ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

JUNE 21–23, 2012

BLOOMBERG TV DEBATE

THE NEW EMERGING FINANCE CENTRES

JUNE 22, 2012 — 14:45–16:00, Pavilion 4, Hall 4.2, TV Arena

St. Petersburg, Russia

2012

Moderator:

Ryan Chilcote, Correspondent, Bloomberg Television

Panelists:

Ruben Aganbegyan, President, Chief Executive Officer, MICEX-RTS

Makram Azar, Vice-Chairman of Investment Banking, Barclays

Spencer Lake, Co-Head of Global Markets, HSBC

Dennis Nally, Chairman, PwC International

Oleg Viyugin, Chairman of the Board of Directors, MDM Bank

R. Chilcote:

New York, London, and Hong Kong face increasing competition from new centres of finance, but what does it take to build a 'street of dreams'? I am Ryan Chilcote. Welcome to the St. Petersburg International Economic Forum and Bloomberg Television's debate on new finance centres.

Video voice-over:

An archipelago of technologically highly developed city regions is emerging, and 24/7 global trading is poised to make these new centres more important than ever. London and New York are not at immediate risk of losing their status as the world's leading financial centres, but they are already being challenged on many different fronts. Cities such as Shanghai, Sao Paulo, Dubai, Singapore, and Moscow are working to attract more capital, and they are investing in talent and infrastructure, while improving general competitiveness. Their aim is to offer greater flexibility and financial deregulation, selective trade reforms, less restrictive labour markets, and heavy subsidies for new technologies and R&D. Some of these new centres could soon dominate lucrative niches. Singapore is challenging Switzerland for the world's wealth management business, Hong Kong has been able to attract a significant number of foreign companies for their initial public offerings, and Moscow is increasingly becoming a magnet for all the CIS republics, thanks to effective financial reforms and high commodity prices. Experts point out that New York and London have a long list of advantages over emerging market rivals, ranging from sound infrastructure and a highly-educated workforce, but Europe's credit crisis has hit traditional financial centres much harder. The Square Mile in London is shrinking faster than any other financial centre in the world. The capital's banks are facing falling trading revenue, a tax from politicians to reduce pay, and more job cuts.

So, what will the map of the world's biggest financial centres look like in the next 10 years? Which cities will be able to establish themselves as the key players? What are the secret ingredients to setting up a functioning financial centre? Let the conversation begin.

R. Chilcote:

We have with us today an esteemed panel of financiers to discuss the issue, beginning with Dennis Nally, Head of PricewaterhouseCoopers International Limited; Spencer Lake, Co-Head of Global Markets at HSBC; Makram Azar, Vice Chairman of Investment Banking at Barclays; Oleg Viyugin, Chairman of MDM Bank; and finally, last but not least, Ruben Aganbegyan, Head of the Russian Stock Exchange, MICEX. Thank you very much, gentlemen, for joining us.

Dennis, let me start with you. You actually have a report that you have been doing for a few years now at Pricewaterhouse about 'cities of opportunity'. Tell us about that.

D. Nally:

Thanks, Ryan. We have recently released our fourth annual Cities of Opportunity survey. It focuses on 26 cities from around the world. We think it is probably one of the most extensive surveys done of its kind. It looks at about 66 different attributes, all objectively and verifiably, which is a big component of how we are trying to do the survey, and we do this for a couple of reasons; one is to really look at how competitive the cities are, and quite frankly, how cities are moving, whether they are moving forward or backward.

This past year, Moscow participated in the survey for the first time, and it was great to see their involvement. They ranked 21 out of the 26 cities, but notably with some very, very positive strengths, which is the way we would characterize them. I would also say that when we looked at Moscow, it compared very favourably to a number of the other emerging markets. So I think there is an awful lot to build on, whether it is higher education, or other attributes that are very important, but ultimately, we think, from a competitiveness standpoint, this is all about the city's ability to really attract and retain talent, and so this should be a really interesting conversation, I think, as we start to build this out in more detail.

R. Chilcote:

Let us begin with our bankers and talk about this. Maybe Spencer, if you could start, I would like to ask you, what does it take to convince you to invest, that is, to move people into a city and open up shop there and do business?

S. Lake:

We look for openness. We are looking for economies that are open to the rest of the world, because changing that can alter the course of action quickly. If you look back to the 1960s in the US, when currency controls were put in very quickly, London picked up the mantle and became the Eurobond centre, and it has not given that mantle up since. Therefore, we look for regulatory regimes with taxes and regulations that work, and stability and predictability from an overall political perspective, because that too can change the course of action. Obviously, we also look for talent and where we are likely find it. We look for infrastructure, and we look for an overall international embracing.

I think one particular example over the last 10 years is Dubai, where we have seen very quickly, without really a lot of natural competitive advantages, an increasing competitiveness. There is not a big local population or big currency that one can work products around; there is not a large grade base, if you will. But, they have quickly put infrastructure in place, creating a regulatory framework that is quite benign. They have used the Islamic proposition as probably a core genesis of their market, which others, as you say, have done. Whether it is equity related, equity derivatives related, or asset management related they have quickly come a long way, and they have orchestrated themselves around the airline and port industries, to make it easy to get to.

In addition, they are building up their schooling systems. Obviously, there is an abundance of housing, so they have made a big push without all the natural ingredients that one would have.

R. Chilcote:

Makram, is Dubai at the forefront? When it comes to new finance centres, what do you need to see in a city?

M. Azar:

Obviously Dubai is ahead of all the other centres for the time being. But I think what you really need, if we are talking about the next 25 years and which markets might take over the three that you mentioned, the number one characteristic you need, is a vibrant economy.

If you look at Russia or Turkey, they are growing at more than 4% per year, and that growth needs equity capital to finance it. You have a very large number of companies which are still in private hands. The number of private companies is around one-third in Russia and Turkey. When over 95% of private companies are in public hands, as is the case in the UK for example, then you will need diversification to take place in these economies, apart from natural resources and from the financial sector. All of that growth and diversification will need to be financed with equity, so the equity needs to come from somewhere.

The combined market caps of the stock exchanges in Russia and Turkey have more than doubled over the last three years, but there is still huge potential to finance that growth. I think that is how the market cap will eventually be one day; it may not be ahead of the US, but it could certainly be ahead of London or Hong Kong over time.

R. Chilcote:

Oleg, I want to ask you: sometimes it seems like some of these cities that would naturally make for good centres of finance, are not. Do you agree with that?

O. Viyugin:

Yes, I generally agree that we can mention a lot of cities, which could be financial centres from the point of view of the business environment, the legal system, and the economy, but just selected cities, in reality, become real international financial centres. I could not actually say directly what the secret is, but it seems to me that the first reason is a serious commitment from authorities, and a commitment from the financial society to do it.

Look at London from the point of view of taxation and from the point of view of regulation: it is a city which is comparable with Frankfurt, for example, or some other European countries, but we see that there is a firm commitment from the London city authorities and Great Britain's authorities to keep this a financial centre.

If some new city wants to pretend, or is trying to pretend that it is a financial centre, it would be a lot of work. Of course it should be a vibrant economy, but it needs a broad basis. Maybe it is dependent somewhat on the geographical location, but to achieve results you have to spend a lot of time, apply a lot of forces, and set a lot of intentions to do something. It is a very serious relationship.

R. Chilcote:

Let me ask you about that for a second, Dennis, because I want to turn the focus to Moscow, and this is one place (and we are going to come to you in a second, Mr. Aganbegyan) where the commitment among the authorities is clear. I mean for four or five years now, we have been hearing a lot about the desire to build an international financial centre in Moscow. Beyond the fact that Moscow got 21st place in this 26, what more can you tell us?

D. Nally:

Well, you know, it is interesting, because I think what Oleg is really saying is that when you look at the strength of the major financial centres today, there are no real apparent gaps. That does not mean that all of these individual cities really score number one, or number two relative to these other cities, but there are no significant issues that these cities are really focused on, and I think that is probably as instructive as you can get on this. From the sense that a city may be really trying to compete against the likes of London, or New York, or Hong Kong, it comes back to really focusing on those critical attributes that will enable them to be at least in the top three or top four. And so, when you think about the business environment (how easy it is to do business, the whole regulatory environment, the rule of law, and taxation) all of those issues are at the forefront of what has to be attended to; but then there are these softer attributes that are equally important, such as the quality of the education system, lifestyle issues, and transportation. Is this a place where people want to live?

R. Chilcote:

And how does Moscow rate when it comes to quality of life? Transportation?

D. Nally:

Well, I think those are clear areas that need focus and attention, but I would like to turn that around and say the right comparison, in my mind, is not how Moscow compares to London, or New York today, but how is Moscow comparing with the likes of the other emerging financial centres. Then, there are a number of attributes where they actually score very well.

R. Chilcote:

Ruben, I want to bring you into this. There are lots of sceptics, but clearly you believe that Moscow can become an international financial centre. Why?

R. Aganbegyan:

It can become an international financial centre because of the critical size of the economy and the neighbouring countries that surround it. There is a need, there is a growing economy, and this economy needs those critical components. There is the global trend, which tells us how the markets are traded, despite being global; the markets are actually very local.

Let us look at the equities. Equities are not traded globally. Equities are traded on local exchanges as part of the global system, through brokerage, through custodians, and through banks. But basically, if we look at the venues of trading, a lot of them are actually local ones still, and that is why I think there is a very high chance, at least on the financial infrastructure side, of firstly building a good regional financial centre, which will lead to national companies needing to finance business locally. And we see a lot of M&Cs here in Russia. They will come, and then slowly and steadily it will become an international market, but it will take time. Obviously, when Dennis talks about financial centres, our differences are quite clear. I talk a lot about infrastructure, and he talks a lot about a much wider agenda, which includes the town, the transportation system, and so on.

On the infrastructure side, and the environmental side in general, I would say there is a well-educated population, which is a good characteristic, and there is a very interesting opportunity coming out of not being part of the EU.

R. Chilcote:

So is that the eurozone's loss?

R. Aganbegyan:

I do not mean that it is so much a loss, but that the regulations, and the actual power of very big regulations being close by, while generally being a part of Europe without being bound by those regulations, creates a certain regulatory arbitrariness, and I do not mean that in a bad way; I mean it as an opportunity to build on.

One other thing I will mention is that the city transportation is bad, but look at the effort that is being put in, and there is an unbelievably great network penetrating Europe in terms of flying. It is such a good place, for example, to have your research department, and to fly endlessly all over the place. There is also a global bank in this country, and we have just established that. We had some major markets, as part of our research, actually located in Russia, and we flew endlessly around the country. So there are also these kinds of interesting small opportunities. Another big international bank or two have a huge IT base here for their European operations. So, there are additional kinds of things like that, and in my opinion, Moscow will keep on searching for its place under the sun in that way. It will take time, and I fully agree with Oleg that it will take a huge commitment, but we will get there.

D. Nally:

When you start to think about the changes that are being proposed in certain parts of the world from a regulatory standpoint to deal with these issues, it is going to create winners and losers in the process. I think that is along the lines of what you were alluding to, Ruben, in a sense. If one part of the world starts to tilt that regulatory environment to such an extreme, capital flows are going to move to other parts where there is a more balanced and fair, equitable treatment to deal with that. I think that is probably one of the critical lessons that we all need to pay attention to, and that could be a positive or a negative, depending on what really comes out of that.

R. Chilcote:

People will go to the next best place.

D. Nally:

Which then creates opportunities for new, emerging financial centres.

R. Chilcote:

Oleg, I know you are also a bit of a sceptic, despite the fact that you are a Muscovite, on Moscow’s chances of becoming a financial centre.

O. Viyugin:

Potentially, yes. I have good reasons to say that we are still optimistic, but inevitably we see different trends. It is very easy to explain why however, and that is because the legal system still is not competitive. Commitments from authorities to change in order to create a financial centre in Moscow exists formally on paper, but in reality this issue is not at the top of any priority list. We like to talk a lot, but do much less. This is also an issue.

R. Aganbegyan:

I think the key there is about commitment. I think the key there is about just getting those functions in place. I think the biggest issue with us is that we may not be really in huge need of reprioritization, since we have oil, gas, and other resources. We just may not feel we really need to do it. I think with us, sometimes, that is an issue. But I think we have a very strong case to do it right. The key for us is actually not to specialize. The key for us is just to do what other markets have done.

Today, the Minister of Economy was talking about savings that people have and that could be a huge resource for future investment. Separately, we have a huge pension system, which is not invested in the market. That is a huge magnet for investors from all over the world to come and trade with our money. It is lying right next to us, it is growing, and there is more demand for this kind product from the population. Our life insurance industry does not exist; it is in 32nd place out of 33 in the world. I mean, it is enormous opportunities that we have, and these opportunities are huge value game changers.

In the case of London, I fully agree that it is initial, but are we the only ones who have these problems? Did other markets have them? Yes, other markets did have the same problems. Brazil had them. Mexico had them. Argentina had them. Korea had them. Germany had them. And what happened? They actually managed to establish a bank, because it is much more natural to trade locally if the infrastructure is within the standards. If it is not within the standards, it does not work.

R. Chilcote:

All right, let us open it up for questions. I would ask you to identify yourselves, and if you want, you can identify to whom you would like to direct your question. I know, sir, you wanted to contribute here.

From the audience:

Thank you very much. I have a general statement and then a question.

Johannesburg by market capital, is about the 12th, or 13th biggest exchange.
I like the point that has been made by, I believe Dennis, about softer issues that you have to get in place. This is why I take the view that to get an exchange and compete with London and New York will be a long-term endeavour as opposed to a shorter-term goal. My question is (and this is probably addressed to Dennis), if economies grow significantly and the emerging markets grow significantly, do you not think that at some point, even with a pessimistic view of the next 50 years like mine, that those softer issues will also by themselves be solved, and therefore bring the competition despite the fact, mentioned by Oleg, that there are a whole range of institutional factors that also contribute to the significance of capital markets and financial centres?

D. Nally:

I think it is a great point, and I guess one way to respond to it is that if the softer issues are not addressed during that ensuing time period, I would raise the question as to whether or not that particular market would continue to experience that rapid growth. Because at the end of the day, I certainly am one to believe that the ability for those markets to continue to grow, and to continue to expand, is going to be so dependent upon the ability to attract and retain talent in that market. So if those softer assets and softer attributes are not getting the kind of attention as maybe some of the other assets are, such as regulation, taxes, and policy kinds of issues, I would call into question whether or not that growth rate that we are talking about is, in fact, sustainable over a period of time.

M. Azar:

To me, one of the key parameters to make it a successful financial centre (and Ruben started alluding to it before) is to develop a local equity ownership culture. At the moment, over 90% of the shares are held by foreigners in Russia, in comparison to that percentage being 12% in the US. So, to fuel that growth and attract companies to list in Russia, instead of going to London for example, around 20% to

30% of equity issuance on the London Stock Exchange must come from Russia and what we call ‘senior’ markets. Then, in a period of about 18 months, there will be around USD 46 billion of equity issuance expected from that region into London.

Once you develop the institutional and retail equity ownership culture, you will start by raising capital for your own companies locally, and then attracting foreign companies into your exchanges. What Hong Kong and Singapore have managed to achieve is exactly that. They first developed their own markets and now Western companies, as you know, are going on the Hong Kong and Singapore stock exchanges to raise capital. So, very well-known brand names, like Prada, Samsonite, Formula 1, Graff, and Manchester United are also looking to go there, but to benefit from the growth in China and Asia also, so that is another factor. I think a key parameter to developing your own stock exchange and developing the economy so that it is prepared for future growth is to basically develop a local equity ownership culture.

S. Lake:

To complement that, in Hong Kong, China is pushing heavily to internationalize their currency, even though it is nonconvertible. You know, the CNH is now becoming quite a liquid currency with which you can do a number of different products that actually can get sold back into lots of markets, including where that liquidity is initially warehoused; and other countries are doing the same. They are taking their currency and they are making it much more of a brand name, but they are making it much more of a liquid currency within which the financial markets can interact.

Russia has done some of that. The government and state-owned companies have issued roubles overseas, and we can expect to see more of that. That is what the Canadians and Australians will do more of as they also compete, because we cannot forget that there are other big centres.

I think the other point that I would make (and someone suggested that this was not the case – I think it was you Ruben) is that specializing is not needed. Actually, Russia, Canada, Australia, and smaller emerging countries like Indonesia, have very large natural resource bases, and that is quite an important set of commodities on a forward-moving basis. There should be a reason and a way for Russia to link up much more aggressively with those countries and with their exchanges to create something that is compelling and that brings people to the country, which has not yet been done. But you can see that as being a natural competitive advantage, like the Islamic space, like the RMB, and like other centres have done around certain areas to draw attention to themselves.

R. Chilcote:

Let me ask you, Ruben, we heard this issue of local equity ownership as being a driving force from Makram. Would you say 10% of the Russian stock market is owned by Russians?

R. Aganbegyan:

Even less, but I think that figure is wrong. I think where the figure is right is 10% of Russian investors take part in IPOs, and there is no experience of taking part in the primary listing. There is no training for that in a way. Plus, there is no access to London. That is also a factor. This is where I think this figure is relevant.

I think once companies start to trade, and there is a move to get liquidity back, Russian investment will become more balanced. So in my opinion, with the reform of the local investor, this will shift, because pension funds and others will have to learn how to take part in IPOs. I think this lesson will happen quite quickly.

One thing I will mention about Russia is that, in my opinion, it needs a little bit of a success. I mean that it needs a small factor of success. We have done a lot of things. We have done the low and central depository room, clearing of a lot of stuff, but we did not feel the fruits of this. If there is going to be a factor of success and something shifts, I think this will give much more encouragement to the people involved with the reforms to actually keep on doing it. I think what is happening right now is that there has been a huge investment of time and effort, which involved a lot of difficult decisions having to do with merchant exchanges and of getting loss through, and so on and so forth, but there has not yet been any kind of feeling about what actually was done. I do not mean on the writing side, I mean in terms of a little bit of liquidity coming back, or something like that. That is my opinion.

From the audience:

I would like to address this question to the panel. Along with rule of law, we have the concept of corporate governance, and we have the necessity to govern the exchanges and the listings on the exchanges. Russia's exchanges (and Ruben can challenge me if he thinks I am wrong) do not play an active role in ensuring that the standards of listed companies are adhered to. The routine administrative police effort, if you will, on standards is just not consistent, and certainly not comprehensive. How important do you feel the role of exchange is in keeping capital in the country, encouraging listings, and generally encouraging trust in exchanges, which for obvious reasons is much shaken these days all over the world?

R. Aganbegyan:

I actually agree with you. I think you are absolutely right. I think there is a historic reason for what we are doing. We are trying to do something that is a little bit controversial in our country. We had a situation, which made everybody and his brother public. A lot of people wanted to be public, and a lot of people did not want to be public. A lot of companies right now want to be public, and a lot of companies do not want to be public. But in all cases, they are public.

We know the examples of extremely liquid companies that are well-traded, who are actually public, and whose shareholders actually do not want to be and there is no way out of that. The shareholders do not want to buy out, and I think they should be forced to buy out to get private. Once there is an honest field and only the guys who want to be public are left, I think this will fix the issues. I think we have a lot of public–non-public companies, and that is the reality.

I agree with you that the role of the exchange today is unsatisfactory, partially due to legislation and due to the way the exchange was developed. I think it should be changed. Whether the solution is Novo Mercado like in Brazil, where the exchange took an effort and the state could not reform the legislation; they made a venue where companies by themselves subscribed to additional things. Whether our legislation will change to that effect, the jury is still out. I will obviously get criticized again for trying to replace the regulator or something, but in my opinion, the exchange and the community through the potential exchange should be the kind of governing body of those entities. In my opinion, the key there is that we should leave the companies who want to be public. I do not know how you guys feel.

S. Lake:

I am not sure of being public or private. I guess that is a historical thing that has happened, you know going back now 15 to 20 years in Russia, but I do agree with you. I think that the exchange in Moscow and Russia in general, because they are merging together, does need to up the ante and up the standard. It needs to be done in conjunction with what the private sector would expect to have happen to it, because gravitationally, money is not coming in and those companies are going offshore to list, which is negative overall for development.

So again, the top-down messaging, in addition to all the other things that we have talked about, must be that the exchange has to take a leadership role and benchmark itself relative to the best in class around the world, without going to one extreme, which is extremely transparent, and difficult to exercise maybe in the US, versus when it is too easy in other countries. It has to self-regulate, to self-benchmark, in order to create a best-in-class feel to it.

R. Chilcote:

Sir, you had a question you wanted to ask?

From the audience:

I have lived in Russia for the last 20 years. I was recently at my college reunion in the United States, and building on these soft issues, I was amazed that about a third of the questions I got were about my physical safety in Moscow.

There are many reasons why Moscow has challenges for people who live there, but physical security is definitely not one of them, and I think the absence of Russia's ability to sell itself as a good place to live is a big problem. Part of this is, obviously, the Cold War legacy, and part of it is press, but I wonder if part of the reason is not also that the focus is solely on just selling the financial elements. There are plenty of people who have moved to Moscow from other countries and are very happy to live there.

R. Chilcote:

Let me just respond to that for a second as a member of the press. I wonder, and you tell me if you agree with this, that sometimes maybe it is the press, and also that Moscow is separated because of visas, and because of its geographic location from the rest of the world. So few people actually form an individual view on Moscow. Many more Americans have been to Mexico, Germany, and France, and so few of them have been to Moscow. They therefore really rely on people like me, and we sometimes get it wrong when we portray places. People obviously trust their own experiences more than they trust the likes of me.

Thank you for that question. I want to broaden it out a little bit from Moscow, because we do want to talk about this as a global issue. As Dennis pointed out, there are a lot of new finance centres out there right now. I think that question was a nice stepping-stone, that is, the issue of safety and security. I know that on your list of things that you look at, safety is actually one of the six, Dennis. Remind me of what the six issues are that you looked at in your studies. I would like to go through them all with you, and I would like you to tell me what you think are the most important ones in terms of the components of a successful emerging finance centre.

D. Nally:

So maybe top of the list is the whole issue of the business environment: how easy it is to do business, what the regulatory framework is, what the tax structure is, and what the rule of law is. I put all those into a kind of bucket of ‘ease of doing business’, if you will. I think we can probably have a fairly good conversation about that.

The second goes to the whole issue of safety, healthy, and liveability. Is this a desirable place to be, short-term as well as longer-term? How do you feel about it? There are obviously a lot of perceptions out there that are probably not as accurate as they need to be, so how do you effectively deal with that? And then I would say, lastly, this whole question about how does this particular city compete with the other emerging markets along those lines, in terms of business environment, business friendliness, the whole lifestyle issues that we are talking about, and how competitive are they in closing the gaps that exist, not only here in Russia, but also in the other emerging markets as well, which I think is an important part of the conversation.

R. Chilcote:

Spencer, let me remind you: business environment, transport, safety and crime, education, labour technology. Which three are the most important ones for you? Business, obviously, is a no-brainer in this conversation, but I mean out of transport, safety, education, and labour technology, which are the most important?

S. Lake:

I think that clearly the soft issues that you allude to on safety and so forth are important. You need a labour force that is going to be able to gravitate towards it, so we rank that pretty highly. I think infrastructure is almost a given in that you need infrastructure; you can build that, however. That is a shorter-term fix than the cultural elements that you have to go into. So I would probably rank them in that order. In the first category there would be business, obviously, and the labourer and people issue. The second category would include safety issues and then the technology side of things.

R. Chilcote:

Makram, do you share that view?

M. Azar:

I think the soft issues are more relevant for the smaller markets that want to become bigger. For instance, the ones in the Middle East that Dennis mentioned, such as Dubai, Abu Dhabi, Doha, etc., because they do not have the local depth, if you will, of the economy, of the population, and of the parenthood. So they rely on attracting people and talent from abroad. But I think for countries like, let us say, Russia, which is huge in size and population and has natural resources and global ambitions, etc., it is less relevant. Already, as we mentioned before, whatever the number is, a huge number, or percentage of the shares of IPOs are owned by foreign investors. So they are already coming here.

To me, again, what really will make the difference over the long-term, in terms of the relative size compared to other markets, is developing a local source of capital that will fuel and feed this increasing market cap.

R. Chilcote:

Ruben?

R. Aganbegyan:

For me, the foremost important components are probably the business environment, and innovation, including infrastructure. The second is probably labour and the ability to attract talent. The third is liveability. Basically, if the place is not liveable, then this talent will leave you fairly quickly and decisively. My view is that the living standards in Moscow are particularly bad. Actually, Russia is particularly bad at marketing its story too. We know the news and we know the news always tells bad stories mostly. Good stories are not news and therefore you cannot rely on somebody marketing it. But there is a reason for that.

At the end of 1980s, nobody knew what the word ‘marketing’ meant in this country. We were just coming out of the Soviet Union, so the terms ‘marketing’ and ‘competition’, and whether you could compete in the global world were not understood. It is a realization that is coming slowly but steadily, and maybe too quickly.

You just need to understand that you are in a very competitive environment with other centres, and to get to move into market to sell and so on is challenging. We as an exchange are doing a lot to sell the market right now to the investors, and also to hear back from them about what they do not like about the market and the infrastructure. We think it is an essential thing to sell the market, and I think the country needs to sell itself.

R. Chilcote:

Dennis, can you think of another country that is aspiring to be an important finance centre that is shooting itself in the foot in the sense of liveability? They have all the other components, but are missing there, in that sense?

D. Nally:

I think the one that really comes top of mind for me is India, in terms of what is going on there, particularly as it relates to Mumbai, and some of the challenges they have with infrastructure, and some of the other business issues that we have been talking about. I think it is holding them back, quite frankly, in terms of where they are trying to go, and in terms of their aspirations and goals.

R. Chilcote:

Oleg?

O. Viyugin:

In the future, we will be in an electronic war. In this case, what is very significant is keeping some financial centre stable, or creating investment in infrastructure, in offices, and in the people. When intermediaries invest in a location, it means that the business environment is appropriate, or at its best; the quality of life is appropriate, or better than in other cases; it means that the business environment and quality of life, transport, and safety are liveable, and will be very significant to developing a financial centre. These are the first steps for development.

D. Nally:

I think that is why I mentioned Dubai before, because actually, to Makram's quite critical point, there is very little domestic liquidity in Dubai. The dirham is not a currency that you gravitate towards. There is no bond market to speak of, and equities do not go there to get listed. So, of all the components we discussed, Dubai is probably where they fall shortest. When you look at Dubai top-down, there is quite a strong mission statement, for instance the initiative to build the best airport system in the world. Therefore, I think you can reach 80% of the world's population from within eight or 10 hours of Dubai. They want to build their infrastructure, and they have overbuilt. Their infrastructure has been built by the government on the basis of where they want to go. They do not have a taxation system like we do in other parts of the world. So it is going to take a longer time to pay for it, but what they have developed is actually a kind of, 'If you build it, they will come' mentality, and it is gravitationally quite an interesting place of the world from a geographical perspective.

I think there is no perfect match out there, but interestingly, top-down the message in Dubai is quite clear, as it is in Hong Kong, as it is in Singapore, and as it is in more established markets. For Russia, it will be much the same. Can that top-down approach be taken across all the important six categories, and synchronized so that in the next 15 or 20 years, it gets there?

R. Chilcote:

Let us talk about the future for a second. Dennis, I want to put you in the hot seat again, and pick three countries, or cities outside of the emerged finance centre group of London, New York, and Hong Kong that you see leading the rest in, let us say, 20 years' time. Outside of London, Hong Kong, and New York, which three are going to be the biggest finance centres in the emerging space?

D. Nally:

I certainly would look to a city like Shanghai as a city that is well on its way, for all the reasons we have been talking about. A very focused top-down approach is needed to deal with some of the gaps that they have, and we need to acknowledge that they have gaps that they are trying to solve as well. So I would probably put that right at the top of my list as one that I would expect to see in that top three.

I fully expect, maybe not in the next 20 to 25 years, but eventually, to see a place like Nairobi as a potential centre in the future, given the market opportunities and potential from that standpoint. That is probably my wildcard, if you will, in terms of putting a marker down. I think it is up for grabs between some of the others that we have been talking about here today, like Moscow and whether it can in fact deal with some of the issues and challenges that are on its plate, or whether there is another city that is going to emerge in the Middle East like we have been talking about. I think it is going to be one of those to fill it out.

R. Chilcote:

That is interesting, because obviously not all of those cities are leading right now.

D. Nally:

It is also fair to say that all of those cities that I mentioned have a lot of challenges, and a lot of issues, but again, a lot of opportunities if they can begin to close some of the gaps that we have been talking about.

R. Chilcote:

At the moment in the emerging space, what would the other cities be? Singapore and Dubai? What would be the third city?

S. Lake:

Singapore is not really emerging. It is quite a developed economy and has infrastructure. From a Southeast Asian perspective, it is really the go-to place and the component parts are big.

I think the other city that one would have to look at would be Istanbul, which geographically has a very big economy. It has quite an aspiring mindset as well, and I think they grasp the issues. They are geographically as good as Dubai, but with a more natural economy to draw in the Middle East, and there is an affinity there that, when you look at it together, I think it is quite easy to bring in the CIS piece of that, or the CEECIS piece. It is benign with Europe. So there are a lot of attributes, actually, to Istanbul, if they can get some of these other pieces pulled together that would put them close to the top of that list.

R. Chilcote:

This is in 20 years from now. What would be the other two cities?

S. Lake:

I would agree with Shanghai. I think that Shanghai has done a tremendous amount of work already, and top-down the country is very focused. They are building big infrastructure. They have just announced that they are going to build a clearing system that is going to link in with all the other centres around the world as part of the RMB internationalization exercise. So the expense and the collaboration globally are quite high in Shanghai. We have discussed Moscow, Istanbul, and Dubai. I think there is clearly an absence of a local market there that makes it competitive, and the economy is quite small. It is a trading centre. I would not have thought of Nairobi, but maybe that makes sense.

R. Chilcote:

Ruben, I am going to say that Moscow would be one of your choices, what would be the other two?

R. Aganbegyan:

I think I agree with Shanghai, and I think Africa needs to have a financial centre too. Whether it is Nairobi, I am not sure. In my opinion, it is nice to have this conversation, but I will say that as far as we are concerned, we have to make sure we are not kicked out.

R. Chilcote:

Makram?

M. Azar:

I completely agree with Shanghai for sure, given that the Chinese economy will be number one by then by far. I think Shanghai is a no brainer. My view also is that Moscow is a no brainer, because by that point in time I am sure they will have resolved the issues we have discussed. I think the next three are a bit of a toss-up; probably Brazil, South Africa, and Turkey. I do not know in which order.

R. Chilcote:

Oleg, let me ask you, when you have the established three or four centres, and you have the centres that are continuing to establish as well, will they compete with one another? Is it is a zero-sum game, or are they kind of auxiliary places?

O. Viyugin:

Definitely, all the centres will be in very strong competition. Why? Because we have a global world, and some of the biggest investors in the world are not local. They move across the board, and actually this is the basis for competition, because if you have the big goal of liquidity you have to work with these big guys at that location. This is why all these financial centres will continue to compete, and it will be a very fair and strong competition.

R. Chilcote:

Ruben, one of the things that you said that struck me, is that for Moscow to make it, one thing you know for sure is that it should just do what everybody else is doing and it should not specialize.

R. Aganbegyan:

It just does not need to look for a niche, that is what I mean. It does not need to be the centre for midsize companies, and all the big companies go to London. But the other point I am trying to make is that, with what Oleg just said about investors moving all over the world, I fully support that, and the connectivity in the world is great and will only deepen. Therefore, the standards will be more implemented. Europe wants to move to T+2 and sync with that settlement? That is a statement! That is an introduction of the standard. So I think you have got to be within the standards. That is what I mean.

R. Chilcote:

Dennis, let me ask you about this idea of specialization. Are there some natural things, some spaces in the financial market world, that could be easily taken that is not taken right now? Are there markets out there, emerging cities of finance, that can occupy an untapped space based on where they are, or what characteristics they have?

D. Nally:

I actually agree with Ruben on this. I think the notion that, in order to be a major competitor, in terms of financial centres, you have to have some specialized expertise or a niche is not correct. I for one would suggest that before you can get to that point, you have to have the core, you have to have the foundation, you have to have that credibility that allows you to in fact, develop whatever that specialty is, or whatever that niche turns out to be. So I would say, the right first step is to really develop the appropriate foundation, get the credibility, build the trust into the global marketplace, and that is a great way to start, versus trying to automatically jump to some of the unique areas that might be short-term in orientation, but do not allow you to really sustain that success over a period of time.

S. Lake:

The cost of operating in a city like London could become quite high, and that is going to gravitationally push people to other centres. If you look at the biggest economies, as they grow they are going direct. One of the things we have not talked about is that, as the trade barriers shrink around the developing world, and the international financial centre infrastructure gets built, markets will go direct.

A lot of what you see today is Shanghai going to Sao Paulo, or Istanbul going to Riyadh, or going to Johannesburg. There is quite a bit of financial flow that is following the trade flow, and that by definition, creating critical mass and liquidity within those different markets. So I think there is going to be a lot of shift over the next 20 years, and the emerging economies will have the dominant share of the financial transactions that we are talking about within the exchange centres.

R. Chilcote:

All right, Spencer. Panelists, thank you very much. Audience let us have a round of applause for our panelists. They have been brave here.

Thank you very much. You have been watching Bloomberg Television. I am Ryan Chilcote, and goodbye from the St Petersburg International Economic Forum.