

An important partnership

By **ALDERMAN DAVID WOOTTON**

LORD MAYOR OF THE CITY OF LONDON



DAVID WOOTTON is the 684th Lord Mayor of London. A graduate of Jesus College, Cambridge, he began his career with the law firm Allen & Overy specialising in corporate transactions and best-practice compliance. With a strong interest in the governance of the City of London he was elected to the Common Council in 2002 and in 2005 was elected an Alderman, becoming Sheriff of the City of London in 2009. He is serving as Lord Mayor for 2011/2012.

This year marks the 20th Anniversary of Kazakhstan's independence from the USSR – a milestone in national history – and the people of Kazakhstan should be congratulated on what has been achieved since 1991.

Given its strategic location, Kazakhstan has always been a vital gateway bridging European and Asian trading interests since the earliest pioneering journeys on the Silk Road.

In this anniversary year Kazakhstan has now become an important player on the global stage in its own right, and one increasingly reflecting its position as the ninth biggest country in the world. The decision to host last year's OSCE summit in Astana was recognition of the country's significance. In welcoming leading political figures – including Deputy Prime Minister Nick Clegg and a senior UK delegation – this summit gave Kazakhstan the opportunity to show it is open for business to the world and has a significant global role.

Kazakhstan's Chairmanship of the 2010 OSCE summit represented an important step for Kazakhstan – being the first Central Asian, former Soviet and predominantly Muslim country to chair the OSCE – an organisation that includes 56 countries including the United States.

I hope that hosting this high profile event will add further impetus to the development of Kazakhstan. I firmly believe that trade between Kazakhstan and the United Kingdom will continue to play a vital role in delivering the vision of a strong, diversified economy in the coming years.

Kazakhstan is and will remain both an important UK trading partner and a recipient of direct foreign investment. The past twelve months have been very positive for the commercial partnership between the UK and Kazakhstan. There has been a successful meeting of the Kazakh-British Trade and Industry Council in September, followed by a productive visit by Energy Minister Charles Hendry.

More recently Mr Kairat Kelimbetov led a Kazakh delegation to this year's Kazakhstan Business Forum and The London Stock Exchange received an important delegation from Samruk-Kazyna led by Mr Timur Kilibayev. Modern Kazakhstan is now a rapidly developing country that is playing a significant role on the world stage.

The UK is one of the largest investors in Kazakhstan, having provided more than US\$ 15 billion of investment since the country's independence in 1991 and we are currently the second largest provider of FDI. UK exports to Kazakhstan in 2010 were US\$ 315 million and imports from Kazakhstan totalled some US\$ 300 million.

There is a long-standing and sustained commitment of UK-based business working in Kazakhstan, across a range of sectors including energy, education, and financial services. Major British companies are making a major impact in Kazakhstan including HSBC, RBS, RG, Shell, Amec and Invensys.

As the 684th Lord Mayor of the City of London, it is my role to support and promote all UK-based financial, professional and business services – 'the City' in the broadest sense of the word – both at home and abroad. During the course of my year-long Mayoralty, I will spend around 90 days visiting more than 20 countries – including Kazakhstan – highlighting the mutual benefits, both in terms of economic recovery and future growth, of developing closer relations between the City and other financial centres.

Many local companies are turning to Britain for financial services expertise and capital raising. An increasing number of Kazakhstani companies are listing on the London Stock Exchange in partnership with the Kazakhstan Stock Exchange (KASE). Indeed, IPOs to a value in excess of US\$ 15 billion have taken place since 2005 and two firms are now in the FTSE 100 – ENRC and Kazakhmys.

We must, however, realise that it is a competitive market. Following the financial crisis Kazakh companies have increasingly turned to the East and that is why the City needs to work hard to reiterate our established strengths: a broad investor base, deep capital pools, sophisticated markets and an unparalleled international skills base. And although the Kazakh banking system – like others across the globe – has experienced difficulties since the crisis its capitalisation still exceeds US\$ 1 billion following rapid developments over the past two decades.

This is not only Kazakhstan's 20th Anniversary of Independence but is also the 100th Anniversary of commercial oil production. Kazakhstan's natural resources will continue to be a major regional, and indeed global, power house. The energy sector is a

major success story, with Kazakhstan forecast to be among the world's top 10 oil-producing nations by 2015. In order to realise the target of pushing into the top 50 performing economies, however, there remains a need to diversify the country's economic and financial base.

Important innovations including the Special Economic Zone established in Astana will be crucial to encouraging additional foreign investment and attracting the range of firms needed to establish a climate of any meaningful size. But like many other rapidly-developing markets, one of the main challenges for Kazakhstan's financial development is regulation. The regulator AFN (Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations) has taken a number of measures intended to strengthen the sector focused primarily on increasing financial prudence and addressing lessons from the financial crisis.

These included the strengthening of risk-management systems and corporate management in financial institutions; rebalancing the liability structure of banks, strengthening the requirements on the issuers of securities; tightening the prudential regulation of cumulative pension funds and pension asset management organisations; strengthening the culture of investment. The AFN also ran programmes of financial literacy instruction and adopted the regulatory concept of country-cyclicality as a measure of risk reduction.

These steps are welcome from the perspective of international investors and it is equally heartening that Kazakhstan has announced a 'Business Road Map to 2020', outlining plans for job creation and regional business development over the medium term. The City is particularly well placed to offer help tailored to Kazakhstan's specific needs when it comes to accelerating the development of infrastructure and training.

The City of London is a world leader in Public-Private Partnership infrastructure financing, with a proven track record around the world, the UK as a natural partner for Kazakhstan. In fact, we already have close ties in this field following the establishment of our PPP centre in Astana in 2008. On the training front, the Anglo-Kazakh Law Association has been established for five years following cooperation between the Bar Council and the Kazakh Bar Association and further cooperation is envisaged in the near-term.

It is always worth emphasising the insurance sector would also benefit from bilateral partnership in insurance. Firstly, there is a lack of big name international life insurance companies in the region. There are many Kazakh insurance companies in the market and the Central Bank owns 90 per cent of

the second largest pension provider. City firms are major international players in this market and there is significant scope for future collaboration.

The development of Islamic financial instruments in Kazakhstan also stands to benefit the domestic corporate sector. Kazakhstan adopted legislation on Islamic Finance in early 2009 and there is a real demand for such products. London is the home of Islamic Finance. The UK is well-placed to help with its development. We have been developing the Islamic Finance market in the UK for 30 years. There are 22 banks in the UK which offer Islamic finance services, including five which are fully Shariah compliant – more than in any other Western country. The UK is also the leading skills centre for Islamic Finance education, training and qualifications. Twenty law firms in the UK provide legal services in Sharia compliant finance and English legal experts have advised governments, regulators, and leading institutions on Islamic Finance architecture and product development. The UK is therefore a natural partner to help develop the capacity to meet domestic demand.

Kazakhstan has made great strides towards delivering the reforms needed for future success, and now has the most sophisticated financial system in the region. The country is at a crossroads, however, when it comes to diversifying the economy and overcoming bottlenecks to future growth. By working together we can ensure that Kazakhstan's development continues to gather pace – and that the country is recognised for the foreseeable future as not only a gateway for trade but also a major economic player. The Kazakhstan has much to celebrate in its 20th Anniversary year and the City of London looks forward to extending our partnership in the years to come.

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