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Модератор:

Джефф Катмор, Телеведущий, CNBC

Выступающие:

Кристиан Фриис Бак, Исполнительный секретарь, Европейская экономическая комиссия, Организация Объединенных Наций (ООН)

Кундапур Ваман Каматх, Президент, Новый банк развития БРИКС

Андрей Костин, Президент — председатель правления, член наблюдательного совета, член комитета по стратегии и корпоративному управлению, Банк ВТБ (ПАО)

Кристофер Писсаридес, Лауреат Нобелевской премии по экономике; Профессор экономики, Лондонская школа экономики

Мурат Сонмез, Директор по развитию бизнеса, член правления, Всемирный экономический форум

Фредерик Удеа, Президент, Европейская банковская федерация; главный исполнительный директор, Société Générale

Игорь Шувалов, Первый заместитель Председателя Правительства Российской Федерации

G. Cutmore:

Ladies and gentlemen, welcome to this session.

Just a word to my panellists, because we have not had much chance to talk together before this: I would love to make this as interactive as possible, rather than a series of speeches. So if you hear a panellist making a comment that you would like to come in on the back of, please feel free to give me a little indication by hand. As you can see, I have edged my seat forward here so that I can see you all down the row. That would be greatly appreciated.

Let us get this conversation off to a start. Welcome, everybody. If you are in the room, or outside the room, I am very pleased to have you join me, Geoff Cutmore from CNBC, as we moderate this panel here in St. Petersburg on globalization, or what has happened in recent years, perhaps the reversal of globalization, a reduction in global trading activity. I just wanted to take a moment here to acquaint many of you in the audience who may not be familiar with what is going on in the global economy with a few of the issues that are concerning me at CNBC. If you were at my previous panel, I apologize: you will have heard this speech once already, but let me change the vehicle.

The dash lights on the Volga that you are driving are starting to flash yellow, and I am worried that they are going to start flashing red at some point soon. And the indicators that I see that worry me are things like these: we are now seeing negative yields in government debt. You cannot believe what people are prepared to pay at the moment on the promise that they will get back at least some of their capital. We see Swiss ten-year government debt at negative 0.46%. Japan is probably the economy with the greatest government-sector debt stock in the world relative to its size, and yet everybody wants to lend them money. Ten-year JGB yields negative 21 basis points.

Gilts are at historic lows, even though the Brits do not seem to be able to stop themselves from borrowing money and spending. Nothing seems to hold back the shopping culture in the UK. And we know where US Treasuries and

European yields are. So something very strange is going on in the global economy. People are prepared to accept a loss on their capital for the hope that they will get most of it back.

Corporate profits have peaked in the United States. The manufacturing sector has been in recession for four to five quarters, service sector PMIs are weak, and the World Bank has reduced its global growth forecast to 2.4%. Maybe I am overly pessimistic, but wherever I look at the moment, I see signs of distress. And what worries me in particular, as a European, is that I see a reversal of cross-border financial flows. I see a reversal of cross-border M&A activity. I see an unwinding of a trading system that came into being at the end of the Second World War and was apparently good enough for the last 70 years or so, but is now beginning to falter.

When we got to the end of the Second World War, the Americans, as the strongest man standing, created a global trading system that worked in their interests. But it not only worked in their interests, it worked in most of the other countries' interests that they were trying to get back on their feet. This is an Anglo-Saxon perspective, but I think they recognized that it is no good producing things if you have no one in the world to sell them to. So they embraced the economics of Ricardo, the idea of comparative advantage, and they said, "We make cars, and we will sell them to you. But you produce melons, and we cannot produce melons at the same price you can. So we will buy your melons, and you will buy our cars, and we will all benefit from the trading system".

For a long time, that seemed to work quite well. And then, the debt in some countries began to rise, and particularly in the United States, we saw that the trading relationship became a little uneven. I know people are very critical about the United States and what they see as its geostrategic trading policies, such as the TPP, TTIP, and attempts to try to build strategic relationships through trading dynamics. But let us not forget that the US is the last man standing at the

moment, if you look at the trade imbalances that are taking place globally. The US is the buyer of last resort at this point.

So, we are going to have a conversation now with our panellists about whether the global trading system is moving in the right direction, whether we need to embrace other changes, and what is the best way of moving forward with multilateral bodies that can perhaps steer a future for trade on the planet that works in everyone's interests. Right now, I do not think I am the only one that thinks that something is broken, and maybe we could do with fixing it.

That is my very brief introduction. I am sorry if it sounds so pessimistic, but if you talk to a blue-collar American man or woman today, they will tell you global trade does not work in their interests. Globalization has not benefitted them. If anything, if we look at the rise of people like Donald Trump in the United States, right-wing parties in Europe, and extremists, certainly the UKIP party in the UK represents a place you can go to if you think you are losing out and the economy is not working in your interests. That is my brief and unfortunately rather pessimistic analysis. But I do not think it is all like that. I think there are some brighter spots, and hopefully our panellists are going to help us here.

What I would like to do to kick things off is introduce to you who we have.

Christian Friis Bach is Executive Secretary of the Economic Commission for Europe at the United Nations. Christian, welcome, good to have you here.

Andrey Kostin you will all be very familiar with: President, Chairman of the Management Board, Member of the Supervisory Council, Member of the Strategy and Corporate Governance Committee at VTB Bank. Frédéric Oudéa is the President of the European Banking Federation. He also happens to be, in his spare time, the Chief Executive Officer of SocGen. Christopher Pissarides is a Nobel Memorial Prize Winner in Economic Sciences. He is a Professor of Economics at the London School of Economics and Political Science. Igor Shuvalov, First Deputy Prime Minister of the Russian Federation, good to have you with us, and thank you for giving us some government representation here.

And Murat Sönmez is Chief Business Officer and Member of the Managing Board at the World Economic Forum, and I will let you into a little secret: he had a very long career in Silicon Valley, so he is probably both very rich, but also very articulate on things to do with technology. So we will be looking to you for some answers on that.

And we have got an empty chair at the end, you will notice: Kundapur Kamath will join us a little bit later on. But let us, for the moment, imagine that chair is the empty promise of a better trading system going forward, and let us see if by the time he arrives, we have managed to create a new model that is going to work better than the one that seems to be being lost at the moment.

Mr. Shuvalov, can I start with you, please? Because I think our audience would be very interested to get a Russian perspective right from the start here on this whole issue of re-globalization or the failure of the old globalization model, and how you see Russia's own interests being served.

И. Шувалов:

Добрый день, коллеги. На наш взгляд, в России нет никакой реглобализации. Напротив, мы отмечаем новую волну глобализации, которая приобрела довольно болезненный характер. Дохийский раунд в рамках ВТО не закончился практическим результатом, хотя все страны хотели, чтобы был найден какой-то компромисс. Этого не случилось, и в итоге мы имеем уже созданное, но пока не ратифицированное соглашение по Транстихоокеанскому партнерству.

Мы понимаем намерения США и ЕС как можно быстрее закончить переговоры по Транстихоокеанскому партнерству. Конечно, в этой ситуации Россия и Китай вот-вот выступят с инициативой создания Евразийского всеобъемлющего экономического партнерства. Оно будет включать в себя все страны Евразийского континента, даже те, которые вошли в Транстихоокеанское партнерство. Но, в отличие от Транстихоокеанского и

Трансатлантического партнерств, где лидируют США, наше партнерство будет базироваться главным образом на нормах ВТО и будет открыто для присоединения. То есть процесс конвергенции, слияния с другими партнерствами будет задан именно форматом Евразийского экономического партнерства.

Когда оно будет создано, мы не знаем. Это можно сделать очень быстро, по крайней мере в том, что входит в национальные компетенции государств; часть по товарам, это компетенция Евразийского экономического союза, куда входят Россия, Казахстан, Беларусь, Киргизия и Армения, мы сможем оформить чуть позже. Тем не менее мы пришли к договоренности, что этот трек будет быстро развиваться. Что произойдет дальше?

Представьте, что эти три партнерства — Транстихоокеанское, Трансатлантическое и Евразийское — уже созданы. На новом этапе развития нам придется обсуждать все то же самое, о чем мы не смогли договориться в рамках Дохийского раунда. Это будет новая реальность, и мы будем использовать новые инструменты для решения вопросов, но конфликт интересов останется без изменений.

G. Cutmore:

We have a situation where neither of the candidates running to be the next President of the United States actually agrees with the Trans-Pacific Partnership that has been promulgated by the Obama administration. That creates certain question marks as to whether it is going to be viable going forward, once we get past the election. If it is not viable, and if it is repudiated by whoever wins, can the Americans come and join yours?

И. Шувалов:

Я думаю, что это невозможно. Американцы не смогут присоединиться к нашему формату: что бы ни говорили про соперничество России и США, эти

страны как два лучших спортсмена из одной команды. По большому счету, мы принадлежим к одной высокой цивилизации. Мы работаем вместе, но все время конкурируем, и эта конкуренция будет проявляться в самых разных вещах.

Конечно, США сами захотят и, безусловно, будут лидировать в создании торговых форматов. Мы не претендуем на лидерство в Евразийском торгово-экономическом партнерстве, для нас важно, чтобы оно функционировало как инструмент защиты наших экономических агентов. Их никто не должен понукать или задавать им рамки поведения. Для тех, кто проживает на этом большом экономическом пространстве, должны быть равные правила игры, а участники других партнерств обязаны уважать чужие экономические интересы. Мы выступаем с разных позиций: Россия не претендует на лидерство в этом партнерстве, в то время как США претендуют на лидерство в обоих.

G. Cutmore:

Like natural competitors, clearly you think you are going to do it better than they are doing it currently. As you look at the prospects for these trading agreements with Asia, what makes yours better than the TPP?

И. Шувалов:

В нашем партнерстве ни у кого нет претензий на лидерство. У нас даже не возникает мысли о том, чтобы ограничить это партнерство какими-то рамками. Оно будет открытым и абсолютно справедливым. Этого очень сложно добиться, потому что все равно главный экономический игрок — это Китай, но если партнерство будет оформлено, то образуется огромный рынок с населением в 3 миллиарда человек, включающий Пакистан, Иран, Индию и, конечно, весь Евразийский экономический союз. Мы надеемся на партнерство с Индонезией и другими странами Азиатско-Тихоокеанского

региона. По сути, это будет экономическое партнерство, исключаящее элементы политики. В то время как партнерства под эгидой США вряд ли будут придерживаться исключительно экономического формата. Они будут навязывать через экономику определенные политические цели. И если кто-то не будет их разделять, последуют санкции. Нам ни в коем случае нельзя допустить подобного. США могут налагать ограничения на партнеров, но в нашем партнерстве этого не будет никогда. По конституции, которую мы создадим, налагать на кого-то ограничения будет невозможно.

G. Cutmore:

And just to round off, because I just want to be very clear that I understand exactly what you are saying with regard to Washington's policies here, is it your view that Washington has solely used trade in recent years as a way of improving its own geopolitical and geostrategic position within the world? That it is a tool through which the Americans come to dominate regions with soft power?

И. Шувалов:

Американская политическая система работает на благосостояние своих граждан, чтобы американцы жили лучше. Если для этого нужно доминировать в геополитике, они будут это делать. Пока им это удастся, и они все устроили так, чтобы продвигать свои экономические интересы, лидировать в геополитике. Мы считаем, что это неправильный подход. У лидерства всегда есть обратная сторона, и люди могут потерять там, где раньше приобретали. Мы не предлагаем и никому не навязываем свой подход — мы выступаем за равенство в международных отношениях. Хотя это не значит, что нам не нужна торговля — мы точно так же хотим, чтобы наши граждане жили достойно.

G. Cutmore:

Christian, I wanted to bring you in for a perspective on Europe's relationship in the new trading rounds, because we know that Doha has been a disaster, quite frankly. We have had a breakdown of the consensus over what trade should achieve for countries and for blocs. There are plenty of countries that are resistant to the European version of the Trans-Pacific trade deal. Do you think it will ever get off the ground, and if not, why not?

C. Friis Bach:

Thank you. First, before I answer, I have a small complaint to the organizers, because I am from the UN, and in Geneva, we have signed something we called the Gender Championship Pledge. I have actually promised to never, ever be on a panel with only men. So, I hope Mr. Cutmore, you will give the floor to some of the strong women in the audience. I can see Tatiana Valovaya here from the Eurasian Economic Commission. So I hope, to make me feel comfortable, you will include some women as well.

But on the issue, TTIP is under severe critique, and obviously it faces a lot of challenges. I believe in regionalism, but I only believe in regionalism and regional trade agreements if they become a building block to a global and stronger trade agreement. That is what happened in the early 1990s. If you think back, the establishment of the WTO the Uruguay Round, was in a big crisis. Then you had NAFTA, Mercosur, and the European Common Market. Then suddenly, all the countries said, "This is not going to work for us, regionalism is going to turn into stumbling blocks, we need them to become building blocks," and then you got the Uruguay Round and the WTO.

I do not quite agree with you that the WTO is a failure, which you tend to indicate. I think it is a tremendous success. If we had not had the WTO, with its really strong binding rules and dispute settlement system, we would have seen a huge wave of protectionism following the economic crisis, but we have not seen that.

The WTO is a bulwark, and countries cannot move backwards, or they will be challenged and they will be punished. That is how the system is. It is a fascinating, strong system, and it actually works. You can say we have not moved forwards, but we have not moved backwards, either, and I think that is encouraging.

I fully agree with your slightly pessimistic analysis. We have to be really aware that we do not see severe backlashes, and we can fear they will come, because nationalism is there. In Europe, we see sanctions, we see countries breaking down bridges, we see them breaking ties, and we need the opposite. We need new ties and new bridges, and we need to be able to integrate, as you also indicate.

There is a huge challenge to build this new globalism, and the sense is that we can only move forward if we work together internationally. That is what the UN is all about. And you can become pessimistic. I work in the Palais des Nations in Geneva, a building created between the First and Second World Wars. It was actually established for the League of Nations, which was the predecessor of the United Nations. What happened back then in the 1930s? Well, economic crisis came, migration flows started, and countries started to pull away from international cooperation. It all broke down, and we got the Second World War.

So every single day, I am reminded of the history and what it told us in terms of international cooperation. Right now, we see economic crisis, migration flows, nationalism, and protectionism. Luckily, we do still see countries coming together in the UN. Last year, we got the climate deal in Paris, and we got sustainable development goals in New York. Countries came together, saying they want to cooperate and stand together. But it has to be pushed beyond that. And there, I hope that whatever regional agreements are made, whether in the Eurasian Economic Union, the European Union, TTIP, or the Asian Partnership, they have to be building blocks, and every regionalism should have a long-term goal of becoming a building block towards global trade agreements.

G. Cutmore:

I would contend, and I would be interested in your response, that multilateral institutions have been weakened since the global financial crisis, and governments and blocs have pursued a go-it-alone strategy. If we look at the effectiveness of the G20 currency agreements or the effectiveness of the WTO to police the international trading landscape, it is faltering. The Americans have placed 400% unilateral tariffs on Chinese steel, where the UK has refused to do that, and Europe has taken a slightly more nuanced view. It strikes me that, as much as I hate to say it, those multilateral organizations that were carved out of the embers of the Second World War are starting to look weak.

C. Friis Bach:

You are right. The WTO Doha Round has been blocked, as you rightly said. But do not underestimate the machinery here. The WTO is extremely strong machinery, and if those steel tariffs are against the WTO rules, the US will be taken to the dispute settlement system, they will be punished, and they will have to pay a fine. That is how strong the system is.

Remember what happened in the 1970s and 1980s, we had regular trade wars with rounds of punishments and higher and higher tariffs in waves of trade wars. We do not see that. We see those selected instances where you still try to protect markets, and there are loopholes in the system. The countervailing duties and the dumping system are not perfect. But still we have a very strong international trading system.

But it has to move forward, and it also has to keep pace with companies. Because what we see now is the Fourth Industrial Revolution. I hope we will hear more from the World Economic Forum; I am very inspired by their work on the Fourth Industrial Revolution. We are seeing now the Internet of Things. We see how information technology and products and services are merging and moving

together, but if this is going to take us where we want it to take us, we need significantly more international regulation.

We deal with the entire transport sector; we do all the vehicle standards and the transport conventions. We are now seeing automated driving and intelligent cars moving *extremely* fast, but they will only work if countries come together and shape standards and regulations to facilitate this worldwide. Because if you have a self-driving car, and if the systems are different from country to country, whenever you cross a border, you will crash. So you have to get regulation right. And we are not seeing it. I agree with you, we are not seeing countries taking this seriously. Regulation and international trade agreements are moving way too slowly. They cannot keep up with the speed of the technological revolution. We really need to call upon member states.

It also worries me that right here, we see this enormous need for more international regulation and cooperation and integration, and then we see the opposite. We see governments pulling away; we see protectionist politicians and nationalistic responses in politics throughout the world. I hope companies and civil society will give the politicians a wake-up call and say that they have to move the opposite way; they have to move internationally and globally. You cannot shape national responses to crisis: the climate crisis, the migration crisis, and the need for regulation will never be mobilized if we do not turn this tide.

G. Cutmore:

You are a relatively small sample, but you are my conscience here in the room. So let me put a vote to you. Raise your hand if you think that we are going to see an increase in trade protectionism and trade wars from here. OK, thank you. Now please raise your hands if you think we are going to see less. Maybe one hand. Well, that tells us an awful lot about how people currently feel about the direction that we are travelling in.

Let me move on the conversation, because we have talked a lot about the politics. Now let us talk about how businesses have to deal with this new dynamic where the rules could be changing. Professor Pissarides, I wonder if I could bring you in at this point. Clearly, as far as the audience is concerned, there is a threat of a new protectionism coming. How do established businesses negotiate that? What do they need to bear in mind as they think about bringing product to market or dealing with the outlook that is shifting?

C. Pissarides:

Let me first say that I do not agree with the majority here. There would have been a second vote if I had to vote, because protectionism will be bad for everyone, and I do not think countries are going to do it when it actually comes to putting pen on paper.

I agree entirely with what Mr. Bach said just before, that further trade liberalization would benefit everyone. The question is how you bring that about. Given the geopolitical realities that we have now, the way that you bring it about is through regional agreements. Once they become established, then you negotiate between them and move on to the global economy. That is the ideal world. That is one of the reasons that I am so against Britain's exit from the European Union: that would be a movement in reverse, whereas what we need is a strong Europe that will be able to negotiate both East and West in the agreements we are making now.

You said you wanted it to be interactive, and I am going to be interactive. To come back to your pessimistic outlook, I am afraid I do not agree with that either. What we are seeing now is not a weakening of international institutions. What we are seeing is that the international institutions that we constructed after the First World War, and especially after the financial market liberalization of the 1980s, had weaknesses and defects which many people and possibly countries have exploited. It came to a head in the great recession that started before the

Lehmann collapse and then spread like a disease with the Lehmann collapse, and what is important here is that we did not get into the extreme politics of the 1930s. Given my Greek origins, I have to say in parenthesis that we have been seeing more extreme politics in the countries that have been squeezed most, like Greece. This is what bad economics does to you.

But through the World Trade Organization, the G20, various other high level meetings, and the role of China, what we are seeing is a global economy coming out of the recession and thinking very seriously about further integration and how to correct the fault lines that we had before. Obviously the solutions are not perfect yet and have not been reached, but we are moving in that direction.

Now, how should businesses react to that? Given the views I just expressed, I think it would be a bad mistake for business now to plan on the basis of further trade restrictions and barriers and turn to their domestic economy. I do not think this is the way to do it. I think what both financial and non-financial businesses should be doing is to emphasize the benefits of openness and persuade their governments that this is the way to act for their benefit. Big business, of course, can be extremely influential in national politics. What they should plan for is new regional agreements like the Trans-Pacific, Trans-Atlantic, Eurasian, and the other Chinese initiatives like One Belt, One Road, which is meant to encourage Chinese investments throughout Asia, and gear themselves to that.

One thing that you said which I agree with is that it is very rare, if at all, that we see blue-collar workers in rich countries like the United States benefitting from complete trade openness. This is in the nature of things. Ricardo pointed it out 200 years ago. You mentioned before that that is the way we are going. It is one of the very first and very correct economic theories that we have: the law of comparative advantage. If politicians know how to handle it correctly, it can benefit everyone. But there is a temporary loss of blue-collar jobs, and we need to face that reality and deal with that in the best possible way.

G. Cutmore:

Let me interrupt you there, because once you brought the politicians back into it, I need to come back to you. One of the problems has not necessarily only been the perception that there is a loss of comparative advantage; it has been that there have been trade wars carried out through other means, and I am talking about currency devaluations and efforts by governments specifically to gain competitive advantage through the use of currency manipulation. That is with us, is it not? That is a reality. That is what Taro Aso was talking about today, and the Japanese Prime Minister says, if the yen keeps going up, we are going to do something about that. That was a message to everybody out there that the Japanese are serious about using the yen as a trade instrument.

C. Pissarides:

When you bring in currency and currency wars, you are trying to undermine every economist on the planet, because I do not think that we can claim that we can understand how currency markets work.

You have to bear in mind that human beings are basically selfish. They will act in their own best interests before they act for anything else. And people, businesses, and countries as a whole will act in their own interests. They perceive that because we do not know how to control currencies through agreements and unions, you get into currency wars. It has been tried in the Eurozone, and I have to confess, it has not been working well so far at least. I am not really that optimistic that we are going to fix it very soon. Personally, I do not think it is that important beyond the very short run, if you give yourself a temporary currency benefit through intervention by the central bank. Currencies are ultimately driven by fundamentals, so unless you fix the fundamentals of your economy, you are not going to do well, whatever you do to your currencies. It is like small ripples, because that is the only thing we have not been able to control. They try to use them, but it is not going to get them anywhere.

G. Cutmore:

In my country, we have an expression, “Let’s shoot that fox”. That is going to be a good one to test the translators, because we will see how many of them know what it means. I will give them a break here. “Shoot that fox”: let us nail what is in fact a lie. You can help me here, because you are the economist on our panel.

We have two bankers here. When I ask bankers today why cross-border capital flows are decreasing, they tell me it is a lack of demand. When I ask them why we see fewer businesses investing and borrowing to invest for export, they tell me it is a lack of demand. As an economist, when you look at the system at the moment, is it a lack of demand that is rolling back free trade, or is it a problem with the pipeline of getting the funding to the people who need it for trade finance, capital investment, and those activities that grow cross-border trade flows?

C. Pissarides:

As you know, every economist is 200 economists. I am going to start with the big hand, and the big hand is the latter. I think what has happened in the financial crisis is that banks realized that they do not know enough about what is going on in foreign countries when they invest. They do not know how governments are going to react to their investments there, what is private debt, and what is sovereign debt. They are withdrawing and coming back into their own countries, because they know more about their own countries.

In the Eurozone, we have never had more home buyers in investment and in bank lending than we have now. This is absurd, if you think that it has been moving towards integration for so many years, and we have had the Euro for 15 or 16 years. The main reason that is driving it is fear of what is going to happen to you if you buy another government’s bonds, or if you buy into business abroad. And part of the reason is that the old business model of banking that we knew before the crisis has been destroyed completely. It has been destroyed

because supervision was not right across borders, and the relation between the yields of short-term and long-term interest rates has been destroyed by the zero or lower bound, the QE that so many important central banks have pursued. Now banks are basically confused, in the sense of being faced with a lot of uncertainty and not knowing how to deal with that. When you are in that situation, you go for what you know best, which is your own domestic investment, and that is what is driving it.

Obviously, we have not come out of recession now or are growing very fast. China is slowing down, and Europe is slow. The United States is doing well, but people keep saying maybe it is more fragile than it looks. But I do not think that is the important driving force that is behind the home buyers that we are seeing now. I think the driving force is the uncertainty that bankers, and therefore businesses, are facing about what is going on abroad.

G. Cutmore:

Thank you very much indeed for the analysis. Of course, I want to give our bankers the opportunity to respond and give us their perspective. Mr. Oudéa, if I could perhaps start with you. Is there something in the premise that you just do not understand how to do business in other countries, so it is better to come home?

F. Oudéa:

No, I am not 100% in agreement. I can perhaps elaborate a little bit on that and first of all, remind you that Société Générale is in essence an international bank, historically and in its DNA, with the ambition and strategy to contribute to financing international trade and helping with the allocation of international savings to finance credit. For example, as you know, we have a big operation here in Russia, which we have stayed absolutely committed to in the crisis. One of the ambitions behind our strong position here is not only to finance the

Russian economy alongside colleagues and friends like Andrey, but also to contribute to helping Russian companies to develop abroad and help foreign companies to invest in Russia. So, the starting point is to say we are not a domestic bank; we want to be international and contribute to that.

When I think about this world as you have described it – very complex, very uncertain, very volatile, but with a challenge which is growth, particularly in Europe – I cannot help thinking that being able to finance international trade and infrastructure in developing countries, so that their own economies can grow and we can benefit from that, is one of the solutions to having more growth.

So I stick to a strategy, and we have not retrenched fundamentally into our home market. But now, this uncertain world makes our life very complex. The kinds of risk we take, when we think about strategic risk, are not just for the next two months. They are for the long term. In order to establish expertise, good franchises, and businesses, we have to think ahead five or ten years and try to imagine the world in which we will be. You have started to design a world with the regional clusters and the idea of global coordination. May I say the problem, from my perspective, is that the design is not yet that precise, and I have a feeling now, as a CEO, that international coordination between countries has weakened compared with the heart of the crisis. So it is very difficult to make big bets, big investments.

This capacity to make big bets is reinforced by changes in regulation. All banks, at least in Europe, are under pressure to further invest capital. And in that process, we refocus, not because we do not think we are confident with one country, but because we have to focus on where we have the scale. We cannot afford today to misallocate capital because of the constraints we have on the regulatory side.

There are other things unrelated to that geopolitical issue you mentioned, the negative yields, which are also putting on pressure. It is also fair to say that we are in a world where the impact of monetary policies is particularly significant,

which in itself creates uncertainty and difficulty in thinking about exit strategies, and the rates in five years' time. So for banks which have to take long-term risk, it is a complex world.

Can I just add a few things which go beyond this uncertainty? If I think about international trade, it is also fair to say that regulation is putting pressure on banks to finance. I am saying this as a bank which is pursuing this business. I also see my friend Jürgen Fitschen from Deutsche Bank in the room; we discuss this. For example, the idea of asking banks to be able to check you customers' customers, things like this, is so complex operationally that the capacity to take that risk is probably not worth the kind of revenues we can take. This kind of regulation, plus the issue of managing international rules on embargoes, makes our lives more complex than in the past.

When I think about regulation and international frameworks, you know there is currently a big debate around Basel. As European banks, we challenged the initial proposals which were made in one category of assets, for example, which is called specialized financing. Specialized financing is infrastructure finance and asset finance. It is plain financing: ship financing, everything which is I would say related to transport, international trade, and international growth. There is the idea to significantly increase the capital requirements of such financing for reasons which, in our view, are not legitimate. The consequences will be that you will have less capital allocated to that, and that the capital that will be allocated will be more expensive.

What I am saying is that beyond this fragile, uncertain political environment, which is complex to forecast, we are adding additional burdens which effectively can be impediments. I am saying this less than a week before the Brexit referendum, which could create further fragmentation in Europe. And I think we need to be particularly careful in the calibration of these rules, as we are in a transitional world with a lack of visibility and certainty.

G. Cutmore:

I just want to be very clear on what you are saying here: the regulators are now overstepping the mark. They are creating a regulatory framework within which the banks are being punished and ultimately no longer allowed to do the job they should be doing at the price they should be doing it at.

F. Oudéa:

What we are saying is, regarding European banks, there was a need for reform and reviewing certain regulations. There is no doubt about this. The capital in the banking system in Europe has more than doubled. We tend to think that with that kind of reinforcement of capital, and with the liquidity requirements which are and will still be implemented, there is a risk of over-calibration with the current proposals.

What is at stake is the capacity of international banks to effectively allocate savings and finance. I am not sure that there is such an issue of demand. Yes, to a certain extent, the lack of visibility in the world does not help to create confidence and stimulate investment. But I have spent more than a day talking about infrastructure financing. The question is what kind of capital we will have to allocate to finance this, what that means for potential investors to finance it, and what kind of price will also meet the requirements of the sponsors. At the end of the day, these technical questions also rely on the regulations which will be applicable going forward.

G. Cutmore:

Mr. Kostin, can I bring you in as our other banker on the set here? And can I ask you that question around the new agreements, the re-globalization that we are seeing through regional blocs, and the comments that Mr. Oudéa has made about the regulatory framework moving on to perhaps limit banks taking risks with shareholders' capital? How do you think all of this now affects investment

flow, global capital movement, and the ability of those flows to finance trading activity, which I think everybody in the room agrees is a universal good?

А. Костин:

Спасибо. На правах организатора я хотел бы поблагодарить всех, кто принимает сегодня участие в нашей панели: это очень известные и очень профессиональные люди. Могу вам открыть небольшой секрет: тему нашей сессии предложил я, потому что она меня очень волнует. Последние 20 лет я активно посещал Давосский форум и форумы Международного валютного фонда и всегда был настроен на то, что в мире идет универсальная глобализация и когда-нибудь мы придем к единому правительству и уж точно к какому-то единому регулированию и интеграции. Европа становится все более интегрированной, появляются все новые интеграционные структуры. Я давно принимаю участие в работе АТЭС, но на нынешнем этапе происходит очень важный процесс, который означает, что глобализация из универсального механизма переходит в совершенно другой разряд.

Впрочем, если посмотреть на все наши проблемы с точки зрения теории Большого взрыва, они будут выглядеть иначе. Я тут прочитал в одной научной книжке, что, оказывается, через 15 миллиардов лет наша Вселенная может перестать расширяться, а еще через 15 миллиардов превратится в микрочастицу размером 1^{-23} сантиметра. И я подумал: а зачем мы тогда столько работаем, если всего через 30 миллиардов лет превратимся в микрочастицу? Но есть другая группа ученых, которые говорят, что и через 15, и через 40 миллиардов лет Вселенная будет расширяться. Мне эта точка зрения ближе, потому что она дает веру в будущее.

В вопросе глобализации я бы поддержал господина Шувалова. Мне кажется, что это негативный процесс, когда глобальная, универсальная

тема уходит на второй план. Именно поэтому ВТО сегодня не развивается. Одновременно появляются новые интеграционные объединения — Транстихоокеанское и Трансатлантическое партнерства, которые, на мой взгляд, представляют собой попытки одного, самого влиятельного сегодня государства получить если не контроль, то по крайней мере лидирующую роль в этих процессах. Как сказал господин Обама — может, он случайно оговорился, а может, наоборот, умышленно, — именно США должны писать новые правила мировой торговли. Если добавить к этому активную санкционную политику, то она тоже подрывает основы универсальной финансовой системы, архитектура которой выстраивалась последние десятилетия, начиная с периода после Второй мировой войны.

После того как мы были наказаны посредством санкций, мы стали думать об альтернативных способах решения тех или иных финансовых проблем. Мы фактически создали свою систему SWIFT, свою кредитную карту, свою расчетную систему «Мир», мы активно продвигаем расчеты в других национальных валютах, чтобы уйти от доллара. И все это потому, что существующая «универсальная система» подвержена огромным геополитическим рискам и может перестать функционировать по воле одного государства.

Наши французские коллеги — к счастью, не Société Générale, но другой очень хороший банк, BNP Paribas, — заплатили почти 9 миллиардов евро за то, что проводили какие-то операции, которые, по мнению США, были несправедливыми в отношении Кубы и Ирана, и к России, кстати, не имели никакого отношения. Это путь, который серьезно подрывает основы глобальной финансовой системы, и, к сожалению, мы уже не можем рассматривать наше будущее как некую универсальную финансовую глобальную систему. Потому что мы уже напуганы, мы не доверяем той системе, которая сложилась, и мы будем стремиться создавать альтернативные системы.

В рамках объективных процессов появляются новые структуры, которые будут конкурировать с Мировым банком и с другими уже сложившимися мировыми финансовыми институтами: Банк развития БРИКС, Азиатский инвестиционный банк. Мы видим, что глобальная система распадается. Мы постепенно переходим к следующему уровню интеграции.

Вернемся к вопросу относительно финансовых потоков — как говорится в России, кто о чем, а вшивый — о бане. Я имею в виду санкции, которые напрямую затрагивают мой банк и мою международную деятельность в 20 странах и, безусловно, затрудняют ее. Мы уже привыкли к ним и справляемся с ними, но все равно это абсолютно ненормальная ситуация. Она создает определенные проблемы помимо кризиса, о чем говорил Фредерик. Кризис тоже создал определенную озабоченность, в том числе отсутствием глобального регулирования, и поэтому все банки стали domestic-oriented. Но в нашем случае это происходит еще и под воздействием геополитики и геополитических факторов. Спасибо.

G. Cutmore:

Let me pick up on that, because there was a lot of richness in your response. I primarily want to come back to your remark about the sanctions here. We have seen a number of domestic initiatives led by President Putin over the last two years, including import substitution, the drive for self-sufficiency in food by 2020, and the development of a whole host of new venture capital funds to try to kick-start or stimulate different parts of the Russian economy, and all of these things are beginning to bear fruit. There is a pivot to refresh old trading relationships in the East and the Middle East, in a way to nullify the impact of sanctions. These things have happened over the last two years. Can I ask you, if the sanctions were to be revoked at the end of June, and were to wash out of the system, would Russia go back to the old trading approach and the old relationships, or has something structurally shifted for good?

A. Костин:

Мне кажется, Россия абсолютно адекватно оценивает нынешний мир, так как мы часть глобальной системы и не можем развиваться без тесного экономического сотрудничества. Чтобы это понять, достаточно посетить любое передовое российское предприятие и увидеть, что основное машинное оборудование, скажем, буровые установки, импортируется из Германии, Италии, Англии и США. Россия никогда не хотела исключить себя из международного торгово-экономического процесса. Безусловно, мы настроены на тесное сотрудничество и взаимодействие с другими странами. Именно для этого мы созвали форум, чтобы продолжить обсуждения с нашими партнерами. При этом в отношении нас применяются меры, которые вынуждают нас иметь запасной вариант действий на случай торговой войны или санкций. Один английский журналист мне сказал: «Какие санкции? Это же экономическая война против России». Я теперь так и говорю, как они меня научили.

Мы, конечно, считаем, что это ненормальная ситуация. Надеюсь, что, начиная со следующего года, после выборов в Соединенных Штатах, европейцы пересмотрят свою позицию, и ситуация изменится, и нашим отношениям не будут мешать геополитические факторы и санкции. Спасибо.

G. Cutmore:

And which of the two candidates to become the new American President do you think would do the best job of removing those sanctions?

A. Костин:

Наш Президент говорит: кого американский народ выберет, с тем мы и будем работать. Мне кажется, это правильный подход. У меня нет американского паспорта, я не могу голосовать, поэтому мне трудно занять

определенную позицию. Думаю, мой коллега Джефф обладает большей полнотой информации.

G. Cutmore:

I do not have an American passport either, so I am not eligible to vote in that one. Minister Shuvalov, can I bring you in on that? I think the question that a lot of people in the West are asking is, have we lost Russia? If the sanctions are removed, do Russians get Parmesan cheese back on their pasta, made in Italy? How will things change? Do we go back to how it was, or has something permanently moved?

И. Шувалов:

Я напомним, что санкции были введены в 2014 году, и с тех пор санкционная политика только ужесточалась. Должен вам сказать, что господин Костин работает в деловом совете АТЭС, и мы вместе с ним проводили саммит АТЭС во Владивостоке в 2012 году. Саммиту предшествовала большая экспертная работа, нам помогали эксперты международных банков, ВТО. Мы работали со всеми, кто был заинтересован. Основная проблема во внешнеторговом балансе России, на которую указывали эксперты: мы слишком много торгуем с Западом, то есть на Запад. Европейский союз был нашим крупнейшим торговым партнером и по-прежнему им остается. При этом мы совершенно забыли о рынках на Востоке. Вся экспертная работа была направлена в первую очередь на то, чтобы изучить возможности восточного региона. Осенью 2012 года Президент объявил, что наша стратегия — не сворачивать торговлю с Западом, не менять западное направление, а так перестроить свой торговый баланс, чтобы с течением времени мы торговали с Западом так же активно, как с Востоком. Под Востоком имеется в виду в том числе Западное побережье США. Тогда экономика России будет, безусловно, чувствовать себя значительно лучше.

Что нам помогли сделать санкции? Понимаете, к моменту, когда санкции были введены, торговые отношения уже были хорошо отлаженными, у всех были свои партнеры, розничные торговые сети имели поставщиков, главным образом из Европейского союза. Отечественным производителям было очень сложно попасть на торговую полку. Санкции всё изменили. Мы значительно быстрее научились работать с китайцами. У нас был очень хороший диалог и отличные отношения на политическом уровне, тогда как бизнес-отношения были очень скромными. Сейчас, два года спустя, мы видим совершенно другую картину. Мы общаемся и принимаем в Москве большое количество китайских бизнесменов, которые не имеют никакого отношения к государственному бизнесу. Их интерес к нам и наш интерес к ним совершенно иной.

Когда-нибудь санкции будут отменены, но это не значит, что все опять вернется на круги своя, и те продукты, которые продавались раньше, а сейчас находятся под запретом, вернутся на полки. Будет очень сложно вернуться к этой полке в супермаркете, но это возможно. Конкуренция изменится, и для российской экономики ситуация станет в конечном итоге более благоприятной.

Для нас это был очень тяжелый период. Я ни в коем случае не хочу сказать: «Как было хорошо, когда ввели санкции!» Самое тяжелое время пришлось на конец 2014 — начало 2015 года, когда наметилось понижение цены на энергоресурсы, как следствие появился свободный курс, и мы ввели свободно плавающий рубль. Нам говорили, что нас ждет крах. За два-три года до кризиса западные СМИ писали, что мы находимся в той же «мертвой зоне», что и Советский Союз перед распадом. И если Правительство совершит один-два неверных шага, то мы неминуемо повторим тот же самый сценарий.

В январе, феврале и марте 2015 года мы пережили время, которое было даже жестче для экономики, чем время накануне развала Советского

Союза. Но сейчас мы вышли из тупика и находимся на пороге роста. Министр экономического развития докладывает, что третий квартал продемонстрировал значительно больший рост по отношению ко второму, как и четвертый квартал по отношению к третьему.

Поэтому, как только санкции исчезнут, мы вернемся к нормальным торговым отношениям: они будут очень активными, но другими. Конкуренция Запада с Востоком за российский рынок будет жестче.

A. Костин:

Джефф, если можно, небольшое дополнение к ответу на предыдущий вопрос о двух кандидатах. Я как-то пошутил в Давосе, и шутка понравилась. Господин Трамп заявил, что когда он станет президентом, он подружится с Путиным. И тогда он попадет под американские санкции, потому что все друзья Путина находятся под американскими санкциями.

G. Cutmore:

I do not think anybody wants to pick up that particular reference, do they. You wanted to come in.

C. Friis Bach:

Thank you. I am in the UN, so we do not do sanctions. It is not our business. But I can say that in the UNECE, my organization, for 70 years, even during the Cold War, negotiations took place and countries continued to talk about trans-border agreements and trade facilitation. One encouraging sign I can see now is that our members, which are 56 countries from the US and Canada to Russia and Tajikistan, have now supported a conference that we will host in Minsk in October together with the Government of Belarus, on economic integration towards 2030.

I see this agreement by our member states as a small sign that all our countries know that we have to move on. Sanctions, breaking ties, and building new barriers is not the right direction for Europe. We know this from history, as I said before. We need to move away from this and towards more economic integration and cooperation. And there are small signs that this is happening. As I said, our member states have said, "Let us now sit down, talk visionary, and talk towards 2030. How can we shape economic integration in this region?" I think we have hopefully seen the lowest level of this development, and we can hopefully move on, based on international agreements, and hopefully, we at the UN can help to facilitate this.

G. Cutmore:

OK, thank you for that. Mr. Shuvalov, I just wanted to come back to you very quickly, and I wondered if you could just give me a short answer to this. I have been coming here for a number of years now, and this is slightly better attended as far as foreign businesspeople and politicians are concerned. Last year was a bit like tumbleweed. You could not find them. They were hiding; some of them were in town, in hotels, but we could not get access to them, even though we knew they were here. This year, I feel it is slightly different, and some delegations have really turned up. The Italians have come in numbers, and we see a former French President, so there are spots of interest. The Greeks are here as well, and they are talking. Will these friends in difficult times get preferential treatment when the times improve?

И. Шувалов:

Мы будем ко всем относиться одинаково дружелюбно, но доброту мы не забываем никогда.

G. Cutmore:

Good, thank you for that. Mr. Kamath, thank you very much for joining us and filling our empty chair. That should give us hope that we have a brighter future for trade, because as I said at the beginning, maybe the empty chair represents the disappointment and the hollowness of the current outlook.

I have a question specifically for you, and it is related to finance. One area where we have seen positive development is the new banks, if I can call them banks at this point, or international institutions that have sponsor support, commitment, and pledges of capital. You represent one of these organizations. Do you think that this is perhaps a silver lining in the cloud, that things like the Asian Infrastructure Bank, the BRICS Development Bank, and the bank that you represent will be able to step in and turn the tide, or perhaps turn off the tap, when it comes to trade financing and cross-border activity?

K.V. Kamath:

Thank you. I will put it this way. I see these new institutions as coming-of-age in the context of re-globalization of the countries of the South, because the initiative has come from there. And it is for us to see how we can push this initiative forward. Indeed, in the context of a lot of things that have been said, the change is already in progress. There is a rebalancing happening, and I think that will contribute to this whole development process.

Let me just give one area to emphasize this point. Let us look at the funding opportunities. I have been here for a day, and most Russian businesses and Russian bankers encourage us to raise roubles. I have been in China for 11 months, and we believe that our first funding issue will be in renminbi, a green bond in China later this month. During this quarter, we expect to do an issue in India, and one later on in the year in South Africa. Just to put things in context, typically you would look at Western hard currencies for funding. But I think that

the rebalancing that is happening is driving you to look at opportunities in newer emerging economies where surpluses are being thrown up.

Of course, add to that the realization that relying on hard currencies has meant effective interest rates of around 15%, because the interest rate may look near zero, but if you then take in the exchange depreciation or fluctuation, your effective cost is significantly higher. I am just putting this in context to say that all that has been talked about in the context of re-globalization and rebalancing is really happening in the case of the developing world, because there is no other option than to look at these solutions.

Indeed, there will be supplemental funding from harder areas. If you look at trade and the other things that have already been talked about, clearly the drive is coming from this newly emerging set of countries. Our aim at the New Development Bank is to start by doing a small bit in this process, taking it forward, and helping the process grow and gain momentum. I think that would be our role. I would probably put it as a small catalytic role; it starts small and there are larger players out there.

G. Cutmore:

Can you share some examples with us? We see the acronyms, we hear the organizations are starting, and I think Russia is on board with the New Development Bank. But could you crystallize it for us, perhaps with an example you may know of where it has been or will be able to step in and provide the kind of trade finance that perhaps is unavailable at competitive market rates?

K.V. Kamath:

Our focus is going to be on harder infrastructure finance to start with. So we will work on that. But I can say this: trade finance and the currency of finance is critical. When I talk to central bank owners for the five BRICS countries, they are clearly talking in terms of providing funding in local currencies so that trade can

grow without facing risk in terms of exchange. That facilitative role will happen as an outcome of what we will try to do in the context of the New Development Bank or the erstwhile BRICS Bank, as we were called. There are a whole lot of exciting opportunities which I think will move on to a slightly more rebalanced global business scenario.

G. Cutmore:

And just to follow up very quickly, we have had things there like the Asian Development Bank and the World Bank to provide this kind of lending. Have they just done a really bad job and underrepresented the interests of the BRICS economies and the emerging economies?

K.V. Kamath:

No, I do not think that at all. I think they have done a good job in the context of the times that they were operating in. I think in today's world, the borrower is asking, "Let me be a partner with you. You be a partner with me". We need to respond to that call for partnership, and that is what we seek to do. We seek to do that by understanding their needs. For example, their need is not hard currency, but something else. Their need is speed, not longer processing times. Their need today is saying, "You understand what our specific requirements are, rather than telling us what we should be doing". All of this gives opportunity to the newer players coming on the scene.

G. Cutmore:

Thank you very much indeed. So, things are changing. I am becoming more optimistic as I sit here and listen to the direction in which we are moving: new institutions with a new focus and competitive market rates. But something else makes me optimistic and undermines some of my negativity around the cross-border activity that we have seen reduced. I am sure a lot of it is to do with the

financial crisis, but some of it also is to do with technology. I do not think we can talk about trade and the transaction of goods and services without understanding where technology is taking us.

Murat, I know you are here representing the World Economic Forum, but I would also like to tap into your technical expertise. Mr. Kostin talked about cosmology earlier. I recently had my mind blown by a guest I had who I spoke to on technology who said, “What if we live in a world where AI and robotics make manufacturing so cheap, you just do it in the market where the consumers want the product?” And I thought, “Hang on a second. You have just destroyed the need to manufacture low-cost in China and ship it half way round the world to the United States so that they can buy it”. All of that would just become irrelevant. Now, whether that is a good thing or a bad thing, we will have to work out in the fullness of time. But Murat, maybe you can open our eyes here, because as our technical-savvy panellist, you probably have some ideas about how technology is going to change our world.

M. Sönmez:

I am sure. Thank you, Geoff. I am an optimist in that respect. I do not know if you are familiar with it, but there is a Chinese Checkers board game called Go. Going back to cosmology, the number of possible moves in that game is more than the number of atoms in the known universe. It is some number times 10 to the power of 170. For a long time, we thought that computers could not master that complexity, but two months ago, Google’s AlphaGo Engine beat the world’s Go Master four times out of five, just to make sure there was no ambiguity.

We are now in a situation where with Big Data, computers have the capacity to look at patterns and come up with new ideas and new models. If you couple that with the connectivity of the Internet, of people and things, and also developments in not just software and connectivity but in things like 3D printing or additive manufacturing, where you can 3D print the product of your interest at the

moment and place of consumption, it has tremendous impact on trade. Some of the issues that we are putting a 20th-century lens on may not be relevant. Look at block chain technology in financial services.

If we can take a step back, what we are seeing is that the trade architecture and governance architecture have been built on what we call the “too-late” architecture. By the time you have figured things out, it is too late. That is multilateral. We are now moving into a place where, going back to your pasta analogy, we have what we call spaghetti architecture, where everybody is talking to each other and making these bilateral agreements. And that is also too late. Because what we need is a horizontal, systemic, forward-looking, multi-stakeholder architecture, which takes these technological developments into consideration. That is what we as the World Economic Forum are doing by launching 14 system initiatives. Trade is one of them, and technology has to be right at the centre of everything.

If you take 3D printing: if my car breaks down, I take it to a mechanic, and the car part will be printed on the spot. There is no need for them to be manufactured or imported, and this is not too far out. One of the large aircraft manufacturers last week 3D printed a functional aeroplane, complete with electronics. So, what do you import? You can print on the spot, and you consume less, because all you consume, from a materials perspective, is what you need.

We are also moving towards a consumer industry perspective with the shared economy, pioneered by Airbnb and Uber, where you can take a car and share it. I bought a self-driven car in California a month ago, and I drove from San Francisco to LA without touching anything. Unbelievable! (I was nervous!) And you can enjoy your time! Now, what if that car drops me off, services other people, connects to the network, and comes back when it is time for me to go to my next place? Here, Yandex can empower that and share with a broader group of people. So the consumption models will change.

I think we need to put a 21st-century lens on this important issue called trade and come up with this horizontal, forward-looking architecture. We also need to make sure that we do not leave the humans behind. So it has to have a human-centric approach. And half of the world's population is under 35, so the youth need to be involved. We need to give them the opportunity to have a seat at the table, because innovation will drive us forward, and innovation cannot be decoupled from education.

In this world of advanced machine-learning techniques, what do we educate our people on? We have done research, and discovered that the first years, between one and three, are the most critical years for human brain development. Nutrition also plays a key role. This is the time when we teach our kids to be creative, to be collaborative, and to learn to learn.

All of these issues are horizontal and interconnected. As the international organization for public-private cooperation, we are encouraging this holistic, horizontal, systemic orientation with impact as its focus. In a way, we are advocating a move from spaghetti architecture to lasagne, where things are layered on top of each other. I am an optimist, and I think we will plough through these challenges that we have.

G. Cutmore:

Can I just take my old-fashioned 20th-century lens to what you have said for a moment here? The one thing that does worry me, and it worries other people, is that many of the companies at the leading edge of this that appear to be storing a lot of our details and information are American. Sometimes you have the feeling that they work in partnership with the government, and sometimes you clearly know that they do not, because we have obviously seen rows about breaking open phones taking place between the federal authorities and the manufacturer. Coming back to the geopolitics where we started, do we need to be worried

about these technology innovators, which flag they fly under, and where our information is going?

M. Sönmez:

I think that that needs to be addressed. One of our 14 initiatives is the future of the digital economy and society, and one of its legs is cyber-security and data protection. In that respect, what gives me optimism is that we have the Chinese, the Americans, the Russians, the Brazilians, the policy-makers, and law enforcement agencies all sitting down together as part of our initiative, trying to figure it out. We do not have an answer yet, but I do not think we can take a vertically optimized approach that can have a negative systemic impact, like we did in banking. And I think all the players are realizing that. We also have the Internet Society at the table, which represents civil society. We do not have many of the answers, but we have the willingness to figure it out. I think the key thing will be to minimize the negative impact without minimizing the positive potential we have.

G. Cutmore:

Thank you very much indeed. We have pretty well run out of time here, but because I am a Brit, I have an English passport, and the Brexit vote has been referenced a number of times, I wonder if I might ask you, my conscience in the room, just to give me an opinion on whether you think the Brits should stay in the EU, and what the consequences will be. So, put your hand up if you think Britain should remain in the EU. Thank you. Put your hand up if you think Britain should leave the EU.

From the audience:

All with British passports, apparently!

G. Cutmore:

All with British passports, apparently! Well, thank you very much, everybody, for being here for our panel. Thank you Mr. Kostin and the team for helping organize this event for us, and thank you to our panellists.