

# Prosper thy neighbour

By **ALDERMAN MICHAEL BEAR**

LORD MAYOR OF THE CITY OF LONDON



**MICHAEL BEAR** studied Civil Engineering at the University of Witwatersrand in South Africa and holds an MBA from Oxford University. He has 36 years' experience in the international construction industry and has been Managing Director of Balfour Beatty Property Ltd since 1993. He is Regeneration Director at Hammerson plc, a Non-Executive Director of Arup and a Fellow of the Institution of Civil Engineers and the Royal Institution of Chartered Surveyors. Alderman Bear was elected as the 683rd Lord Mayor of the City of London on 29th September 2010.

**A**s the Lord Mayor of the City of London, I represent 'the City' in the broadest sense, supporting and promoting the UK financial, professional and business services industry both at home and abroad.

By the time I have completed my year-long mayoralty, I will have spent almost 100 days overseas, visiting countries and financial centres highlighted as key target markets by leading City firms.

The Lord Mayor's overseas programme is designed to enhance bilateral trade and investment relationships, promoting the City as an attractive location for international investment and helping international firms to overcome any barriers that may be impeding market access. The City's strengths and experience can also help our global partners develop business environments that City firms are willing and able to invest in.

The financial crisis reinforced the fact that we operate in a truly global marketplace; we are facing global problems that require global solutions underpinned by a genuine consensus and a demonstrable commitment to certainty, predictability and the rule of law.

There is no doubt that Russia is an economic powerhouse on the world stage – the sheer size of its population and abundance of natural resources make it impossible for it to be anything else – and yet it has been punching consistently below its weight for a number of years.

There are signs that all this might be about to change.

Following a difficult 2010, Russia's growth trajectory is firmly back on track. Couple this with the US\$1 trillion commitment to upgrade the country's infrastructure over the next decade and an on-going political commitment to turn Moscow into a genuine international financial centre, not to mention the forthcoming Winter Olympics and Football World Cup, and it is clear that Russia has the ambition and the resources to take its rightful place in the global economy.

Russia and the UK already enjoy a fruitful economic partnership – Russia is our 12th largest export market whilst the UK is the largest foreign direct investor to Russia with 14.4 per cent (US\$14,940m) of the total investment and more than 600 British businesses operating there.

From a financial services perspective, the City of London is working to build upon these ties and has established a City of London-Moscow International

Financial Centre liaison group, jointly chaired by the Lord Mayor and Alexander Voloshin, to help Moscow with its stated ambition of developing an international financial centre.

It may seem incongruous to be providing such assistance to a rival centre, but, given the global nature of the financial marketplace, it is much more important that we maintain close links with Moscow so that UK-based firms are well placed to capitalise on future opportunities in this area of the world.

Moscow is an important gateway to numerous important emerging markets and it already boasts an impressive agglomeration of leading global businesses including many of the largest international banks such as JP Morgan, Goldman Sachs, Citigroup, Deutsche Bank, Société Générale, HSBC, Standard Chartered and Barclays as well as more than a dozen UK-based legal firms such as Clifford Chance, Allen and Overy, Linklaters and Herbert Smith.

However, in spite of these credentials, there remain serious issues that must be addressed.

In the recent Global Financial Centres Index report that looks at the relative attractiveness of financial centres from an industry perspective, London came out on top whilst Moscow lagged behind in 68th.

A common feature amongst the world's leading financial centres is that firms have confidence in them as places to do business – they are underpinned by a commitment to certainty, predictability and transparency, particularly with regards to the rule of law.

Russia on the other hand ranked 154th out of 178 on Transparency International's Corruption Perceptions Index in 2010 and 123rd out of 183 on the World Bank/IFC Ease of Doing Business report in 2011.

Another area that requires urgent attention is Moscow's infrastructure, particularly with regards to transport.

This is something that needs constant investment, especially for financial centres based in large cities – such as London and Moscow – which find themselves having to compete with the purpose-built, high-tech business environments of Asia and the Middle East.

Even though it continues to rank highly, London's public transport network is currently undergoing £6.5 billion worth of upgrades that will not only ensure it is ready for the Olympic games in 2012 but that will also ensure London has adequate capacity to thrive as a world-class business district for years to come.

However, this investment pales into insignificance when compared to the Russian Government's plans to invest US\$1 trillion in upgrading the country's infrastructure.

Just as London's 2012 Olympic deadline is driving forward many of the schemes in the pipeline – the majority of which look like being delivered on time and to budget – there is no doubt that Russia's preparations for hosting the 2014 Winter Olympics and the 2018 Football World Cup should help to ensure many of the most important projects are also delivered in a timely fashion.

Many of these projects, particularly those designed to modernise Russia's transport network, are already well under way, including a new highway running from St Petersburg to Moscow and new airports and/or terminals in Moscow, Nizhny Novgorod, Ekaterinberg and Vladivostok.

Despite this commitment to infrastructure development, Russia's approach to Public Private Partnerships (PPP) remains largely undefined, with no unified federal law or body in place to provide a coherent framework. So long as Russia's PPP projects continue to fall under the responsibility of a disparate group of bodies, they are unlikely to develop a consistent or efficient strategic programme.

In 2010, more than 350 PPP projects were identified and yet, of these projects, more than 200 were proceeding on a municipal level whilst only one was being managed at a regional level and a two at a national level.

The UK on the other hand has more than 20 years of experience using private sector finance to help fund and deliver the provision of large scale public service and infrastructure projects that would traditionally have been paid for by HM Treasury.

It has been a steep learning curve but, by the end of 2008, the UK had signed some 935 Public Private Partnership (PPP) projects worth £66 billion – more than double the amount for the whole of the rest of Europe.

UK firms have all of the skills and expertise necessary to be at the forefront of the Russian PPP revolution.

Of course my visit is not all about helping Russia to develop and modernise; I also want to demonstrate that the City remains open for business and, more specifically, that it can meet all of the business requirements of Russian firms.

Recent reports in the UK have suggested that Russian firms are increasingly reluctant to list in London, preferring to raise capital in the Far Eastern markets instead.

If true, this is a worrying trend and one I shall be seeking to get to the bottom of

during the remainder of my time as Lord Mayor.

Over the years, many Russian firms have successfully raised capital in London; there are currently 45 of them listed on the LSE main market, with 17 more on its sister AIM market.

Most of these firms, including the giant Gazprom, operate in the energy sector although the Russian Bank VTB is also listed on the main board. The London Stock Exchange is working hard to increase business development work in Russia and to increase the number and sectoral diversity of Russian firms listing in the UK.

Whilst the appeal of other financial centres should not be underestimated, there can be no doubt that London's capital markets offer unparalleled access to deep pools of liquidity and to an incredibly broad international investor base.

London has traditionally been the financial centre of choice for Russian companies looking to raise capital and there is no reason this should not remain the case going forward.

Clearly it is not just Russia that stands to benefit from the forging of closer ties between our two countries, particularly with regards to financial services. UK firms stand to benefit at an every stage of the process, be they infrastructure firms engaged in PPP or financial services firms able to operate in an increasingly open and stable marketplace.

That is why my visit in June was high on my agenda for my year in office and that is why I am sure it will remain a top priority for my successors in the years to come.

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12 Moscow City by night



Photo: RTA Novosti