency that began operations on January 1 of this year with the task of implementing these principles. Today, one body issues regulatory decisions that will be implemented across an area with a population of 170 million consumers. This is the first thing.

Second, the regulatory framework and future decisions are conditioned on the obligation of each member country to join the WTO. All policy documentation of the Customs Union and the Common Economic Space was thoroughly analysed for compliance with World Trade Organization regulations.

Third, we must create an independent regulatory body, free from governmental influence, which can make many decisions singlehandedly. Today, we are already seeing a dialogue between Russian, Belarusian, and Kazakhstani business owners and the Customs Union Commission about regulations and further steps toward

increasing integration that would benefit the business communities of all three countries. That is why by looking at the issues of economic reform and further integration between post-Soviet states on the microeconomic level, we can meet the challenges facing Russian, Belarusian, and Kazakhstani companies, as well as those of our neighbours. Let us get back to EurAsEC. Tatiana heads a working group handling the reorganization of EurAsEC. We can see serious partnerships developing; we can see our colleagues from Tajikistan and Kyrgyzstan getting involved in this process. Kyrgyzstani representatives have clearly expressed their desire to join the corresponding working group. I think Tajikistan is also close to making the same decision. This means the best practices that fully comply with the fundamental principles at the heart of the global trade system are increasingly being introduced in the so-called post-Soviet, or Eurasian, states (I personally prefer the latter term).

Now, let us take a look at investment climate through the global prism. I clearly remember the discussions in the early 2000s. The then-Director General of the WTO, Mike Moore, saw the growing number of regional preferential agreements as a harbinger of the WTO's imminent demise. Luckily, the current Director General is of a different opinion: he believes that the formation and strengthening of regional integrated unions created in accordance with the World Trade Organization's fundamental principles will only serve to ensure the WTO's further development. First of all, these alliances serve as the platform for developing best practices for use in the global trade system. Secondly, they reduce the number of signatories in future agreements. It is always easier for a few dozen players to come to an understanding than it would be for 156 or 157 individual countries.

In this sense, I believe our Eurasian alliance is second only to the European Union, with others lagging far behind, in terms of quality of regulations, and is in the lead in terms of the development and incorporation of global best practices and fundamental regulations into its regulatory framework. Russia will be the country to initiate this process. After joining the World Trade Organization, we will move toward joining the Organization for Economic Cooperation and Development. That will

require us to bring our entire regulatory legislation and procedures into compliance with appropriate regulations. I believe we will move forward steadily and quickly.

In summation, I want to say that commerce is undergoing serious invigoration on the macro- and microeconomic level. A great number of companies with Russian assets are registered in Kazakhstan, and vice versa. Belarusian companies are taking an active interest in the Russian market. Not everyone is happy about that: opinions on the issue differ, especially in Russia's manufacturing circles. But it is this competition that will objectively sharpen our competitive edge and, as a result, improve the investment climate. This is exactly what we were aiming for when we developed the regulatory framework of the Commonwealth of Independent States, the Customs Union, and the Common Economic Space.

Thank you.

S. Naryshkin:

Thank you, Alexey.

Any questions or short comments for our speakers from our esteemed experts? You do not have to stick with provocative questions. We would like to hear serious questions and serious comments. None so far? Then we will proceed with our discussion.

I would like to go back to the Eurasian Economic Commission: a young organization which has already accumulated a certain level of experience. I would like to ask Minister of Economic and Financial Policies of the Eurasian Economic Commission Timur Suleimenov how the financial and economic policies of the nations forming the Customs Union, and post-Soviet states as a whole, change in the presence of the integration process we are discussing today.

T. Suleimenov:

Thank you very much, Sergey.

This really is a very important question. My colleagues who spoke before me talked in great detail about the impact of the integration process and initiatives on the macroeconomic indicators and on the figures of individual companies.

Now, I will take the liberty of making a controversial statement. It is true that since the creation of the Customs Union, commodity trade within it has shown an excellent growth rate of 30% a year, faster than anywhere else in the world. But we do lag in some areas: for example, mutual trade in services and mutual investments. We see Russian companies registering in Kazakhstan, Kazakhstani companies registering in Russia, and both registering in Belarus. However, mutual investments make up just 10% of the total volume of investments. This means that our companies prefer to attract investments from countries outside the Union, and to invest in those countries. Of course this means that we are losing jobs and revenue to other countries. This also signals to major investors that as long as mutual investments and mutual trade in services within the Union are lagging behind commodities trade, they should wait. They want to see partner countries invest in each other before they bring serious funds to the table.

This is why the state agencies and business communities of member countries, as well as the multinational bodies of the Eurasian Economic Commission, are facing a major challenge: to improve the investment climate within the Union, to prompt our companies to invest in each other. Of course a great deal has already been done in this area. We already mentioned that the World Bank's *Doing Business* ranking shows a huge disparity between our countries. Of course investment appeal depends on a great number of factors: the size of the market, accessibility of financing and infrastructure, and availability of the labour force. Our countries seem to have all these factors. But they also have the factor mentioned by the esteemed Mr. Turley: a large number of administrative hurdles.

Today, in my opinion, our states and multinational agencies are armed with effective tools for addressing this issue. It will take decades to provide our country and the massive Eurasian territory with effective infrastructure. It will take decades to educate people, to produce a qualified workforce. But to get rid of unnecessary

administrative hurdles, all we need is strong political will, effective enforcers, and naturally, cooperation with the business community.

We can look at this using the example of Kazakhstan, since *Doing Business* rates it higher than the other countries of the Union. In Kazakhstan, a compulsory decision forced state agencies to reduce the volume of licensing documentation and types of activities requiring a license by 30%. Currently, the parliament is examining a draft to reduce it by another 30%. Now, audits can only be conducted on a schedule. The audit schedule is prepared at the end of each year, and published on the corresponding supervisory agency's website. If someone comes to audit a company that is not listed in the current year's schedule, the company's employees have the right to refuse entry to the auditors, or to contact the Prosecutor General or the District Attorney.

Serious steps to analyse regulatory impact are also taken in Russia: for example, we have created the post of Business Ombudsman. These are necessary steps in the right direction, and we must ensure that they yield maximal results.

Turning back to the Eurasian Economic Commission, I would like to note that our governments have handed a great deal of their functions over to it. Customs administration, technical regulations, establishment of medical and veterinary norms: all these things are now under the purview of the Commission. Decisions issued by the Commission are compulsory for all state agencies and all companies. In my opinion, it is crucial that the national governments' determination to cut down on administrative hurdles is not lost at the committee level. We have a Department of Entrepreneurship Development, which will analyse all legislative acts issued or proposed at the committee level, as well as the regulatory impact made by local ministries of economy on the national level. It will ensure that development of these documents is transparent and accessible to interested business parties.

To sum up, without cooperation between national governments and the international agency, it will be very hard to foster an appealing investment climate. That is why I hope our work in this area will be fruitful. Thank you.

S. Naryshkin:

Thank you, Timur. Any questions or comments from our experts? Even Vladimir has no questions. OK, let us move on.

From the floor:

I will add one comment. I absolutely agree with what was said, but we should not underestimate the fact that every high-growth market in the world, every region, every country, in some cases every city, is trying to do the same thing. They are all trying to streamline processes.

I was at an event in Saudi Arabia put on by the Saudi Arabian General Investment Authority last January, and they were talking about statistics where they have reduced the number of processes and steps to open a business or open a plant. I do not remember the details but they moved it from something like 60 days to 12 days, and from 90 steps to nine steps.

This is something in which great progress is being made here, but it is also important to look at relative progress compared to other emerging economies, because that also will be important to relative attractiveness.

S. Naryshkin:

Thank you, James.

Now, I would like to discuss the legal side of the question: the influence legislation has on the economy and vice versa. While economic objects act within the current legislation, economic developments and processes, in turn, have an impact on the course of legislation.

The next question is for Vladimir Lafitsky, Deputy Director of the Institute of Legislation and Comparative Law under the Government of the Russian Federation. What new opportunities for the evolution of legislation are emerging due to Russia's upcoming entry into the World Trade Organization?

V. Lafitsky:

Thank you.

The Russian Federation has been able to overcome the aftermath of the previous chapter of its history. Our country's investment-related legislation is pretty highly developed, and we are setting up new legislative controls, including law enforcement practice, legislative awareness, and legislative culture. Business activity, business acumen, and entrepreneurship are no longer alien concepts to our nation and our society. This is largely due to the fact that Russia has become more open to the rest of the world. Entry into the WTO opens new vistas for reaching our full legislative potential.

However, many problems are yet to be solved. One of them is the fragmentation of our investment area, both nationally and internationally. We are not taking advantage of the benefits offered to us by our membership in the integrated unions: the CIS, the EurAsEC, and the alliance between Russia and Belarus. We have a common legal language, common legal concepts, and common legal mechanisms that are going unused. By joining the WTO, we can use this potential much more actively.

Our second important task is to improve state governance. This task has long been ignored, as we spent too long in the grip of market ideology. However, the state must strengthen its presence in the investment sphere. We must not let ourselves detract from the state's role in regulating this complicated process. One of the things we must do is widen the state's authority in the sphere of education and science; otherwise, we will have no intellectual capacity to use the investment resources flowing into our country.

Another task, possibly the most arduous one facing us in the context of Russia's entry into the WTO, is to nurture investment-oriented citizenry, *Homo investitio*, so to speak. We must nurture a citizenry that will care about more than personal wellbeing, more than a comfortable retirement, more than the wellbeing of its children and grandchildren: we must nurture a citizenry that will care about the wellbeing of all people. Only then will we be able to meet our target in attracting

investments. So far, this has not happened, here or elsewhere in the world. Maybe our entry into the WTO will force us to address these issues.

S. Naryshkin:

Questions or comments from our esteemed experts? Please go ahead.

A. Kostin:

I have a few questions, not only for Vladimir, but also for the other panellists, especially since we have already encountered legal terminology. My second occupation is international arbitration. As such, I would like to point out that investment appeal largely depends on the presence of an effective and adequate dispute settlement mechanism, both on the macro- and micro-level. Take London, for example. London is a global financial centre in which the state supports arbitration and alternative non-governmental dispute settlement methods. This is the most suitable mechanism for settling investment disputes between the state and investors, between private investors, and so forth.

Overall, we do not see similar state support of arbitration in our country as seen in London, Stockholm, or Paris. This is not just my personal opinion. Many polls have been conducted in recent years, including some in London. Moscow has hosted the *Russia as a Platform for Arbitration: Pros and Cons* conference. Respondents across the board, in the West, in the East, and in Russia, believe we have a lot to offer. We have reasonable legislation; we have a standing arbitration tribunal, which I represent here: the ICAC, the International Commercial Arbitration Court at Russia's Chamber of Commerce and Industry, which recently celebrated its 80th anniversary. This is a tangible advantage of the post-Soviet states. However, people notice an absence of a pro-arbitration approach on the part of state courts and other state bodies. If we could dedicate sufficient time to this issue – and our competent arbitration courts are ready to take part in this process – we could make a tangible contribution to improving the investment climate of the post-Soviet states.

Considering Russia's rich arbitration tradition, Moscow could become the central location for settling investment disputes in this region.

Thank you.

S. Naryshkin:

Thank you. That was a comment from our esteemed expert, Chairman of the International Commercial Arbitration Court of the Russian Federation Alexei Kostin.

Mr. Aho has a short comment. Please go ahead.

E. Aho:

I would like to make a comment on this legal requirement and legal system because I am here representing Nokia but, at the same time, I am on the Industrial Advisory Board as Chairman in the Skolkovo project.

We made a study. We asked all 20 companies, actually 19 in that phase – global companies like Nokia, Cisco, Intel, Microsoft, and a couple of Russian companies as well – what the basic obstacles to doing business and expanding activities in Russia are.

When you look at the global list of critical elements, at the top of that list is always customers and access to the market. But that was not the number one in Russia. It was number eight among those 20 companies. Number one was legal requirements, the legal system, and legal obstacles.

I would like to stress the importance, if you look at the whole region, of getting a legal background. When you are opening the markets and you are creating integration in the market, this makes it possible to have a legal basis which is in line with the requirements of global business. I think it is a very critical element, and it is not only important for global companies or companies coming to the market, but also for the growth of local companies and for their access to the European markets or American markets or international markets. It is a very important issue.

S. Naryshkin:

Thank you, Mr. Aho, for your keen commentary.

I have a question for the CEO of the Russian Direct Investment Fund, Kirill Dmitriev. A week ago, when speaking at a different economic forum, Prime Minister of the Russian Federation Dmitry Medvedev hypothesized the creation of a single currency for the countries of the Eurasian Economic Community. We discussed this subject earlier. What do you think?

K. Dmitriev:

I would like to give a brief answer to this question, and then propose another idea that might be useful. We deal with a lot of investors, and they show considerable interest in the Common Economic Space. At some point, transition to a single currency will undoubtedly be the right course of action. It will greatly simplify investor activities. But we should not expect, as we mentioned before, to solve this problem in the near future: first, we must eliminate a great number of hurdles. The situation developing in Europe gives us an opportunity to learn from someone else's mistakes and avoid repeating them.

Here is another important thought on the subject of investments, a subject we have been discussing in great detail. Russia has considerable potential to become the investment centre of the entire Common Economic Space. As recently as yesterday, we announced the desire of BlackRock, Franklin Templeton, and Goldman Sachs – three funds which manage USD 5 trillion between them – to invest funds in the IPOs of companies based in Russia and other countries of the region. The stock market is growing into an obvious centre of gravity for liquidity in the Common Economic Space. Therefore, I do think we will eventually turn toward a single currency. But first, we have a great opportunity to harness investment energy from Russia's existing operations. We are actively cooperating with independent funds which want to work with us and invest funds into the Common Economic Space because they are looking for a large market. We have a great number of mechanisms that allow us to foster cooperation even before we transition to a single currency.

S. Naryshkin:

You wanted to raise another subject.

K. Dmitriev:

I mentioned the other subject. I will add a short note. Criticism of Russia's investment climate has been in fashion lately. We have spoken to investors; some of the world's leading investors are part of our Expert Council. Yesterday, they met with Russian President Vladimir Putin. Investors have a much more positive approach to this issue. They rated the President's speech very highly. They realize that making a leap from 120th place to the 20th in the *Doing Business* ranking is an important and clear goal. The Agency for Strategic Initiatives' road maps provide a clear mechanism that drives us forward.

Therefore, the world's leading investors rate our conditions highly. In addition, yesterday a Kuwait fund announced that it is investing USD 500 million in Russia. So we are working with many positives, and we must not forget that.

S. Naryshkin:

Thank you, Kirill.

Any comments from our experts? Please go ahead.

N. Doronina:

I would like to agree with this optimistic perspective and add my opinion on the issue of a single currency. This truly is a very complex issue which must be addressed in stages, based on the resources we already have. In fact, commercial arithmetic can continue to be done in the national currencies of the post-Soviet states, as long as the financial market is integrated. One segment of the financial market is the foreign exchange market, on which currencies are traded. A few organizational steps would be enough to get this market up and running in real terms. This would remove barriers to trade: I am talking about transactions based

on the US dollar, which must take into account the risk of financial crisis and so forth.

The MICEX has already started down this path, spearheading the Association of CIS Stock Markets (MAB of MICEX), which is already taking measures to assist business owners. This will be the most realistic step, and I believe it will find support. Thank you.

S. Naryshkin:

Thank you.

Let us thank our expert, Deputy Director of the Institute of Legislation and Comparative Law under the Government of the Russian Federation Natalia Doronina. Now, I would like to give the floor to member of the Board and Deputy Chairman of Vnesheconombank Mikhail Kopeikin.

Please go ahead, Mikhail.

M. Kopeikin:

Thank you.

I would like to agree with Tatiana Valovaya. To transition to a single currency, we must, first and foremost, create the necessary conditions. Coordination of currency, credit and financing, taxation, and customs policies must be conducted on a completely different, higher level. Only by ensuring the appropriate level of coordination will we be able to use a single currency.

Today, we often hear people say that the Russian rouble must become this single currency. This is dangerous territory, because the rouble rate fluctuates quite often, depending on fluctuations in market prices, especially in oil prices. Just in the last month, it fell by 15%. If we adopt the rouble, this will raise issues with Kazakhstan and Belarus. Germany's experience shows that the country which owns the currency bears the highest risk. It is forced to take action in order to safeguard this currency and forced to take effective steps to overcome the crisis. Thank you.

S. Naryshkin:

Thank you, Mikhail.

Now, we will follow our brief discussion of the Eurasian Economic Community's possible transition to a single currency with another poll. Here is the question: Would a transition to a single currency have a positive effect on the economies of EurAsEC members and the post-Soviet states in general?

Vladimir, you will have to tell us your thoughts. Since you have not asked any questions, you have to give us your expertise.

V. Mau:

If I may, I will take part in the debate.

S. Naryshkin:

Of course.

V. Mau:

I think the results of our poll are completely correct: they speak to the sense of responsibility of those in attendance. The majority of us thinks that a transition to a single currency would have positive effects on the economy, but everyone is troubled by the European crisis and has a very cautious outlook on the situation.

On my part, I would like to add that even for the European Union, the implementation of a single currency meant, strictly speaking, handing all central banks over to Bundesbank. At the end of the day, the euro is nothing more than two German marks. Consider the three countries that make up the Customs Union: if we leave aside political considerations and take into account economy sizes, we can see that the rouble is the only currency that can play the role of a single currency, especially since the Kazakhstani currency also fluctuates due to the important part oil resources play in its economy. And the Belarusian currency, as we saw last year, can also fluctuate under certain conditions. I must say, though, that after last year's events, Belarusian financial policies have been much more responsible.

In political terms, we can call this whatever we want. But if we were to have a single currency, then of course it would be the Russian rouble, regardless of what it would be called or what images would be printed on it.

S. Naryshkin:

Thank you, Vladimir.

We have plenty of pessimists in our audience: almost a third. This is probably due to the fact that it was an anonymous vote. Thank you, colleagues.

We have spent the last 17 years talking about the question of Russia joining the World Trade Organization. Now this question has been practically decided. Mr. Aho, I missed your raised hand again. Please, go ahead with your comment.

E. Aho:

I would like to comment on this common currency issue, sharing with you our experiences, because I think that when you are looking at Europe today a good question is whether it has been good or bad for Europe, the common currency, and why we are in trouble with the euro zone.

I think there are two basic problems. The first one is that a common currency cannot be a political decision. It must be strongly founded on sound economic policy analysis. Secondly, convergence cannot be a target to be achieved through a common currency. Convergence is not achieved through a common currency. First you have to have convergence, and then you can create a common currency.

These are the two, in my opinion, most critical lessons from the case of the euro and the basic mistakes we made in Europe; because of that, we are now facing difficulties.

S. Naryshkin:

Please go ahead.

T. Suleimenov:

I also wanted to make a comment, because this is a very interesting subject. If this decision is made, then it will most likely be up to the Eurasian Economic Commission to implement it. Of course in this case we must not confuse cause and effect. Implementation of a single currency depends on a number of factors. One factor, as I already mentioned, is high trade turnover, not only in commodities, but also in services and investments. Another is demand for a single currency on the part of the business community. It is also the absence of exchange risks, open currency positions, and so forth. If this factor has a low impact on a country's economy, then of course the single currency, along with the risks it eliminates, would not have as much importance. But that is not the reality of the present situation.

While Russia is Kazakhstan and Belarus's largest trading partner (not counting, in Kazakhstan's case, the European Union), Belarus and Kazakhstan are approximately fifth or sixth among Russia's trading partners. To sum up, this factor is not entirely in place yet, so we cannot yet put a checkmark next to it, even if we ignore everything other than commodity trade. Next, if the single currency is introduced with an eye towards the European experience, we must coordinate budgetary, taxation, fiscal, and other policies. What does this mean? It is imperative that we have identical economic structures, and that the economies of our countries react to the same developments in the same ways. If one country has a service-based economy while another has a resource-based economy, let us say, we cannot tax retail at high rates, because this would influence the two countries in completely different ways.

In order to avoid repeating Europe's mistakes, we must coordinate our budgetary policies. In order to coordinate budgetary policies, their economic structure, the budget, and its revenues and expenditures must be more or less similar, or at least must react to specific budgetary measures in similar ways. This is crucial, and I am sure we cannot rush this issue. Convergence is the primary process: we cannot confuse cause and effect.

S. Naryshkin:

Thank you, Timur.

So, colleagues, Russia's entry into the World Trade Organization will lead to qualitative changes in the economy and to the establishment of a new investment climate.

In this regard, I have a question for Mr. Tuggle, Senior Vice President, Chief Public Affairs and Communications Officer at Coca-Cola. Mr. Tuggle, you represent a company that has invested considerable funds in the economy of the Russian Federation. In your opinion, how do foreign investments impact the economic situation in the post-Soviet states, and how do you expect this impact to change after Russia joins the World Trade Organization?

C. Tuggle:

Thank you for the question. It is a pleasure to be here. I have spent three years running our business in Russia, Ukraine, and Belarus and I have just one thing I would like to say before we get started. I only regret that we cannot ask you all to vote on what your favourite soft drink is, using this device. I am sure it would be Coca-Cola.

When you look at the investment that Coca-Cola has made in these markets taken as a whole to date, we have approximately 20 plants across these various markets. Our investment to date exceeds roughly USD 3 billion. We are expecting to invest another USD 3 billion over the next few years. I think in some ways accession to the WTO only reaffirms what a company like Coca-Cola already knows, which is that this is a very attractive investment destination.

When we look at what the calculations for a great investment are, it is actually a fairly simple equation. You need a relatively young population. You need a growing middle class, which is occurring in these markets. You need disposable income, meaning a growing economy, which also exists here.

So for us in some ways, to use the colloquial American expression, this is a no-brainer. These markets are going to continue to grow. We will continue to invest.

And from our perspective, and this is really the story that we tell on the US side to the legislators, anything that can be done to create a more attractive investment environment, and certainly accession to the WTO would do that, then all the better.

The other thing I would say is that when you look at the future for a business like ours, if you invest in a company like Coca-Cola and our bottling partners, what you are really investing in is an international mutual fund. That is because investing in a company like ours, you are actually buying into an investment in these markets.

So we often say that if you want to have an ownership stake in a market like Russia or any of the other CIS markets, then there is no better way to do that than to invest in the companies which are investing in building and growing businesses here.

We put a stake in the ground a couple of years ago that said we were going to double our systems revenue. That is the revenue of both the Coca-Cola company and our bottlers, and a couple of years ago that was roughly USD 100 billion. We said that we were going to double that number by the year 2020.

When you look at our ability to do that, these markets will play largely into whether we can hit that number, and we are on track to doing that.

But the growth opportunity here is extraordinary. I would say that it is never too late. Any foreign investor who has aspirations of being a global player, of building a global enterprise, and of being successful in the global marketplace cannot ignore these markets.

I would say that for a company like ours, which now operates in 206 countries, so there are only three that we are not in, I will let you guess what those are, that our success in these markets, and specifically in a market like Russia, will define what our global success looks like.

That is why we have been very outspoken. I will travel back to the United States this weekend, I will be on Capitol Hill on Monday, and I will be telling the story to our members of Congress about how essential it is that this market is given the necessary tools to join the WTO as quickly as possible.

Thank you.

S. Naryshkin:

Thank you for your remarks, Mr. Tuggle. In regard to your optimistic view of Coca-Cola, I must admit that it does enjoy popularity in Russia. But Russia has another popular drink: Russian kvas.

Any other comments? Mr. Aho?

E. Aho:

Actually, I have already had several opportunities to make my comments, but I would like to do roughly the same as my colleague did a couple of minutes ago but from a bit more general aspect.

I think it is very important, when you are thinking about the future of these countries, to look at not only physical investment, but investment in intellectual capital as well. And that is becoming more and more relevant for development.

I come from the mobile business and mobile technologies, and it is an important business as such. Our industry sells more than a billion devices annually, all over the world. There are a lot of jobs in manufacturing, in creating software, and creating applications. That is only one part of the story, and unfortunately many countries cannot participate in that game.

But there is another game which is open for all, and that is a game based on taking the maximum out of these devices, both in the public and private sector. I can tell you that within the next couple of years you are going to see a revolution. That revolution is open to all countries, all people around the world. I hope that you will not forget those opportunities and that you will make investments in those opportunities.

Again, you come across legal issues quite often, such as IPR protection, the regulatory environment, and the creation of an ecosystem for that. But it is simple to do because you do not need money for that. You only need a good regulatory environment. And it is up to you; you can decide about that. You do not need to get support from outside. It is in your own hands what you are going to do.

We will assist and we are happy to give you ideas and guidance but the decisions can only be made by you.

S. Naryshkin:

Thank you, Mr. Aho. Alexey Likhachev, please go ahead.

A. Likhachev:

I would like to direct the attention of all present here to another less obvious aspect of Russia's entry into the WTO, related to investment climate. We constantly talk about how Russia's membership in the WTO will mean new rules of the game, upgraded legislation, and increased responsibility related, among other things, to the WTO's dispute resolution. However, membership in the WTO also means reciprocal access to the markets of member countries. It means an opportunity to promote our Russian interests, Russian products, and services; to eliminate hurdles on the markets to which we already have access, as well as to potential markets. And to my mind, this aspect is currently absolutely crucial for foreign investors. In this respect, Russia could become an important 'stopover' on the road to the growing markets of South-eastern Asia and the majority of Eurasian markets.

We have not yet realized all the opportunities and benefits that membership in the WTO will offer us in terms of Russia's presence on foreign markets. Thank you.

S. Naryshkin:

Thank you, Alexey. I appreciate your input into the discussion. I know that you will have a heated discussion at the State Duma when you ratify the signed agreements, so please be ready.

For a further perspective on the subject, I would like to address another expert, Valery Fadeyev. Valery, in your opinion, how will Russia's entrance into the World Trade Organization influence changes in the macroeconomic situation in the post-Soviet states?

V. Fadeyev:

Thank you for your question. However, considering that my colleagues and I were very critical of the process of our entry into the WTO, I will attempt to sidestep this question.

S. Naryshkin:

That is all right; we can handle it.

V. Fadeyev:

I would like to draw your attention to the idea that we must learn from our American colleagues – in this particular case, from Coca-Cola – how to promote products. I am sure all of us here are subscribers and readers of *Expert* magazine. Still, I want to remind you that you can subscribe for the next six months at a sizable discount by going to the official *Expert* magazine website. Please do take advantage of this offer we are extending.

I want to warn you about massive objective problems that await us on the road to further integration. I will remind you that even in the Soviet Union, despite enormous efforts to integrate the republics and ensure a uniform rate of development, this development remained quite inconsistent. Each republic had a specialization: agriculture, industry, weapons manufacturing, and so forth. Disparity between average per capita incomes could reach 150%. After the collapse of the USSR, these problems worsened catastrophically. Georgia's GDP plummeted by 70%; Russia's fell by approximately 40%. Uzbekistan and Belarus's GDPs suffered fewer losses due to their regimes, but they did not remain unscathed. Average per capita incomes in many former Soviet republics never reached the maximum level of Soviet average per capita income. These republics include Georgia, Ukraine, Moldova, Kyrgyzstan, and Tajikistan. By now, of course, some republics have already surpassed this indicator; luckily, Russia is one of them. If we apply the current exchange rate, incomes in some republics may be 20 times higher than in

others. I will remind you that in the Soviet era, the difference was 150%. A number of republics (which shall remain nameless) can simply be classified as failed states. The situation is dire, and we must understand this when we talk about implementing a single currency. Of course, theoretically we could transition to a single currency in the strongest countries, such as Russia and Kazakhstan. But as soon as we consider relatively weak countries that could benefit from involvement in the integration process, it all turns into a pipe dream. We have to lift these countries to our level. If I may be politically incorrect, Russia's economic might is the leading factor in the integration process. In late 1990s, Russia's GDP was USD 200 billion and change. Today, it is USD 1.7 trillion. These are two completely different economies, two completely different magnitudes. If Russia's economy continues to grow at the same rate as in the decade before the crisis, in ten to 12 years its GDP will reach USD 3.5 trillion. I think this is perfectly doable:

USD 3.5 trillion is close to Germany's GDP, or actually equal to Germany's GDP. Vladimir Mau was talking about Europe and Germany earlier. We will become the unifying centre for all our neighbouring countries. As you can imagine, the markets will grow to many times their current size. Without Germany, there would be no European Union. Or it would have ceased to exist now, with the problems facing Greece and other countries. In this regard, Russia undoubtedly plays a key role.

A wise and influential Kazakhstani man said to me, "Sure, we would join a customs union with the USA, but they are far away, and they have not offered." This is a reasonable economic, if not political, approach. What could we say when our GDP was USD 200 billion? We had no reason to join customs unions or form a Eurasian alliance. It is no coincidence that integration is driven by the two strongest countries: Russia and Kazakhstan.

Ukraine remains a very serious challenge. It is a large country of 50 million people, and in my opinion, it would be a good move to involve Ukraine in the integration process. I see this as a political problem. If I may be politically incorrect again (I am a journalist, not a diplomat): the Ukrainian nation has failed politically. It is split into two or three factions. I often visit Ukraine and have discussions with Ukrainians. The

position of the Ukrainian elite is this: Russia, driven by its imperialist ambitions, wants to practically swallow Ukraine whole. We know this is far from true, but we rarely manage to convince people in Ukraine of this, even though we hold discussions with very reasonable people.

Russia's economic growth plays a crucial role in this aspect as well. For years, Ukraine looked to Poland as an example: when it joined the European Union, Poland had relatively high average per capita income. Today, if I am not mistaken, Poland's average per capita income is a little over EUR 1,000. But Russia's average per capita income is growing by leaps and bounds, and it looks poised to overtake Poland's in the foreseeable future. At that point, I would expect pragmatic Ukrainians to turn their sights from the West to the East. They will realize that they have a different example to follow: a country that is growing faster than the fringes of Western Europe, specifically Poland. It is crucial for us to demonstrate that as we develop, we can reach high growth rates and high incomes.

The Ukrainian elite must understand that integration provides more reliable economic growth and a bulwark against crisis. Tatiana said that the crisis had a positive impact on integration. That is understandable. There is someone to turn to for money: a neighbour who can help out. This is precisely what happened to Belarus last year, when it had problems, to say the least. What would have become of it without Russia? Where would they have turned? I think integration will begin once the Ukrainian elites realize that it is a path toward building a Ukrainian political nation and healing the rift between the Eastern and Western parts of the country. I think they will quickly move toward cooperation with us.

As far as joining the WTO, what is so scary about that? I remember early talk of the WTO. Sometime around 2000, the Russian Union of Industrialists and Entrepreneurs (RUIE) hosted a large forum attended by Vladimir Putin. Alexey Mordashov, the RUIE executive who was at that time responsible for issues related to joining the WTO, spoke at the forum and said, "This is an issue of enormous importance. The price is too high. This issue is worth USD 4 billion." What is USD 4

billion today? We can have USD 5 or 10 billion moving from one bank to another in one trading day.

In conclusion, I would like to say that the most important thing is strength of the economy. If we continue to increase the strength of our economy, integration of the post-Soviet region will undoubtedly be a successful and fast process. Thank you.

S. Naryshkin:

Thank you, Valery. Let us turn to comments from our experts. Rector of the St. Petersburg State University of Economics and Finance Igor Maksimtsev. Please go ahead.

I. Maksimtsev:

Colleagues, I am absolutely convinced that successful integration within the Eurasian Economic Community requires intellectual integration and the development of the overall intellectual market at ever-increasing rates. We know full well that investors will not come to our country until we have trained personnel and good education, that they are necessary for dynamic growth within any alliance. I believe that Russia must play a leading role in developing contacts between universities in all countries of the Eurasian Economic Community. Thank you.

S. Naryshkin:

Sergey Vorobiev, please go ahead.

S. Vorobiev:

Thank you. I wanted to hear Andrei Nikitin's remarks, but we are out of time.

S. Naryshkin:

We will wait for them.

S. Vorobiev:

And then we will adjourn quickly?

I would love to live in the Eurasian Economic Community, but I live in a completely different country. We have talked about the financial climate, legislative climate, but not about the human climate. And in case you do not already know, to people, Russia is a cold place. Russia is a cold place: that is the first thing Americans think of when asked about Russia. Kazakhstan is a little warmer, so it occupies 40th place in the *Doing Business* ranking, while we are in 120th; this averages out to 70th position.

In short, people are our most underused resource. We are hopelessly losing the war for talent, which Timur has already tactfully mentioned. We can talk about a single currency or whatnot, but we must have certain superstructural things: we must graduate from secondary school, then get our undergraduate degree, and then our graduate degree. Valery put it best: there can be no strong economy without strong education. Without it, we cannot use the best practices of other countries.

Of course it is good that we have a unified Customs Union. Our market is already one of the largest in Europe, but this does not seem to improve people's lives. The quintessentially St. Petersburg word 'co-authorship' really caught my attention when you mentioned it in the Duma. I really hope to see the Duma focus on the kind of co-authorship that would improve the human climate and make our country warmer for people.

S. Naryshkin:

Thank you, Sergey, for your excellent advice. You propose to steer clear of fantasies, but I will indulge myself. Let me pose a provocative question to Tatiana or Timur. Two or three days ago, I spoke at the Moscow Diplomacy Club (they have a special club for diplomats) during a meeting with heads of diplomatic missions of Russia's neighbouring countries. After I spoke, I answered questions, including questions about the future of Eurasian integration. As I was replying to the Polish ambassador's question, I had a crazy thought: we must not rule out the possibility that sooner or later, our Western neighbours, including Poland, might also join the

Customs Union. It would be a logical step: Poland shares a border with the Customs Union, since it borders Belarus. Tatiana, Timur, what do you think of my provocative question? Any thoughts on this subject from the ministers of the Eurasian Economic Commission?

T. Valovaya:

We have had this thought for quite some time now, but I think there will be a different format. I do not think that Poland, Lithuania, or France will join our Customs Union: they are members of a different customs union, and I doubt they will trade one for the other. But I have no doubt that our two unions, the Eurasian Economic Community and the European Union, will morph into a new single entity. We have spent the last few days discussing the possibility of a unified economic space that would stretch from Lisbon to Vladivostok, or the other way around, from Vladivostok to Lisbon. It does not matter what we call it: Big Europe or Wide Eurasia. Either way, this large space will be located in Eurasia.

Sergey said that we are all romantics, that we are navel-gazing. I want to explore the thought about the various symbols of our integration. I already mentioned this during yesterday's panel, but we did not have a lot of time, so I could not continue the discussion. My colleagues spoke plainly, with no equivocations: they feel uneasy admitting that European integration is centred on the Bundesbank, which manages the entire European financial system. Let me reassure you: this is perfectly politically correct. The geographic centre of the current European Union, which consists of 27 states, is located just outside of Frankfurt, near the former Bundesbank, which is now called the European Central Bank. It is the centre of the European Union. This is a sign that the euro will be just fine.

And as far as the centre of our Union is concerned, I only recently found out where it is located: far from Moscow, Minsk, and Astana. You all know the name of this place: it is a strange, mysterious place in the Far East where the Earth met an envoy from space, the Tunguska meteor or comet. That is what makes our Eurasian

character so mysteriously obscure; that is why the region we will be developing is so massive.

S. Naryshkin:

Thank you, Tatiana. Timur, do you have anything to add?

T. Suleimenov:

I would probably agree with both comments. I would like to say a few words on the first point about cooperation with our neighbours, both to the east and to the west. Of course the Customs Union provides a pretty high level of integration. Poland and other countries with membership in the European Union will naturally have a hard time building alliances with us as part of the Customs Union. Still, in a few years a free trade zone agreement could become a reality. I am sure you all know that we are conducting negotiations with the European Free Trade Association, which includes four European countries that also created a customs union. These negotiations are focused on creating a free trade or preferential trade zone. We are also in talks with New Zealand and Vietnam. Our integrated union will work with countries in the east and in the west.

Now, for the second comment. I have no idea what people in Belarus think of this, but in Kazakhstan, people clearly understand that Russia's geographic location, its historical role, and its economic power might position it as the leader in the integration process. There is nothing we can do about that. We are not bothered by this fact, and accept it as objective reality. This is why we must not get bogged down in political correctness.

The most important thing, to my mind, is to make sure we have no senior and junior partners. Of course there are objective circumstances: economic and political influence, military might, and so forth. But in order for things to work out, in order to make sure the mutual trust we spent so many years fostering does not disappear or become devalued, we must make sure our relations are built on an equal footing.

S. Naryshkin:

Thank you. Please go ahead, Mr. Aho. You are our most active expert—and yes, I do mean this as a rebuke to Vladimir Mau.

E. Aho:

I have one very brief comment. When I listen to you, it sounds like you are expecting that growth and development comes from the top down. But that is not the reality. It comes from the bottom up.

Top-down arrangements are needed only to make it possible for this bottom-up process to happen. I think we made the same kind of miscalculations in Europe when we looked at a European common currency.

If you look at Finland and Sweden, neighbours of roughly the same size, and if you look at our economic performance, it is close to the same. In spite of the fact that Finland has been in the euro area and Sweden has been outside.

The main reason is that both countries have had reasonable economic policies at home, so the bottom up has been roughly the same in both countries.

I think this is very important to keep in mind: any kind of top-down structure is not, by itself, able to create prosperity and growth.

S. Naryshkin:

Thank you. We do not want to offend any of our panel participants. Therefore I would like to address my question to Director of the Agency for Strategic Initiatives Andrei Nikitin. Andrei, I assume that the Agency has ambitious goals, and that all of them are connected in various degrees to improving the business climate. Can you tell us about the tools you plan to use and about how the Agency's actions can influence the situation in the post-Soviet states?

A. Nikitin:

Thank you very much, Sergey.

We have already mentioned that Russia's *Doing Business* ranking of 120 – the lowest among the countries of the Customs Union – creates risks from the perspective of selecting locations for building new companies. But this is what we have realized in the course of our work: when the ranking falls, the mood of entrepreneurs follows. On the other hand, the correlation between an increase in the ranking and an improvement in investor mood is, unfortunately, less direct. In other words, inertia is pretty strong: we cannot simply get a higher *Doing Business* ranking and expect to get flooded with investments from all directions.

Therefore, when we were defining the objectives of the National Entrepreneurial Initiative, we focussed primarily on the needs of Russia's business community, and only then considered the World Bank's position. And of course we tried, right from the start, to take into account the new realities of the Customs Union and the work that will inevitably be done on the international level.

Let me briefly talk about individual road maps. Some of the road maps we have developed are related to the ranking. One example is the road map for simplifying customs procedures which affect the *Doing Business* ranking. It turned out to be quite radical, and within the first few months of its implementation we will have to contact the Customs Union Commission, since this is related to the common interests of our countries. At the same time, this road map, designed to assist exportation, was designed with an eye to the WTO and to protecting our exporters, especially small- and medium-sized companies: as far as I know, the WTO rules allow this. The group was headed by Petr Fradkov of EXIAR. We hope to be able to open certain new vistas for our colleagues in this respect.

We had two or three road maps that had no connection to the ranking, but we still see them as essential. The first one is the road map for helping innovative small- and medium-sized companies become part of the purchasing processes of state-owned companies. We expect this road map to yield results closer to autumn. The governments of Russia, Kazakhstan, and Belarus play a very large role in these countries' economies. And if we want to drive innovation, we must connect innovative small companies with state-owned or partially state-owned companies:

the latter must use their procurement policies to stimulate the growth of innovative companies.

The second road map is related to the quality of the state's response to requests from small- and medium-sized companies. We call this the 'red button road map': how quickly can we respond to signs of abuses? We will be designing this road map in cooperation with the Business Ombudsman, using the tools currently provided by our open government. We want, in effect, to change the concept of electronic departmental agencies. I believe this is very important.

And finally, the most strategic road map designed to be used for a long period of time – I expect it to be ready by December – is the road map for the national competency and qualification system. We cannot have a favourable investment climate without competent personnel. In the long term, this is probably the most important aspect. This is another aspect in which we have to thank our Kazakhstani colleagues: we are actively using their experience in implementing universal education programmes, and expect to integrate a similar Russian programme into our road map.

I hope our work will be useful to our colleagues, and will help improve the investment climate of the Customs Union and, possibly, of the entire post-Soviet region. Ukraine has shown an active interest in our work. The fundamental condition of our work is participation of the business community in designing these road maps right from the start. From the beginning, entrepreneurs have had veto power. I can say with absolute confidence that each road map has the support of the business community and provides a real answer to its needs. Well, maybe not 100% support, but a large degree of it. Nearly 200 people participated in this process as members of work groups. Twenty-two thousand more people took part online using the crowdsourcing platform.

This is actually not just words, not just theory. And we will be happy to share our experience in improving the investment climate. In reality, the investment climate exists in the minds of entrepreneurs, and nowhere else: it is not defined in legislation or mentioned in state decrees. If entrepreneurs are confident that the

investment climate is good, they will invest in the region. This is why we must see the business community as our ally right from the start. This is how we see our objective and how we try to frame our work. We are deeply grateful to the Ministry of Economic Development, which has helped us enormously. This level of equal dialogue between the business community and the state is hard to create.

What can I say about our new objectives? We are currently homing in on two objectives. The first is the road map for the protection of investor rights, which was already mentioned by my colleagues. Two mechanisms are used to provide this protection: the judicial and arbitration system, both state and private, on the one hand, and institutional financial guarantees on the other. We hope this initiative will receive expert support from the Direct Investment Fund.

The second and most important objective is related to the fact that the first road maps are ready to go. I hope the government issues an order to approve them in the near future. We must put them into action, and the only way we can do that is by organizing direct, public, open supervision of the implementation of each of the road map's provisions by our domestic entrepreneurs and, possibly, by entrepreneurs from other countries in the Customs Union. If people can see the situation changing, and actually participate in this change, we can expect their business behaviour to change. This work will be headed by Artem Avetisyan, Director of the New Business branch, and I think this will be the main factor in its success. Thank you very much.

S. Naryshkin:

Thank you, Andrey.

Colleagues, I see almost all of us are still here, carefully following the discussion. However, we do have to bring it to a close. Our experts have literally 30 seconds for short comments; then Vladimir Mau and I will sum up the discussion. Please go ahead, Sergey.

S. Vorobiev:

That is why I wanted my remarks to follow Andrey's. It feels warmer now: we have a person here. Thank you.

S. Naryshkin:

Thank you. Vladimir, our task now is to sum up the results of our discussion. Please go ahead.

V. Mau:

Thank you, Sergey.

I also keep checking; but no one has left the room. To sum up our discussion:

First, integration has taken place, and this is crucial, because it has already passed through three stages. In the early 1990s, it seemed that even though the Soviet Union had formally dissolved, there could be no real breakup because it was simply impossible. I would like to remind you that the IMF and the World Bank were then emphatically advising us to stick with a single currency. The single currency was abolished virtually by force, since we did not want to deal with 13 central banks all printing the same currency, which is exactly where things were heading in early 1992.

Second, integration happened at the right time. We can argue over whether the European crisis spurred on the integration process. The important thing is that the lessons of the European Union proved to be crucial for us in terms of integration at various speeds, correlation between financial and budgetary policies, and bringing legislation into alignment. It is like we are being guided along the path of development, with one reservation: the European crisis must not slow down our integration. We have better foundations for a more vigorous integration than the kind that happened in the EU. The central goal of the EU had always been to prevent a large European war. We do not foresee a war with Russia, Kazakhstan, and Belarus as one side and Ukraine as the other. In this sense, we have an easier job.

Third. Cooperation between our community and the EU is a very important issue. I am absolutely convinced, as a professional and as a person, that the future lies with the common market. I am talking about all four freedoms: freedom of movement for goods, capital, labour and knowledge, and intellectual property. In this sense, the future also lies, metaphorically speaking, in the Norwegian type of international alliance: absence of political unification in the presence of a unified economic space and unified legislative principles. In this sense, we are not the only ones who must adapt European standards: let us just say that our agricultural or social policies are looking much more balanced than their European counterparts. Our position in this area is more reasonable and more up-to-date than that of Europe.

And lastly, we must mention the sphere of human capital mentioned by Sergey. We must discuss this as a separate issue, perhaps if Sergey invites us to conduct a similar event next year. This situation is much more complex than it might seem. Of course the Global Education Initiative is always a good subject for discussion. I have always supported this initiative. But to continue yesterday's discussion with the Minister of Education, I must insist: if you want good education, you must have the demand for good education. If you want good healthcare, you must have the demand for good healthcare. If you make sure all your best people are educated in the best universities abroad and are treated in the best clinics abroad, you will not have the demand for good universities and good healthcare domestically. We must use deliberate, highly cautious policies to shape the common space of human capital.

S. Naryshkin:

Thank you, Vladimir, for summing up the discussion in such a professional manner. I want to mention two things. First, the discussion of the questions on our agenda has led me to the decision to form an Investment Council under the Chairman of the State Duma. This will be a standing consultative agency that will examine and refine proposals submitted by expert organizations, shaping them into corresponding legislative regulations. If there are no objections, I would like to ask Kirill Dmitriev to

head this process with me. Secondly, I would like to thank all speakers for their fascinating remarks, and to thank our experts. Please join me in showing them our appreciation. Thank you all.