

CAPITAL IDEAS

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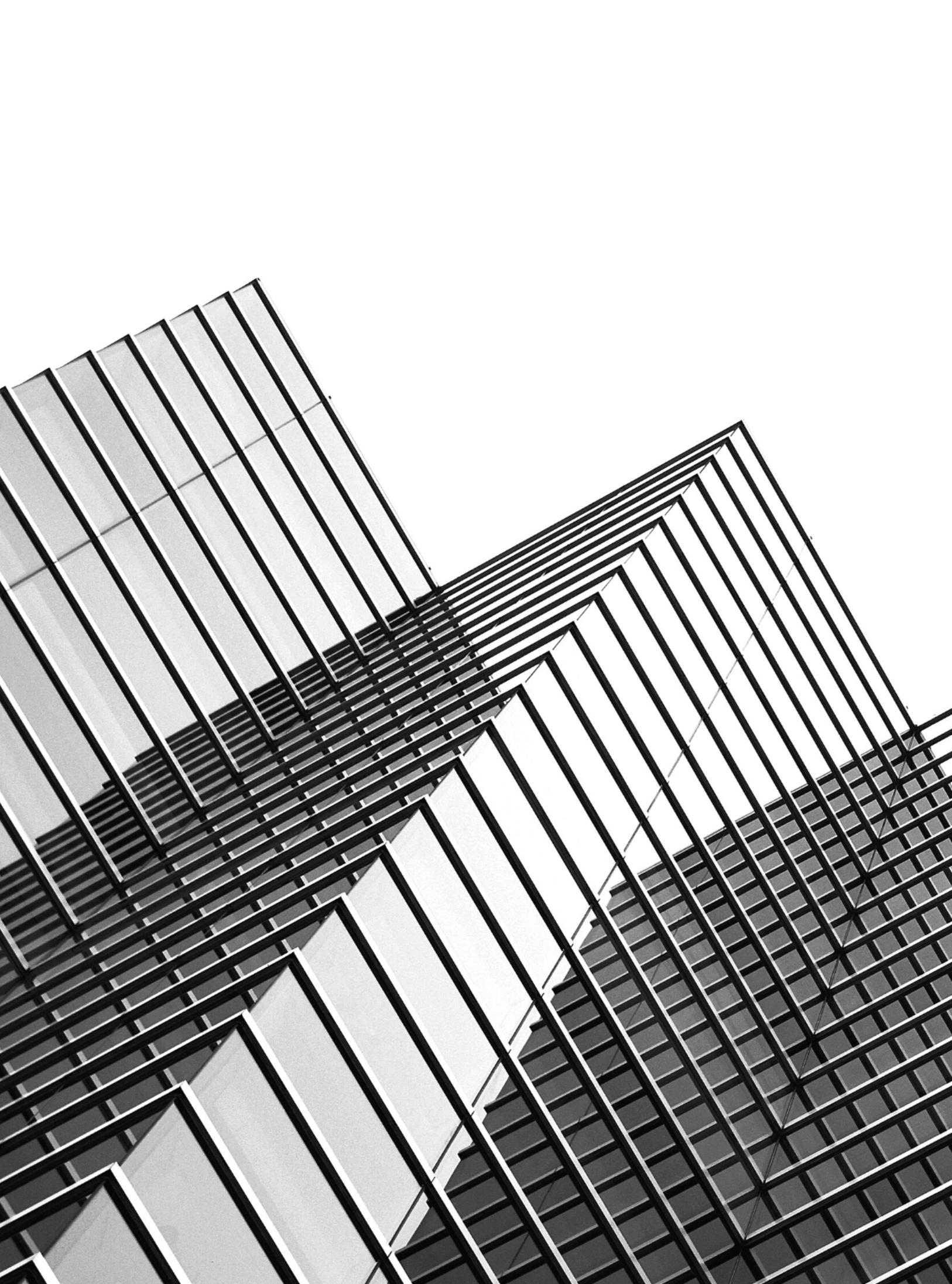
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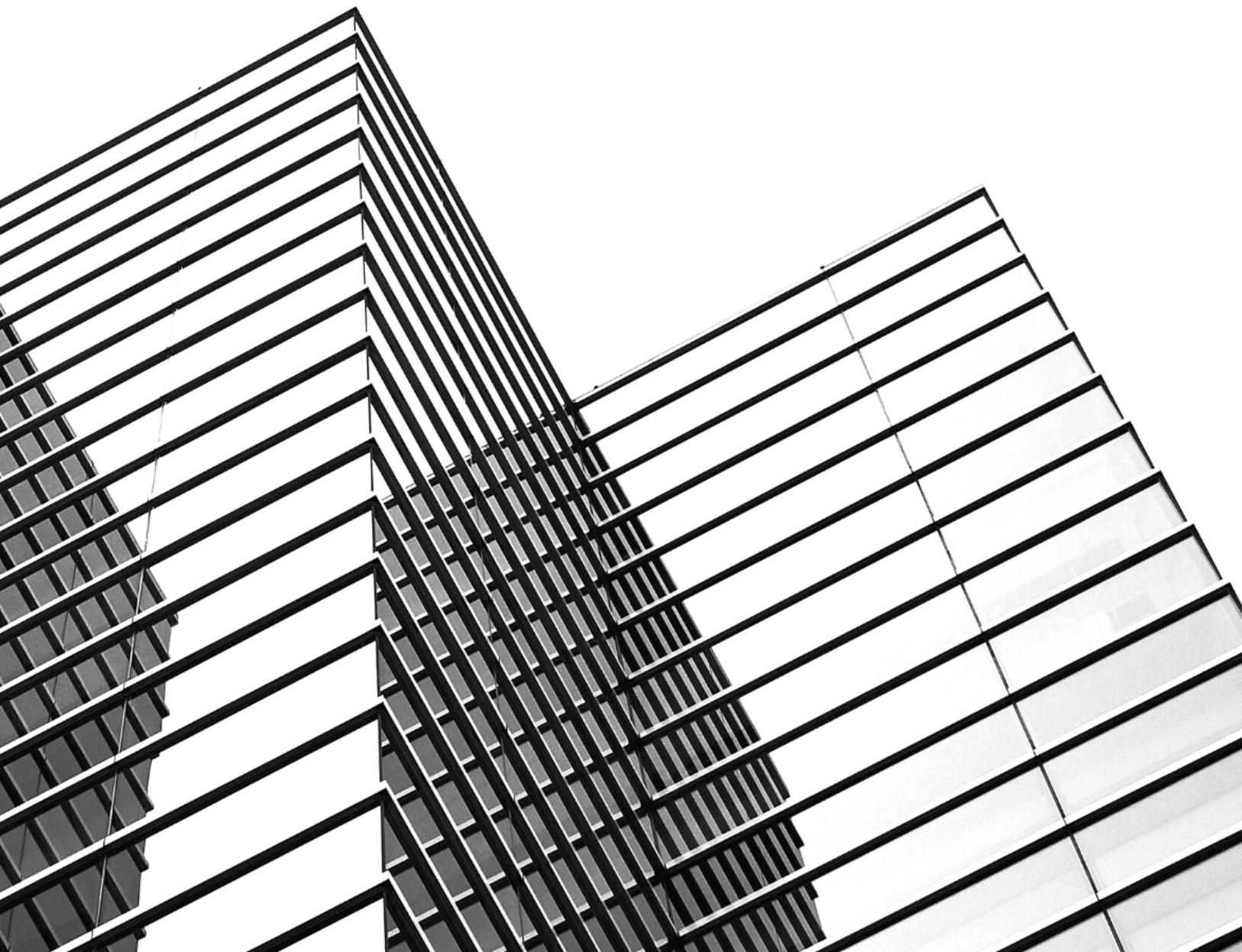
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SANCTIONS: LOOKING BEYOND HORIZON

The European Union is considering an 11th package of sanctions for Russia. New sanctions from the USA are also likely. Timelines are yet unknown, but possible areas are quite clearly visible. Having largely exhausted the potential for quantitative ramping-up of sanctions, Brussels and Washington are focusing on qualitative components – interrupting schemes for evading restrictions and prosecution of sanction regime violators.

Signs of growing limitations on quantitative opportunities for new sanctions became already obvious last year. However, the Western allies managed to put together an impressive package of new measures by February 2023. Blocking sanctions were introduced against a number of Russian banks,



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industrial companies and natural persons. Export controls measures were applied to hundreds of products. There are options for further quantitative expansion. But then there is the issue of effectiveness of such measures in regard to those who introduce them. New sanctions may either harm their initiators, for example, in the event of blocking sanctions versus Russian oil companies, global market fluctuations will be painful for everyone, including the West, or such sanctions will have a very limited effect. You can add up as many Russian government officials to blocked persons lists as you want, but there will be zero effect on economics and the political course of Russia. You can also expand the list of export





controls for goods, but the most sensitive products have already been sanctioned, and bans on deliveries of wallpaper or bathroom fixtures could be quite easily replaced by domestic production or deliveries from other countries.

Fighting sanction bypass schemes is a different matter. Iranian experience shows that the most widely used options include cooperation with alternative suppliers or deliveries through third-country intermediaries. In the first instance the Western allies will be betting on secondary sanctions – using blocking restrictions against those persons cooperating with blocked Russians. This practice is in place in the USA. Last year the European Union created a legal mechanism for such measures, though there was rather limited use of these measures for now. Overall, the threat of secondary sanctions is viewed as a serious one by major business in non-G7 countries. But the business that is specifically focused on operations with Russia, will be less sensitive in this regard. In the second instance there will be administrative and criminal prosecution measures against those who are involved in bypassing sanction regimes. The EU is working on harmonizing such mechanisms. The number of such investigations has grown significantly over the latest year. Just the Netherlands alone in 2022 opened 45 criminal cases in relation to evasion of sanctions,¹ and before February 2022 such cases were extremely exotic. Major penalty or jail time risks are essential both for large and medium and also small businesses. Naturally, there will be new evasion schemes, since Russia remains a major economy with a large market. But these schemes will be increasingly retreating into the shadows. This is an issue both for Russia and for initiators of the sanctions. Domestic consumers will face higher prices due to more complicated supply schemes. Western countries will have to deal with a growing shadow sector and related violations. Sanctions are distorting natural market relations and hurt everyone.

There is yet another area, confiscation of Russian sovereign and private assets, blocked by Western countries. Over the latest year the USA have seen dozens of initiatives to confiscate frozen property and to transfer it to Ukraine. Ultimately, a legal rule was adopted, enabling the Ministry of Justice of the USA to transfer property, confiscated under criminal proceedings against sanctioned persons, to the State Department for subsequent transfer to Ukraine. Though, the new mechanism only applies to a limited segment of sanctioned persons, of which only a few could be subject to criminal prosecution. Still, currently the mechanism does not apply to Russian sovereign property. Broader confiscation powers were made available to Canadian authorities, which only need to apply for a court order to confiscate property of a blocked person. For now, there is only one precedent of this mechanism being used. There are ongoing discussions in the European Union. Similar mechanisms are being drafted under EU laws, but is too early to speak of a complete scheme for confiscation, and not freezing of Russian assets.

Most likely, the Western authorities will be very careful about promoting the confiscation issue, being wary of a nervous reaction of investors from other countries.

Most likely, the Western authorities will be very careful about promoting the confiscation issue, being wary of a nervous reaction of investors from other countries. But Russia should not count on this scenario. It should prepare for the worst case of sanction pressure development, taking measures to adapt the domestic economy, including development of domestic production, a system of financial transactions with G20 countries, independent from Western banks, and ramping up trade relations with these countries.

PRESENT AND FUTURE OF GLOBAL ECONOMY

Changes do not hang in the air. Changes happen every day. These are not only robots introduced in industries or in transportation, digitalization and development of biotechnologies, but these changes bring about major global economy game-changing rules. There are ongoing changes in the current situation which blossomed in 1983-2007. A new reality is emerging: neoliberalism is being replaced by neomercantilism, which means trade rivalry of strong states.

All of this was determined by a major economic crisis. Since the last quarter of the XVIII century the world economy has been going through periodic crises of two types: medium or trade and industry crises, adjusting growth, and major crises, drastically changing development conditions. In 2008-2020 the world went through one of these crises.

By mid-March 2023 major issues of the American banking sector got exposed. The Silicon Valley Bank (SVB) default has been the largest one since 2008, when a similar process unfolded for Lehman Brothers. This dragged down other major financial players of the USA: Wells Fargo & Co, JPMorgan



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Chase & Co, Citigroup Inc. and Bank of America Corp. These banks and other companies got new cash injections after the market crash in March 2020. Trillions of dollars from the US government and the FRS flooded the stock market, helping improve its market conditions. But in 2022 the FRS rate kept going up until it reached 4.75%. Inefficient companies found it hard to service their debt, and it became impossible for intermediary companies.

Here is what happened: the price of borrowed money, which was supposed to go up way back after the shock of 2008, rose to the normal value (3-7% rate is average or normal), and this was enough. It's not a crisis but only aftershocks of the crisis of 2008-2020. The USA can bring the FRS rate down to zero, as they did in March 2020, but then the dollar value of goods will continue falling. They can hold the rate, but then the financial system will keep on crumbling: capitals will get burned, as economists of the XIX century would put it. In any case, the USA are no longer able to generate global economic growth on their own, as they used to.



China, India, Russia, Brazil and many other countries will be the new economic growth centers. The USA, the UK, EU countries, Japan and others can neither drive global trade growth on their own (credit-based expansion of consumption there has reached the limit; a "middle class" collapse is underway), nor operate as centers for raising capital. They are trying to stop devaluation of their currencies expressed in goods, but banks are the first to crumble. The reality demonstrates this in the case of SVB.

So the result is that WTO paralysis, imploded reputation of the IMF and the World Bank, lots of external sanctions across the global trade are not just an accidental or a temporary stumbling block but are signs of a new time.

Beijing, New Delhi, Moscow and other capitals of leading states realize that their states must be strong. This means being able to conduct various protectionist policies, while re-building trade, financial and technology chains of the world, including replacement of the dollar in international trade. Intervention of authorities into the market economy must follow the logic of mercantilism — being both planned and prescriptive when required.

Banking and other issues in the USA, the UK and the EU in 2023 raise a question of foundations for growth of the global

economy in the next two decades, before the time will be ripe for a new major pivotal crisis. This cannot be based on pumping up the Western middle class with credit. Therefore, it will be growth based on redistribution of markets: new development centers will have to take over a greater area, develop more industries and manufacture more sophisticated products, stimulating reduction of similar areas of their competitors. Thus, a program for growth of the global economy, its new centers and adjacent states (primarily in Africa and Latin America) will be a program for an intense fight.

The 2023 banking crisis in the USA is not a "black swan", as they call an unexpected major event with huge blowback. This is a "white swan", i.e. an expected and even a pre-planned event: the FRS and the White House were aware that raising the key rate would crash a lot of economic structures. This immediately dragged down global prices for oil and other goods.

Neither Russia nor any other economies will benefit from falling global market. But if it cannot be avoided, then consequences will not be limited only to a global trade downturn. There will be more active exchange of goods between non-G7 countries, role of state in an economy will increase, replacement of western industrial products will speed up with a stronger role of G20.

A recession in 2023 will likely not lead to any reset of American leadership. Influence of the USA will gradually dwindle along with financial bubbles. Significance of other countries for the global economy, including Asian countries and Russia, will grow. But the market stress caused by a downfall of the American banking façade will have to be weathered jointly.





THE BANK OF RUSSIA, WITH THE SUPPORT OF THE GOVERNMENT OF MOSCOW, EXPANDS MONITORING OF ENTERPRISES

The Central Bank of Russia is expanding its project to monitor key economic indicators of Moscow, which is based on a survey of local entrepreneurs. This was announced by Maria Bagreeva, the head of the Department of Economic Policy and Development of Moscow.

According to her, the survey data will now be used by the city to form short-term economic forecasts, make management decisions, and analyze their effectiveness.

The Central Bank of Russia also considers the information received from enterprises to make decisions on the key rate.

Every month, according to the results of surveys, companies that have become participants in the monitoring of the Central Bank with the support of the Moscow government will receive analytical materials: the Bank of Russia market survey for Moscow and the economic review of the Department of Economic Policy and Development of Moscow with exclusive industry analytics. This data will be useful for developing or adjusting investment projects, setting priorities in management, marketing, and for business planning.



REBOOT OF THE RUSSIAN VENTURE CAPITAL MARKET

In 2023, the volume of venture financing in Russia could be halved, according to analysts from the Dsight analytical company. According to their estimates, the number of deals will decrease to 130-150, and the volume of investments in start-ups - up to \$400 million. In their forecast, the company does not consider especially large deals (from \$100M) and IPOs. Dsight specifies that it is difficult to predict the presence of such deals and admits that there may be none in 2023.

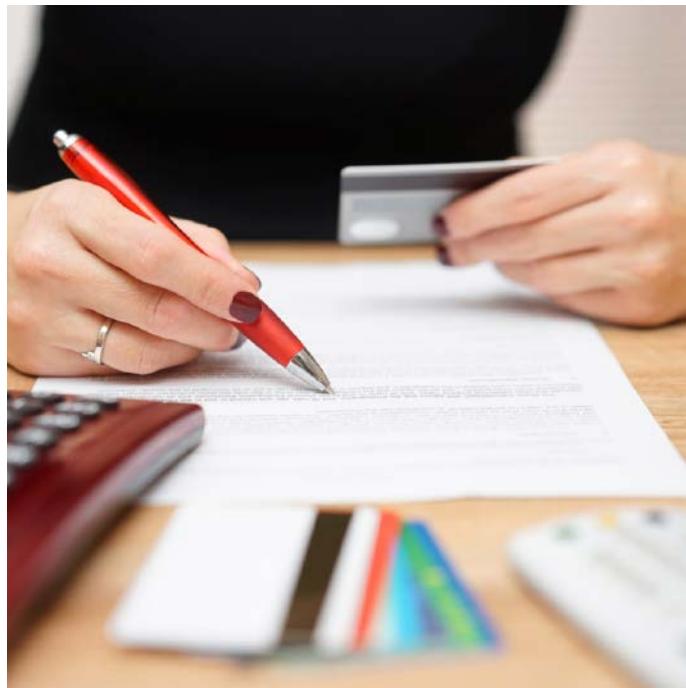
According to the results of the study, in 2022, a record low number of transactions were closed in Russia in 2022 - 139 compared to 306 in 2021. This is the lowest result in the past seven years. As the authors note, the market experienced a decline against the background of investors leaving the Russian market, sanctions, and an unstable economic situation in the country and the world.

THE CENTRAL BANK CLARIFIED THAT BANK EMPLOYEES CAN OPEN ACCOUNTS FOR NON-RESIDENTS

The Bank of Russia has informed that now bank employees can open accounts for both residents and non-residents on behalf of clients.

Currently, banks are prohibited from opening accounts for clients without the personal presence of the account opener or the client's representative. This requirement is stated in the law "On Combating Money Laundering and Terrorism Financing" (115-FL). However, if a bank employee acts as a representative of the client (based on power of attorney, contract, act, or law), the client's presence for opening the account is not necessary.

"The requirement for personal presence when opening an account (deposit) for a resident or non-resident client will be considered fulfilled if the client's representative, including a credit institution employee, is present, provided that the client grants him/her relevant authority in compliance with the provisions of Chapter 10 of the Civil Code of the Russian Federation," the regulator's letter says.



INVESTMENTS IN THE MOSCOW ECONOMY IN 2022 AMOUNTED TO ₽6 TRILLION

A lost decade could be in the making for the global economy, says Indermit Gill, the World Bank's Chief Economist and Senior Vice President for Development Economics.

The ongoing decline in potential growth has serious implications for the world's ability to tackle the expanding array of challenges unique to our times—stubborn poverty, diverging incomes, and climate change, he said.

Indermit Gill believes that the decline in potential

growth can be reversed with labor policies that increase productivity and accelerate investment.

According to the updated report of the World Bank, between 2022 to 2030 average global potential GDP growth will be 2.2% per year. The analysis shows that potential GDP growth can be boosted by as much as 0.7 percentage points — to an annual average rate of 2.9% — if countries adopt sustainable, growth-oriented policies.



THE GOVERNMENT EXPANDED THE PROGRAM OF SUBSIDIZING INVESTMENT PROJECTS IN PRIORITY AREAS OF INDUSTRY

The government support in the form of subsidizing the interest rate on loans will be extended to investment projects to produce chemical products, for which loans were obtained in 2020-2024. The corresponding decree was signed by the Prime Minister of the Russian Federation, Mikhail Mishustin.

The mechanism of state aid applies to the production of small and medium-tonnage chemical products, including components for construction and road coatings, household chemicals and other useful materials. Investors in such projects will be able to recover up to 70% of the costs of paying interest on loans obtained in the last four years and in 2024. For these purposes, 2.5 billion rubles will be allocated from the federal budget in the next two years.

In addition, the restriction on the maximum amount of investment in the project has been lifted, and a maximum subsidized portion of the loan amount has been set at 8 billion rubles. At the same time, the minimum total cost of the investment project will be 150 million rubles.

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REGIONAL ASPECTS OF YUAN GOING INTERNATIONAL

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The International Monetary Fund (IMF) in its recently published report "Dollar Dominance and the Rise of Nontraditional Reserve Currencies" emphasized, that the share of the dollar in foreign currency reserves of central banks of most countries fell to the lowest level over the latest 25 years (59% - as at the end of 2021). Today it is becoming obvious, that sanctions are ultimately leading to a stronger role of yuan in the global trade, and losses from introduction of sanctions could be much more significant than expected. The IMF report notes, that along with the yuan, there is increasing share of other currencies in reserves: Japanese yen, Australian and Canadian dollars.

Russia, having undertaken a whole number of activities in its foreign trade, joined the top of the countries, currently developing and directing the global process of de-dollarization. As at the end of 2022 the share of dollar in Russian exports and imports plunged from 51,7% to 33,9% versus Q1 2022, and the share of euro also fell from 35,1% down to 18,7%, and at the same time the share of yuan increased significantly from 0,4% to 14,1% (according to the Bank of Russia). Moreover, the role and the share of national currencies, primarily of that of the ruble, in trade across the EAEU last year increased by 3,5 % versus last year and reached up to 74%.

Moscow has more and more often been using yuan with increasing efficiency in its trade, this is significantly raising the role of the Chinese currency in the region, and this is ultimately leading to a certain segmentation of the world economy. Some experts think that yuan, on the one hand, is undergoing expansion, and on the other hand, the Chinese currency today serves as some sort of security guarantee.

Over the latest decade Russia has been trying to reduce its use of the dollar primarily in foreign trade, and at this background the Chinese influence on the Russian market is growing stronger. So, for example, for the first time in the history of the Moscow Exchange, the Chinese currency got ahead of the American dollar, becoming the most traded currency at the exchange (the yuan share amounted to about 40% of total trade turnover).

Last year new yuan-denominated (CNY) bonds were issued in Russia, used by banks for repo (repurchase agreement) operations with the Chinese currency for their colleagues, and this ultimately led to an absolute historic record in February 2023, according to the Bank of Russia, in yuan repo volumes – CNY 28,5 bn, and the total volume of interbank yuan transactions on the Russian market also for the first time reached a record – CNY 61,9 bn.

Let us note that the first repo transactions, providing for use of yuan-denominated securities as collateral, started only last summer, and bonds, denominated in the Chinese currency, appeared on the Moscow Exchange right in the end of July 2022. Currently more than ten Russian companies have issued their yuan bonds at the Moscow Exchange, including such majors as Rosneft (CNY 30 bn) and RUSAL (CNY 22,9 bn), then come Nornickel (CNY 9 bn), Polyus (CNY 4,6 bn), Metalloinvest (CNY 3 bn) and others. Today there are more than twenty issues of bonds in the Chinese currency on the Russian market for over CNY 70 bn.

So, yuan-based interbank repo transactions, which are

becoming increasingly popular now, provide Russian banks with a new tool to raise liquidity. Let us emphasize, that unlike yuan-denominated interbank deposits, the total volume of which shows noticeable volatility, growth of repo transactions in the Chinese currency, the volume of which in October 2022 for the first time went over euro and dollar interbank transactions, has been demonstrating significant positive dynamics every month.

Considering ongoing development and expansion of economic relations and comprehensive partnership, as well as strategic cooperation with China (as evidenced by a whole number of documents, signed during the state visit to the Russian Federation of Xi Jinping, the Chairman of the People's Republic of China, including the joint statement of the President of the Russian Federation and the Chairman of the People's Republic of China on the plan for development of key areas of Russia-China economic cooperation up to 2030), and measures taken by the Russian regulator for stimulating operations in the Chinese currency, one could expect con-



tinuing growth of volumes of such transactions further on.

These major changes could be explained not only by limited availability of dollar and euro on the Russian market, but also by geography shifts both in Russian and global trade. Some Western experts and politicians focus on regional aspects of internationalization of the yuan, because they think that yuan has started actively transforming into a dominating regional currency in Northern Eurasia. Western experts also believe that in the near term geopolitics may lead to a graduate development of a certain regional financial infrastructure in the territorial geographic vicinity of China, gravitating towards the Chinese currency, and to further segmentation of the global financial system, which, as they think, gives Beijing yet another geo-economic influence tool.

China is increasing the share of its currency in international trade and also ramping up foreign investments, establishing new trade partnerships, and, owing to the developed China International Payment System (CIPS), is strengthening global positions of the yuan, moreover, the PRC pays for Iranian oil in yuan, and Saudi Arabia, which has said it wanted to join BRICS countries, announced that it is ready to take yuan payments for deliveries of oil to China as a major BRICS member.

Anna Nesterova,

head of the BRICS Business Council Working Group on Digital Economy, the Chairperson of the Russian Chapter of the BRICS Women's Business Alliance, member of the supervisory board of the Russian Information Technology Development Foundation (RITDF), speaks on the current e-commerce market situation and development plans for the industry

BRICS E-COMMERCE: DEVELOPMENT VECTORS



Anna Nesterova, PhD (Econ).

Head of the BRICS Business Council Working Group on Digital Economy, the Chairperson of the Russian Chapter of the BRICS Women's Business Alliance, member of the supervisory board of the Russian Information Technology Development Foundation (RITDF). Member of the General Council and Chairperson of the Committee on Cross-Border Electronic Commerce of "Business Russia" All-Russia public organization.

In 2015 Anna was nominated as a Woman Icon at the APEC Forum "Women as an engine of inclusive growth" for her business achievements.

Since 2018 she represents Russia in the CICA Business Council.

In 2020 Anna Nesterova founded Palekh Watch, a watch-making enterprise.

Could you please speak of e-commerce development in BRICS countries?

China is number one in the world by e-commerce market volume, both technology-wise and by the numbered users of e-commerce platforms. The volume of purchases through such platforms is really huge. The overall e-commerce market volume in China reaches up to \$3 tn per year, which makes a half of total retail sales in the country. There is an actively developing e-commerce market in India, especially B2C sector, related to consumer products. In 2022 the e-commerce market in India grew by 37 %, and the total value of goods on the market is assessed at more than \$55 bn. We, on our end, also cooperated with B2B sector. Mobile communications coverage per person in India is growing, and this means that their e-commerce market will also be developing.

In Brazil B2B and B2C sectors are also in place and under development. South Africa has operational European trade platforms, as well as eBay and Amazon, plus there are small local platforms that are currently developing.

And Russia has had only one platform - Global Rus Trade, which specifically operated exports of Russian goods, but now due to this geopolitical situation, exports of Russian goods are impeded.

Are there issues even in trade with China?

It is the issue of settlements. Traditionally all of the external trade was operated in dollars. Now, when dollar payments are impossible, there is the issue of settling payments and payment currencies.

It appears that there is no ready solution for now?

Now there is an active ongoing discussion of settlements in national currencies; we are currently making such settlements with India, but in small volumes. The question is how convenient or inconvenient this is, and the most important issue is

what is to be done with a trade surplus in national currency.

Today there is a discussion of developing a common BRICS currency, which will be based on a basket of currencies, and which will be secured both by gold and oil. For that matter, the issue of Saudi Arabia's accession to the organization is of significant importance. This is a comprehensive effort which will take time. We have been paying with dollars for 20 years, and now redesign of the whole construct will take a while. What matters is that business has a clear understanding; everyone is ready to pitch in, everyone is ready to cooperate, that's why I believe in this case we can come up with a joint solution.

What is the role of e-commerce in international trade today? What are possible development prospects for e-commerce in Russia?

Speaking of Russia and its partners, currently Russia has e-commerce relations only with the CIS countries. Settlements are conducted in rubles and product delivery options are available.

Speaking of the European, American, North American markets, those markets where we settled payments with our potential customers in dollars, our trade volumes there have plunged to a minimum. There are payment issues, logistics and product delivery issues.

As for global trends, then by all means, now and during the pandemic period, e-commerce has actively ramped up its volumes, because people stayed at home and bought products online.

For Russia this is the question of how it will integrate into e-commerce. I think that across the BRICS area we can streamline operations between our electronic trade platforms. We have strong local market players with the infrastructure in place, enabling our proposition as a partner under the Customs Union.

There is also interest, for example, from Israel. Our Israeli colleagues are actively discussing entry of our platforms to their market, despite the current limitations. The only problem is that the planning horizon has been narrowed down drastically.

This is why we have to carefully differentiate between local and foreign markets. Our local players are quite strong. But where and how can they develop further? Will they be developing on the domestic market or will they go to work with our BRICS and Customs Union partners? Nobody can predict this now.

Sanctions create major issues for cross-border e-commerce with foreign countries. How can these sanctions be overcome? You mentioned a common BRICS currency, development of logistics. Could there be any other options?

The issue here is not in logistics, it's about properly building infrastructure: warehousing, transport companies, domestic deliveries, cross-border deliveries, a good usable interface, localized for Russian players. Alibaba has already done this. Now we need a relaunch with this company and source those goods that left Russia, from other markets.

Life has been divided into "before" and "after", and when we now say about e-commerce that we have products that

are essential to us: some auto parts, some home appliances ... This is why I would not speak here about e-commerce so much, but rather about rejuvenating partnerships under new economic conditions.

The fact of the matter is that there is a major paradigm shift underway, our previous life and work are changing, and our future ways are changing too.

We are talking about replacement of a group of products we urgently need now. Later on we will be speaking of e-commerce, consumer goods, pens, balloons and other toys, but now the vital issue is first priority goods that we need.

As far as I understand, our BRICS colleagues see great potential in Russia.

Of course they do. Overall, the Russian market is very promising, because major corporations, which held a historically large, significant share of the market, have gone, and as you know, nature abhors a vacuum. Russian e-commerce volumes in 2022 increased by 24% versus 2021 and amounted to about RUR 12 tn. Now there are new opportunities available to our partners who are ready to continue their cooperation with us, in new niches that used to be occupied.

Digitalization provides for transparency of deals and paperwork. But "money loves silence", especially in our turbulent times, when a careless statement may land a major businessman on a sanctions list. How can this controversy be resolved now, in your opinion? Wouldn't it lead to declining levels of digitalization and e-commerce?

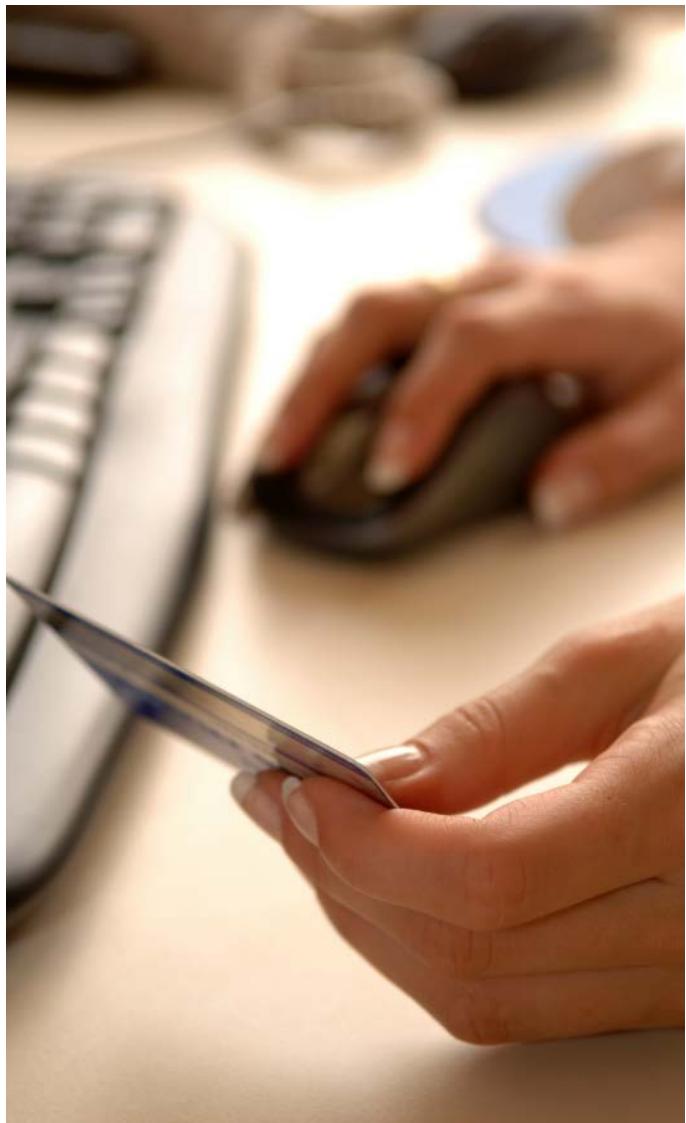
I don't think so. Digitalization is not only about buying and selling goods, it also stands for our digital government services (Gosuslugi), which are unmatched anywhere in the world; this means e-government. Russia has always demonstrated that it is open and transparent. Companies continue to operate as they used to, they keep on maintaining their open policies as before. This is why I do not see any signs that someone would stop disclosing information about some transactions.

Aren't our BRICS partners afraid of cooperation with Russia?

By all means, everyone is trying to take extra precautions, keeping potential risks and limitations in mind. Historically, we have had partners we could go forward together. They have been with us, and they are still with us. I see they are willing to cooperate with us further. And we are open to new partners and prepared to develop business with them.

What are Your current priority objectives?

I would like to emphasize that we are currently very active under the BRICS Women's Business Alliance. Our primary objectives are to increase trade economic partnership, including women entrepreneurs of the five countries. Our BRICS partners are now interested in setting up joint multilateral initiatives. The goal of the Russian office is to drive a number of joint projects, implemented by the Women's Business Alliance over the years of its existence, by 2024. We keep on working in our key areas, such as healthcare, creative industries and tourism, agriculture, food and environmental secu-



The fact of the matter is that there is a major paradigm shift underway, our previous life and work are changing, and our future ways are changing too.

rity, inclusive economy. We are currently in a dialogue with our partners in establishing an expert forum for ESG issues and energy security (ESG — a set of environmental, social and corporate management principles). The Alliance is a union, specifically consolidating businesswomen, focusing on creating joint multilateral projects. We will keep moving in this direction.

LOGISTICS "STORM"

Last year, a new economic reality, fueled by rapid geopolitical changes, tested basic levels of Russian logistics to lay foundations for its future development trends. At the same time negative trends were overlapped with the aftermath of the COVID-logistics "storm".

First and foremost, we should note a continuing massive restructuring of global trade flows, into which Russian logistics used to be integrated very deeply. Geopolitical tensions resulted in multiple sanctions and restrictions, leading to severed global supply chains. Nevertheless, despite the feverish state of all Eurasian logistics through most of 2022, by the year's end the Russian business started showing signs of adaptation. So, for instance, European goods for Russian importers, facing sanction roadblocks at EU customs, started to reach Russia via new routes more and more often – through territories of friendly countries.

These changes stipulated longer transit delivery periods (by 20-25 days on the average) and exponential growth of service costs, due to additional logistics procedures (new shipment routes and transshipment of cargos, because container owner

corporations prohibit delivery of cargos to Russia in their containers, transit, import and export customs procedures, currency control transactions and fees). Let us point out, however, that the use of new import and export arrangements, while making products more expensive, at the same time paves the way for increasing import substitution volumes, especially in those industries where it is possible to launch production of high-quality competitive products on short order (such domestic production growth in the RF may drive significantly higher imports volumes for manufacturing equipment starting as soon as the second half of this year).

Secondly, the pivot of import and export logistics to the markets of Asia and East gave an edge to such long-standing issues of the Russian transport industry as, for instance, the need to ramp up throughput capacity of the existing logistics infrastructure, development of new transport corridors (Baikal-Amur Mainline, International Transport Corridor "North-South", Northern Sea Route).

A rather fast re-orientation of Russian foreign trade towards the PRC led to a significant growth of import volumes, overloading transit capacity at individual Russia-China border sections and causing gridlocks and failures to meet delivery dates. Nevertheless, the Eastern direction promises high volumes and prospects, especially for imports and exports of



those categories of goods, that were sanctioned by the West. The Russian business continues active testing of any new options for delivery of import cargos in various modal combinations (marine – railway – auto). New projects of logistics hubs under construction at Russia-China-Russia delivery routes are designed to balance out load at seaports and entry points, on transport infrastructure, thus securing uninterrupted deliveries, which will gradually lead to recovery of pre-COVID high levels of logistics services.

A few of the abovementioned reasons also set in motion active development of Russian logistics in international trade with Turkey, Iran, India.

So, during 2022 Turkey came out as a major hub for European goods flows. This February the European Union reacted to this role of Turkey with its tenth package of sanctions, banning to the country the transit of dual use goods and technologies. This measure clamped down on the indirect re-export arrangement, enabling imports of goods to Russia with help of interrupted transit. Despite concerns of the business community, the situation was resolved via different delivery arrangements (which unfortunately caused further increases in logistics service costs).

Trade with India demonstrates many-fold growth as well. Along with this, the Ministry for Development of Russian Far East is discussing with its Indian colleagues not only issues of higher ITC "North-South" transit volumes, but also development of a Russian-Indian transarctic container line for safe and secure transport of cargos, using both Russian and Indian seaport capacity.

Trade with Iran, which gained 20% in volume last year, will grow by 2035 by more than five times due to construction of several railway sections of ITC "North-South" and development of Caspian seaport infrastructure.

Overall, the Russian logistics business managed to diversify its contractors, replacing them mostly for logistics companies from friendly countries, enabling further development of new resilient supply chains. Today Russian companies are actively discussing options for settlements in currencies of supplier countries, curbing risks of blocked bank transactions for international trade players.

Concerning domestic aspects of Russian logistics, the following key points should be highlighted:

domestic routes are also being reformatted. For example, air cargo deliveries to western and southern regions are limited, driving use of overland transport;

higher costs of deliveries to "hard" areas. Delivery rates for Kaliningrad region soared – when previously cargos were transported through Poland and Lithuania, now trucks can only be ferried in from Saint-Petersburg;

there will be further increasing demand for the so-called consolidated cargo logistics. Reduced purchasing power of Russian consumers (which started early during the COVID pandemic), natural tendency of business to speed up product turnover, qualified and highly competent logistics operators hitting the market of consolidated cargos – all these factors contribute to development of the market for this service;

in 2023 the Russian retail, traditionally using the most sophisticated logistics technologies, will continue building up imported products stocks to satisfy customer demand surges and bring its distribution centers closer to end customers (i.e., reducing the "last mile"). For this purpose, it will require extra warehouse space and fulfillment operator competencies;

Russian logistics companies will further improve their service quality via digitalization and implementation of software products by Russian developers.

Ekaterina Borisova, PhD in History, SRF of Institute of Oriental Studies of the Russian Academy of Sciences



WILD WORLD OF CRYPTO CURRENCIES





**Ekaterina
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There are two trends in the world of crypto currencies that exist in parallel but are mutually exclusive at the same time. The first trend is rising popularity. More and more people get involved in digital coin creation and exchange. The crypto market is a fact of this world's life and its existence cannot be ignored anymore. The second trend is that the states have faced the need to regulate and control this phenomenon. But it is very difficult to regulate something that lacks a common coordinating center. The very ideology of new digital money is based on lack of any control options by any most powerful player and absence of any hierarchy whatsoever.

Some governments view independent digital money as a threat to their own monopoly for currency issuance and ban any digital currency manipulations (for example, Bangladesh or China), but most countries are still quite tolerant in this regard, some are friendly but cautious at the same time. In 2022 Argentina and Panama state regulators permitted tax payments with crypto currencies.

IMF head Christine Lagarde once said that ignoring crypto currencies would be "unwise" and recommended banks not to restrain innovations. Nevertheless, some banks took an extremely negative attitude to the new money. James Dimon, the head of JPMorgan, an oldest American bank, called bitcoin a "fraud". This is rather understandable: the crypto market is becoming a strong alternative to the entire banking system. But other banks joined the game and started operating as mediators between the new and the old financial systems.

However, the crypto industry is currently experiencing tectonic shifts. Due to an increasingly sophisticated attack of government regulators on the growing digital coin market, it goes into transformation, compression and is becoming more organized. Even in Japan, where crypto currencies became a legal tender in April 2017, regulators started making adjustments to laws. In the summer of 2022 the Parliament of Japan passed a stablecoin law that established required linkage of stablecoins to yen or any other legal tenders and guarantee their holders the right of redemption at par starting from 2023. Now stablecoins in Japan may only be issued by licensed banks, registered money transfer operators and trust companies. However, the new rules shall not apply to previously issued crypto currencies by foreign issuers.

A similar approach was taken in Hong Kong, where crypto currency purchase is also legal. Access to crypto currencies is provided only through licensed platforms in line with strict "Know Your Customer" rules and asset listing requirements.

Mainland China has taken a different route. In 2021 the country banned crypto mining and any crypto currency transactions, proposing an alternative – digital yuan (e-CNY), issued by the People's Bank of China. In this case the Bank followed the "if you can't beat them, join them" principle. e-CNY is being successfully promoted, as evidenced by its incorporation into payment services of WeChat, a leading Chinese social network. It is also being tested in at least 26 Chinese provinces and cities.

The European Union is also moving towards regulation. The ECB is calling upon local banks to apply the crypto asset rules by the Basel Committee on Banking Supervision immediately, despite the fact that the rules haven't come into effect yet.

But the primary battle between the old and the new financial worlds is unfolding today in the USA. Here crypto currencies are viewed as securities, and crypto market players have to comply with relevant laws. Audits by the US Securities and Exchange Commission (SEC) discovered, for example, that top managers of FTX, a major crypto currency exchange, have for several years defrauded their investors. The head of the exchange was charged with appropriation of customer funds. The crash of FTX Group in November 2022 brought a major crypto industry crisis, leading to capital exodus.

This resulted in increasing controls of the sector by regulators.

The next step of the US regulators will involve greater scrutiny for dollar-linked stablecoins. These coins work as a substitute for fiat money on the crypto market and are required to provide liquidity. The most popular stablecoins are USDT coins issued by Tether, USDC — a joint project by Circle and Coinbase, and then BUSD — a proprietary stablecoin of Binance, the largest crypto exchange today. All these coins are presumably (!) secured by equivalent value of assets, denominated in US dollars and held as reserves.

The next victims were Binance crypto exchange and its BUSD stablecoin: the New York State Department of Financial Services banned issue of the third largest stablecoin by capitalization under the exchange's brand. The amount of BUSD in circulation just in a few days plunged by more than \$2 bn, because investors preferred to transfer their funds into other assets. The next coin in line is USDT stablecoin, issued by Tether. There is already an ongoing campaign in the American media aimed at discrediting the coin.

Ultimately, stablecoin market destabilization will lead to falling prices for other crypto currencies.

Overall, since mid- 2022 US regulators, led by the SEC, filed several lawsuits against several leading crypto market players or asset issuers. Some banks, involved in the crypto business, are also under pressure. In January the US FRS declined an application by Custodia Bank to join the FRS payment system due to the bank's cooperation with the crypto currency



There is every reason to believe that by levelling the crypto currency field the USA are primarily defending the classic hierarchic banking system

industry, which "highly likely fails to meet safe banking practices". Other banks were even less lucky – they had to close down. It is important to note that the current banking crisis in the USA affected only those banks that got into the digital currency game. And banks, operating under the classic banking system, feel rather confident.

The first bank of the new wave to crash was Silvergate bank. It provided services to the bankrupt FTX exchange, thus drawing particular attention of regulators. Other major crypto currency companies hastily severed ties with the bank. Overall, Silvergate provided a gateway for dollar payments of 1,5 thousand crypto currency companies.

Another, now widely known Signature Bank, paid the price for its connection to Binance exchange. Even though the bank had restricted this cooperation earlier and announced a ban for the exchange's customers to buy or sell assets for amounts below \$100 thousand, it still took a hit. Commenting on the situation, Binance CEO Changpeng Zhao assumed that it was most likely that regulators advised banks "either to completely drop crypto currencies or to take extra care".

A now notorious Silicon Valley Bank (SVB) not only made

loans to tech startups in the USA, but also raised customer digital asset deposits and issued loans secured by these assets. Amid negative crypto world news, customers of the banks rushed to withdraw their assets; the bank faced a liquidity crisis. It is curious that after the news of the bank's crash yet another stablecoin lost its footing. USD Coin (USDC), issued by Circle in partnership with Coinbase crypto exchange, temporarily "disconnected" from the USD exchange rate. \$3,3 bn of Circle's funds for securing USDC were blocked at SVB's accounts. This amounted to about 8% of the total asset security of almost about \$40 bn.

There is every reason to believe that by levelling the crypto currency field, the USA are primarily defending the classic hierarchic banking system, in the second instance are fighting issue of currency units, alternative to the dollar, and in the third place, they are preparing to launch crypto dollar, issued by the FRS.

All these events are sending shockwaves across the crypto industry now and more shocks will come further on. The interest to the digital business has started gradually dwindling away.

PROVING TO EVERYONE WE ARE DOING ALL RIGHT

Olga Sas,

CEO of Russian office of F.I.L.A. Group,
spoke to Capital Ideas magazine on why the
company stayed on the Russian market and
shared plans for the future.



Olga, what is your view of the Russian market situation over the last year? What were the major challenges for your company?

The primary challenge is to prove to everyone that we are doing all right. Many refused to believe this: how come, everyone is down but you are OK? Why shipments stopped for everyone, but you are shipping? Why all companies decided to leave, but you have stayed? You're withholding something... Our people are very reluctant to recognize success of others.

Yet another challenge is posed by complicated payment stories. I am immensely grateful to our banks that help us. Now I can honestly say that our payments are going through faster and better than before. We have not had any changes in the logistics scheme, it is what it is, direct contracts. We did not need any stories and we are not using any schemes we have developed as a safety net. We are shipping everything. Yes, the logistics leg became more expensive, because with all the new laws and regulations we have to transship our cargo twice, and it is costly. Buying euros, which is limited now, is yet another issue. Probably, the most unpleasant thing, from the viewpoint of co-founders, is that it is impossible to repay the loan. Actually, it is available de jure, but de facto such transactions are best avoided now. So currently everything is built upon mutual trust to the maximum degree and can be described as "put on hold". Now this story is about balancing. Sometimes I feel as a circus rope-walker without a safety net. I perform this stunt every day when I come to work.

How many of your competitors have left the Russian market as of today?

How many competitors have left? Frankly speaking, almost all of them, German and Dutch companies are monitoring volumes very closely for any market growth in our neighboring countries, and they are very determined about that.

Are there any new players on the Russian market of office and art products?

It is a very good time for those who have their own private labels, but this means China, India... Things are not easy with Turkey. Turkish banks are in no hurry to accept our payments. And those who work with Turkey, I think, also understand that things have become more complicated. I mean, money is transferred to a transit account and gets stuck there, this

is why it is transferred back. And such frozen payments could go back and forth for a month. Then, ultimately, the money reaches its recipient, but with time losses.

Speaking of Russian manufacturers, I can say for sure: they have become stronger. From the Russian market viewpoint, it is, of course, very good. And generally speaking, I believe that Russian manufacturing must develop and be competitive. The only issue is that all European and American markets, which are the most lucrative, are closed to Russian goods. This is why we on the one hand are a bit boxed in here; on the other hand, it is a very good start and I am happy that our colleagues/competitors are using this and developing Russian manufacturing to the maximum.

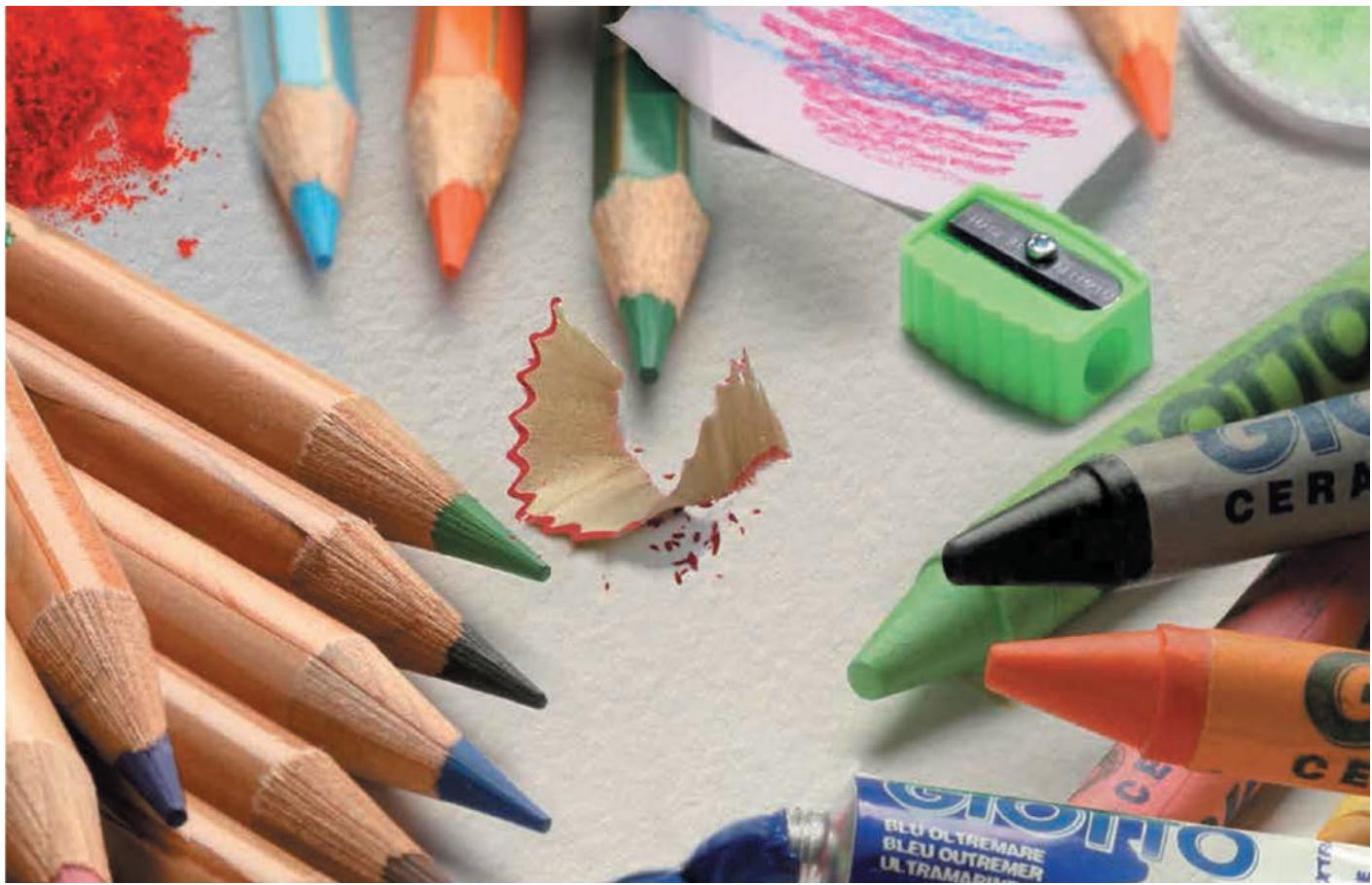
There is a disturbing trend as well. I mean art product quality. There can be no products with half quality or second-degree quality (just like Bulgakov's fish of the second-degree freshness). There is either quality or lack thereof. And when colleagues start speaking of needed margins – it is beyond my understanding. I am all for market development and for as many high-quality products as there could be, and not just products made for mere survival.

Currently there are tectonic changes on the market underway. I hope that the office supplies market will finally show some progress and move forward, because the market has been in a sort of a standstill.

Old schemes no longer work. New schemes need to be built, new relationships need to be developed, products must be followed up.

There is a new promotion story arising. Financial issues call for changing very large distributors, changing attitude to budgeting and marketing. A very rigorous assessment of investment efficiency is required. If previously we could afford extravagant gestures, now it would be a problem. Margins are

F.I.L.A. (Fabbrica Italiana Lapis ed Affini), founded in Florence in 1920 and managed since 1956 by the Candela family, is a highly consolidated, dynamic and innovative Italian industrial enterprise and continues to grow market share. F.I.L.A. has been listed on EXM – Euronext STAR segment of the Italian Stock Exchange since November 2015. The company, with revenue of Euro 653.5 million in 2021, has grown significantly over the last twenty years and has achieved a series of strategic acquisitions, including the Italian Adica Pongo, the US Dixon Ticonderoga Company and Pacon Group, the German LYRA, the Mexican Lapiceria Mexicana, the English Daler-Rowney Lukas and the French Canson, founded by the Montgolfier family in 1757. F.I.L.A. is an icon of Italian creativity globally through its colouring, drawing, modelling, writing and painting tools, thanks to brands such as Giotto, Tratto, Das, Didò, Pongo, Lyra, Doms, Maiimeri, Daler-Rowney, Canson, Princeton, Strathmore and Arches. Since its foundation, F.I.L.A. has chosen to focus on growth through continuous innovation, both in technological and product terms, in order to enable individuals to express their ideas and talent through tools of exceptional quality. In addition, F.I.L.A. and the Group companies work together with the Institutions to support educational and cultural projects which promote creativity and expression among individuals and make culture accessible to all. F.I.L.A. currently operates through 22 production facilities (of which two in Italy) and 35 subsidiaries across the globe and employs over 10,900.



dwindling; competitors bring in lower quality products at the very same prices that were paid for similar European products.

I do not think this is right. Yes, the market is becoming simpler, and it is typical for many markets, but on the other hand there is always the story of quality and values. Brands are not about a higher retail markup, brands are about values based on history. Russia lacks the old money culture and the attitude to quality as to something absolute. Many companies make very good products early on, and then they start compromising. These compromises have become standard practice for the market.

Quality should always be at the highest level. When in a rough spot, extra effort needs to be made for product promotion, even when there is no budget for such promotion. New ways to interact with customers need to be found. This is not easy, considering our lack of understanding of how their requirements would change.

Are you going to expand your operations in Russia, using the current unique conditions to your advantage?

Naturally, we have plans to take over the space vacated by those companies that have left the country. It is a good opportunity for us, such gifts happen only once in a lifetime.

However, there are localization risks here and now. There is a major risk of lost investment, that's why companies are cautious about sharing technologies. Despite this, the Russian market continues to be attractive. The issue is in finding synergies while expanding business localization and using our own investments only. This is a challenging task I am currently working on.

Do you feel any pressure from parallel imports?

Speaking of parallel imports, it costs a pretty penny. Do we feel any pressure? No, we import directly. We have customers who, unfortunately, went for black imports, which is essentially contraband. We are fighting this so they do not ruin our market. Our brands are not subject to parallel imports.

How do you see further development of your company on the Russian market?

I'd like to say that I see exponential growth and taking over the niches, vacated by competitors. Unfortunately, purchasing power of the population is dwindling. Many of our customers are pessimistic. And even with the current demand for a good medium segment, shops start limiting the choice by themselves, shifting to the economy segment.

Now breadth and depth of the product range are taken over by marketplaces, because we have very few specialized retail stores. Initially retail fought Auchan, then Metro, then major federal chains for a long time; this is why they started fighting FixPrice, discounter stores. Why? You could differentiate from them, because there are other types of products, and keep on developing. Unfortunately, the office supplies market currently is not active, it is very much proactive: we only start acting when, figuratively speaking, our house has burnt down. And many things could have been done beforehand.

This is why our plans, God willing they are all implemented, ideally aim for doubling our turnover. Currently all roads are open to us. All we need is to keep working, conquering the market and the fields that have been left to us by our competitor colleagues.

INTERNATIONAL EXHIBITIONS: APRIL-JUNE 2023



SkladTech 2023 - special exposition of equipment and solutions for warehouse logistics

transrussia.ru/ru/about/sklad-tech

Russia, Moscow, Crocus Expo IEC, Pavilion No. 1

April 17-19, 2023



Retail Tech 2023

etailtech.ru/retailtech2023

World Trade Center (WTC), Moscow, Krasnopresnenskaya embankment, 12

April 18-20, 2023



ЭНЕРГЕТИКА И ЭЛЕКТРОТЕХНИКА

"Energy and Electrical Engineering - 30th International Exhibition energy, electrical and lighting equipment and technologies"

energetika-res-tec.ru

"Saint Petersburg CEC ""EXPOFORUM"""

April 18-20, 2023



XI Russian International Energy Forum (RIEF)

energyforum.ru/ru

ExpoForum, St. Petersburg, Petersburg highway, 64/1

April 18-20, 2023



Neftegaz 2023 - 22nd international exhibition "Equipment and technologies for the oil and gas complex"

www.neftegaz-expo.ru

"CEC ""EXPOCENTRE"" 123100, Moscow, Krasnopresnenskaya emb., 14"

April 22-27, 2023



"MiningWorld Russia - International Exhibition of Machines and Equipment for Extraction, Processing and Transportation of Minerals"

miningworld.ru/ru/

Moscow, IEC "Crocus Expo", pavilion 1

April 25-27, 2023

INTERNATIONAL EXHIBITIONS: APRIL-JUNE 2023



ComVex - International Exhibition of Commercial Vehicles and Technologies

comvex.ru

Moscow, IEC "Crocus Expo"

May 23-26, 2023



International Polymer Technology Forum / IPTF 2023

iptf.plastics.ru

St. Petersburg, hotel AZIMUT

May 23-24, 2023



METALWORKING-2023 - 23rd international specialized exhibition "Equipment, devices and tools for the metalworking industry"

www.meto-br-expo.ru

"CEC ""EXPOCENTRE"" 123100, Moscow, Krasnopresnenskaya emb., 14"

May 22 - 26, 2023



CTT Expo 2023 - international exhibition of construction equipment and technologies

ctt-expo.ru

Moscow, IEC "Crocus Expo"

May 23 - 26, 2023



GAS. OIL. TECHNOLOGIES - 2023 - 31st international specialized exhibition

gntexpo.ru

Ufa, VDNH-EXPO

May 23 - 26, 2023



NMF 2023 - expert trade fair for metalworking

nmf-expo.ru

Moscow, IEC "Crocus Expo"

May 23 - 25, 2023

INTERNATIONAL EXHIBITIONS: APRIL-JUNE 2023



METALLURGY. RUSSIA /
LITMASH. RUSSIA 2023 -
International exhibition
of machinery, equipment,
technologies and prod-
ucts of the metallurgical
industry

metallurgy-rus-sia.ru

"Address of Expocentre
Fairgrounds
Moscow, Krasnopres-
nenskaya nab., 14"

6 - 8 June,
2023



METAL STRUCTURES
- 2023 - Exhibition and
discussion platform for
manufacturers of metal
structures, products and
their consumers

<https://mc-expo.ru/ru>

"CEC""EXPOCENTRE""
123100, Moscow,
Krasnopresnenskaya
emb., 14"

6 - 8 June,
2023



Rosmould & 3D-TECH 2023
- 17th international exhibi-
tion of molds and dies,
equipment and technolo-
gies for the production of
products

[rosmould.ru/
landing_poisk_rm](http://rosmould.ru/landing_poisk_rm)

Moscow,
IEC"Crocus Expo"

6 - 8 June,
2023



Rosplast 2023 - interna-
tional specialized exhibi-
tion of raw materials,
equipment and technolo-
gies for the production of
plastic products

[rosplast-expo.
ru](http://rosplast-expo.ru)

Moscow,
IEC"Crocus Expo"

6 - 8 June,
2023



31st International Exhibi-
tion Electrical equipment.
Lighting engineering.
Automation of buildings
and structures."

www.electro-expo.ru

"CEC""EXPOCENTRE""
123100, Moscow,
Krasnopresnenskaya
emb., 14"

6 - 9 June,
2023

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