

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ БІЛІМ ЖӘНЕ ҒЫЛЫМ МИНИСТРЛІГІ
Л.Н. ГУМИЛЕВ АТЫНДАҒЫ ЕУАЗИЯ ҰЛТТЫҚ УНИВЕРСИТЕТІ



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студентов и молодых ученых
«НАУКА И ОБРАЗОВАНИЕ - 2016»

PROCEEDINGS
of the XI International Scientific Conference
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«SCIENCE AND EDUCATION - 2016»

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ПЛЕНАРНОЕ ЗАСЕДАНИЕ

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PROSPECTS OF ASTANA TO BECOME INTERNATIONAL FINANCIAL CENTER

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In modern conditions, the financial markets play a crucial role in ensuring a balanced and innovative development of the economy. Many governments, being interested in the development of their financial markets, pay more attention to the problem of formation of the international financial centers ((IFCs). Analyzing foreign experience, they try to create competitive IFC that will attract to the financial market new investors and fresh capital.

At the present stage of globalization of the world economy the growing influence of a number of IFCs in developing countries is becoming a significant factor. In addition, although in the near future, the dominant position of the leading financial centers is unlikely to be shaken, in 15-20 years the situation may change in favor of the IFCs from today's developing countries. At least they can take their segments and niches in the global financial system by displacing the current leaders in the competition. In this regard, special attention should be paid to the problem of formation of such a financial center in Kazakhstan, as one of the strategic objectives in the development of the national financial market in the coming years.

Kazakhstan's financial system is going through an important stage of its development, which is primarily characterized by intensive integration into the world economy and by the creation in Kazakhstan an international financial center. On May 19, 2015 President of the Republic of Kazakhstan signed the Decree on the establishment of an international financial center "Astana". This document has provided the launch of the AIFC from 1 January 2016 [1]. Astana as the future international financial center should not only have a plan of action in this direction, but also serious scientific analysis of the situation on the way in this direction.

The work on "The formation of Financial Centers: A study in Comparative Economic History" by American economist and historian Charles P. Kindleberger is considered to be one of the first attempts to study the history and reasons of appearance of financial centers. Even today there are not many such comprehensive studies in this sphere, so the work represents a valuable material and can be used as a base for further deeper studies.

The author's objective was to use a comparative analysis, thus it does not have statistical or econometric form. As he emphasizes himself, he puts interest in more in process than in detailed outcome [2]. It is hardly possible to scrutinize comparable data because of a great number of countries where, moreover, several financial centers were formed. Therefore, the author chose several crucial financial centers that were most important to analyze. The emphasis in this paper was mostly historical. He does not say about what a sharp rivalry among financial centers for a global leadership takes place, but about historical emergence and replacement of the leader within the certain country. The author reveals that the prior studies in financial intermediation lack a spatial dimension. He examined in details the process of development of the following financial centers: London, Paris, Berlin, Frankfurt, Turin, Florence, Rome, Milan, Zurich, Basel, Geneva, Toronto, Montreal, and New York.

Briefly saying, for instance, London's success was based on ancient banking tradition, capital seat, good railroads network system; the principal characteristic of the British money market was the decentralization of granting credit and at the same time full dependence on the center.

Meanwhile capital market in France was interconnected, but small regional banks resisted the domination of the center. Germany became reliable side because of its security activity and following the words of the author, differed from others that the metropolitan financial center for the country did not also serve for intermetropolitan dealings. The Italian history is the example how the switch in capitals directs the location of finances. Paradoxically that on the example of Switzerland Kindleberger actively rejects the idea that several financial centers within one country can co-exist on the same level. Cities as Bern or Geneva could be kept alive administratively and as banking systems, but Zurich was the focus, though being not a political capital. Canadian market is different in financial agglomeration as author observed unique features. Country fails to conform to the model of metropolitan primacy. Finally, in the case of New York he finds the remarkable feature in its strong maintenance in spite of persistent attempts to defeat it and considers it as the clear example of economies of scale.

It is understandable that due to the fact that the work was written long ago in 1974, it is not relevant in some cases and to some extent, concerning the situation we witness now in the financial world. The book was written at times when the interconnectedness of the world was limited to communications via telephone or telex and many financial functions involving uncertainty were better performed face-to-face [2]. Only several decades later internet-trading makes the financial world work 24/7 in various forms one could ever imagine.

The author believes that it is a natural process that local financial center gradually grasps the capital, grows into regional center devouring the competitors and there could appear the single global center which is able to accumulate all the financial systems of the world. Money operations between separate points in a country are made more efficiently through the national center, so do international payments: they are more profitable through supranational center.

Making predictions about the heart of the whole European Economic Community C. Kindleberger states that Brussels has more chances to become the most powerful. It is still and on attractive, yet only one of those. Who knows, maybe one day it will be possible, however, largely integrated and at the same time fragmented financial market is too complicated today.

Nevertheless, the formation of financial centers were driven by some forces explained in the last chapter and could be applied in analysis of the formation and development of Astana International Financial Center (AIFC).

According to the author, efficient financial market can operate successfully in case of the existence of a strong currency. For the European scenario in his work, he considers it necessary to introduce a single currency for the entire European Economic Union. It can be said that his concept was realized with the start of operation of the euro zone. However, this, if we may say so, advice can be used taking into account the characteristics of the present time and a specific region. International financial center of Astana has not yet begun to function, the financial position of the Republic of Kazakhstan is experiencing to a certain extent a crisis, the recent abolition of the hard currency corridor supported by the National Bank complicates the adoption of the measures proposed by the author today. In light of recent events sharp debate broke on the establishment of a single currency within the Eurasian Economic Union. Difficulties with the introduction of the single currency on the territory of the Union are related to the different reactions of national currencies and national economies on the situation in the world economy. The introduction of the single currency on the territory of the EAEU officially is not planned, but the need for currency coordination is discussed. The Eurasian Economic Commission see no reason to move to a single currency within the Eurasian Economic Union before the formation of a single financial market in 2025. The Treaty establishing the EAEU does not indicate anything about the introduction of the single currency. At the same time, experts say, the introduction of the single currency is inevitable, although it may require from five to ten years.

The author substantiates the need for the EEU of central bank, which would head a single banking structure of the whole association. Today, this idea has been fully implemented in the form of the creation of the European Central Bank in 1998. In this sense, the author would consider it expedient to establish such a bank as part of the EAEU, which would be called Eurasian Central

Bank. According to the accepted on May 29, 2014 Treaty, it was decided to place a supranational authority on regulation of the financial market of the Eurasian Economic Union in Almaty. A year later, May 19, 2015 the Decree of the President of the Republic of Kazakhstan “On International Financial Centre “Astana” and the redeployment of the National Bank of Kazakhstan to Astana”. In accordance with this Decree, the Government, together with the National Bank is required before January 1, 2016 make proposals for possible placement of this supranational authority in Astana International Financial Center [1], [3]. I think this is a strategic move aimed at improving the functioning of AIFC.

The author argues that there is the need to arrange the administrative machinery in an existing financial center. Additionally, he mentions such an essential factor as traditions. Of course, it will be a difficult task: in compliance with the taken plan AIFC is to become operational in January 2016, therefore, in fact, at the moment it does not exist and it is impossible to talk about the country's rich experience in the financial aspect. However, frankly saying, because of the lack in other competitive financial centers or institutions in the region, Astana has a real opportunity to become a center of attraction for the various financial institutions. The creation of any international financial center goes through certain steps. The first priority of the government is to turn Astana into a regional financial center, and only then to the international one. In the aforementioned Presidential Decree the government is given the task of making AIFC enter by 2020 the 10 best Asian financial centers and 30 leading world financial centers according to the Global Financial Centres Index [1].

Future AIFC, located at the junction of Europe and Asia, Eastern and Western cultures, can be a battery for the capital of the financial markets in Asia, while simultaneously playing a role of a bridge, providing a dialogue of different cultures. Here the author rightly notes that the cultural aspect alone cannot be the basis for the formation of a successful integrated financial center. Other key terms are of course necessary as well, but still favorable geographical location of the Republic of Kazakhstan, and the fact that capital lies in the very heart of the Eurasian continent, gives us a unique opportunity to create a successful financial center of a global scale.

If we underline the effect of the AIFC in the cultural and educational aspects, the establishment of the center will contribute to the transformation of the capital into informational, educational, scientific and cultural centers of attraction. In addition, the exclusivity of Astana International Financial Center is proved by that relying on the Dubai experience, we plan to strengthen the pace of development of Islamic finance, which, of course, will entail the flow of investment, will increase the number of jobs and, what is also important, will increase the financial literacy of the population [4]. In the last two decades Islamic finance in the world has been developing rapidly. By 2013, total assets amounted to 1.6 trillion US dollars [5]. The assets of Islamic banking at the same time occupied 80% of the market share and have grown with the rate of 40% per year. Islamic financial market is very concentrated: the relevant to the principles of Islamic financing assets of the five countries account for 79% of total assets of Islamic finance: Malaysia (30%), Saudi Arabia (20%), Iran (14%), the United Arab Emirates (9%), Kuwait (30%) [6].

I totally agree with the author on the question of transport. The presence of an extensive regional high-speed highways, objects of modern transport infrastructure and urban public transport, as well as a large and comfortable for the passenger geography of international flights from local airport is a prerequisite for ensuring the flow of business activity in the financial center. 70% of professional players in the financial sector pointed out the need for modernization of domestic and foreign transport and logistics infrastructure for further development of AIFC [7]. In connection with this it is necessary to implement a number of measures which will be aimed at improving regional and international transport accessibility Astana.

For example, while the Air Astana company covers a relatively small amount of air routes (28), the main airlines of Abu Dhabi (Emirates) and Singapore (Singapore Airlines and 67 competing carriers) make flights to more than 100 and more than 60 geographic areas, respectively. Infrastructure and organization of Astana airport cope with the annual load facing many difficulties. Through the airport of Abu Dhabi and Singapore annually pass more than 15 million and 50 million

passengers respectively. Availability of aviacommunications with major international financial centers of the world is a key factor for the successful functioning of the international financial center. Currently, Astana is connected by direct flights to the cities of Frankfurt, London, Seoul. It is essential to direct flights to the cities of Dubai, Geneva, Hong Kong, Singapore, Shanghai, Beijing, Istanbul, Tokyo.

Developed urban and social infrastructure is an important factor for the development of the financial center. International companies, qualified foreign specialists and their families prefer to localize the business, work and live in metropolitan areas with modern and high-quality urban and social infrastructure. To compete with other financial centers, the city of Astana needs a long-term approach to the issue of formation and development of the urban and social infrastructure, as well as synchronize this process with the development of AIFC. The most important condition for the functioning of the financial center is its transport connections with the international airport, residential, shopping and entertainment areas, as well as centers of service. Development Plan of Expo - 2017 (where future location of the center is planned) implies its direct connection to the international airport of Astana, as well as the administrative and business center of the city through the building route of high-speed vehicles.

In this regard also New Economic Policy "Nurly Zhol" will be the growth engine of our economy in the upcoming years. The new lines, which will be built by Kazakhstan, will renew our economy and society. They will firmly bind all corners of the country to the city center. Traffic flows will speed up and increase, and so will the volume of transit through the country.

As for the placing of headquarters of multinational companies, much work is going to be done for improving the attractiveness of Astana for world leading businesses. Based on the meaning of the activities of the AIFC, its main purpose is to assist in attracting local and foreign investments into the economy of the Republic of Kazakhstan by creating an appropriate environment for investment in the financial sector and its integration with international capital markets. Indeed, the Center may become a platform for interaction and cooperation between multinationals and large companies of regional and global level. This, in turn, will create great opportunities for Kazakhstan in the development of its own financial sector, but above all, a positive impact on economic growth rates.

Thus, according to the forecasts of experts, the direct effect on the economy of our country from the functioning of AIFC will comprise the amount up to 1% of GDP growth per year by 2025, or about 13.4 billion US dollars of absolute GDP growth in the period from 2015 to 2025 [3]. Incidentally, this figure is very close to the result of Dubai for the first 10 years of the creation of an international financial center of Dubai. About 8 billion US dollars are expected as a contribution to the country's GDP from the implementation of the customer service of the Central Asian countries, the Caucasus, the EAEU, the Middle East and Europe. Just this issue needs to be given a priority position as a financial center of international scale suggests that it will be serve to the largest players in global financial markets. So, therefore, it is necessary to create such conditions so that our center would become the most attractive in the region for potential investors. In this sense, a lot of work has already been done in the preparation of the appropriate legal and information-telecommunication basics.

It is important to ensure market participants by stable communication channels, technologically advanced financial infrastructure and full access to online trading systems. Application of the principles and rules of English law on the territory of the future financial center will greatly enhance its status and attractiveness to foreign investors. There also envisaged the creation of a financial court with the assistance of foreign judges in disputes, including with the right of solving investment disputes. This, of course, will provide additional guarantees for the protection of the rights and legitimate interests of all participants in the financial center.

As for the benefits and privileges, the participants of AIFC are provided with the exemption for 10 years from the payment of corporate and personal income tax. Conditions will be created for the issue of sovereign Islamic securities. Also the ability to attract foreign labor without permission by participants of AIFC is fixed. In addition, there will be introduced visa-free regime up to 30 days for the citizens of member countries of the Organization for Economic Cooperation and

Development, the United Arab Emirates, Malaysia and the Republic of Singapore. At the same time for the staff members of the Centre and their families there will function a special visa regime for a period of 5 years.

There is no need to hesitate on the factor concerning the economies of scale. Kazakhstan takes up ambitious plans and gradually expands the spheres of development. When we see to what a city Astana has turned into over the last 10 years, one can firmly say that it is possible to establish a successful financial center and enhance its capacities further. Formation of such a center in Kazakhstan as a key financial center for the region of Central Asia and the EAEU is possible when complexly addressing the current challenges, aimed at the creation in the first place, strong local financial sector and capital markets, appropriate to the scale of the national economy of the Republic of Kazakhstan. The main vector of the formation of the Center - from local to international scale.

However, for this, there is a strong need in 3 basic things: will and support from the very top level, the unity of the task for all executive agencies, professionals. The implementation of the Action Plan, which is a long-term project, requires the execution of numerous initiatives and the involvement of a large number of participants, both from the government side and the business community. Author states that governmental policy can accelerate or slow down the emergence of the given city as the primary financial center. It is true, as now plans to make Almaty the primary one changed in favor of the capital Astana. I am sure, without a strong political will at the highest level, the development of AIFC will be very difficult.

The financial turbulence, which currently the world economy has got in, creates favorable conditions for the redistribution of spheres of influence between the different financial centers, gaining new status. Of course, London and New York for a long time, will occupy a leading position in the world because of the high level of economic and financial development, the best form of the legislation, infrastructure development, so the focus of financial flows cannot be changed in a short time. Meanwhile, on the regional markets they will be increasingly displaced by financial centers of China, India, Brazil and even Africa. The Republic of Kazakhstan has a unique set of external and internal factors, such as geopolitical location, political stability, and favorable tax climate. All of these can boost the positioning of Astana as a major financial center for the region of Central Asia, the Caucasus, the Middle East and Europe. Therefore, Kazakhstan will also have to find its place in the emerging global financial architecture.

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