

# New Technologies for Regional Growth: the EAEU Blockchain Policy Case



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Barcelona 2019

- **The EAEU integration: quick overview**
- **Digitalization in the EAEU – benefits for the member states and people**
- **Technology challenges: blockchain and crypto-currency regulation**

### EAEU Member States (% of EAEU GDP)



	Armenia (0.7%)
	Belarus (3.1%)
	Kazakhstan (9.3%)
	Kyrgyzstan (0.4%)
	Russia (86.5%)

**2.2%-3.5% Global GDP**  
(US\$) (PPP US\$)

**2.5% Global Trade**  
(Export of goods and services, BoP, US\$)

**2.6% World Labor Force**

Barcelona



• Erevan (8h55m)
• Minsk (5h35m)
• Nur-Sultan (10h)
• Bishkek (10h15m)
• Moscow (4h35m)

## Countries unite to gain benefits from trade liberalization at first

**2010 – Customs Union-3**

2012 – Single Economic Space-3

2014 – Treaty of the Union-3

**2015 – Eurasian Economic Union - 5**

2016 – Vietnam FTA came into force

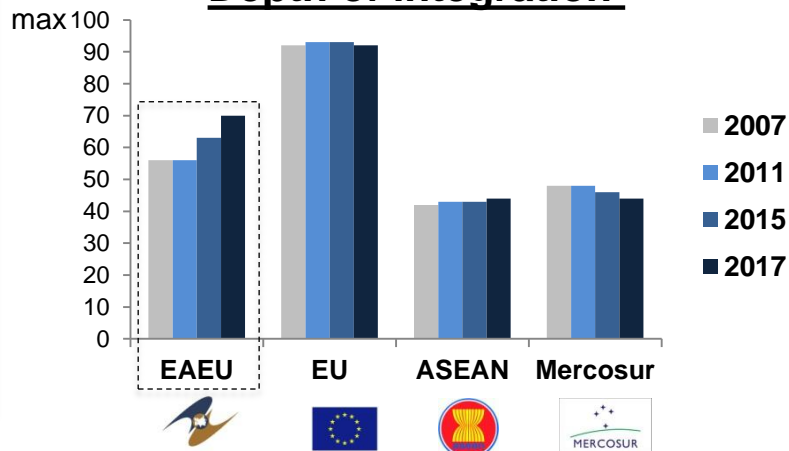
2019 – Iran: temporary FTA came into

force; Serbia FTA signed,

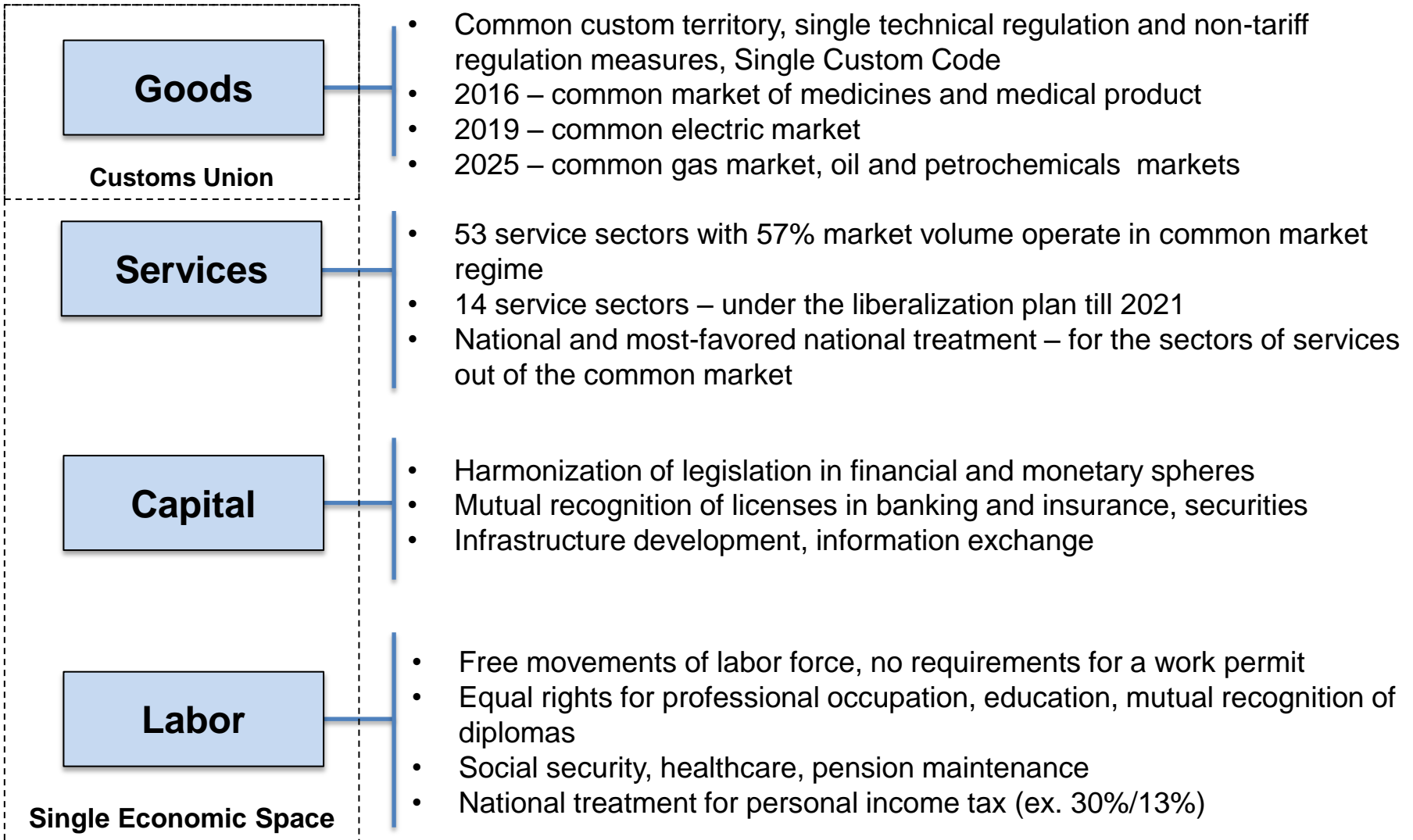
FTA negotiations: Egypt, Israel, India;

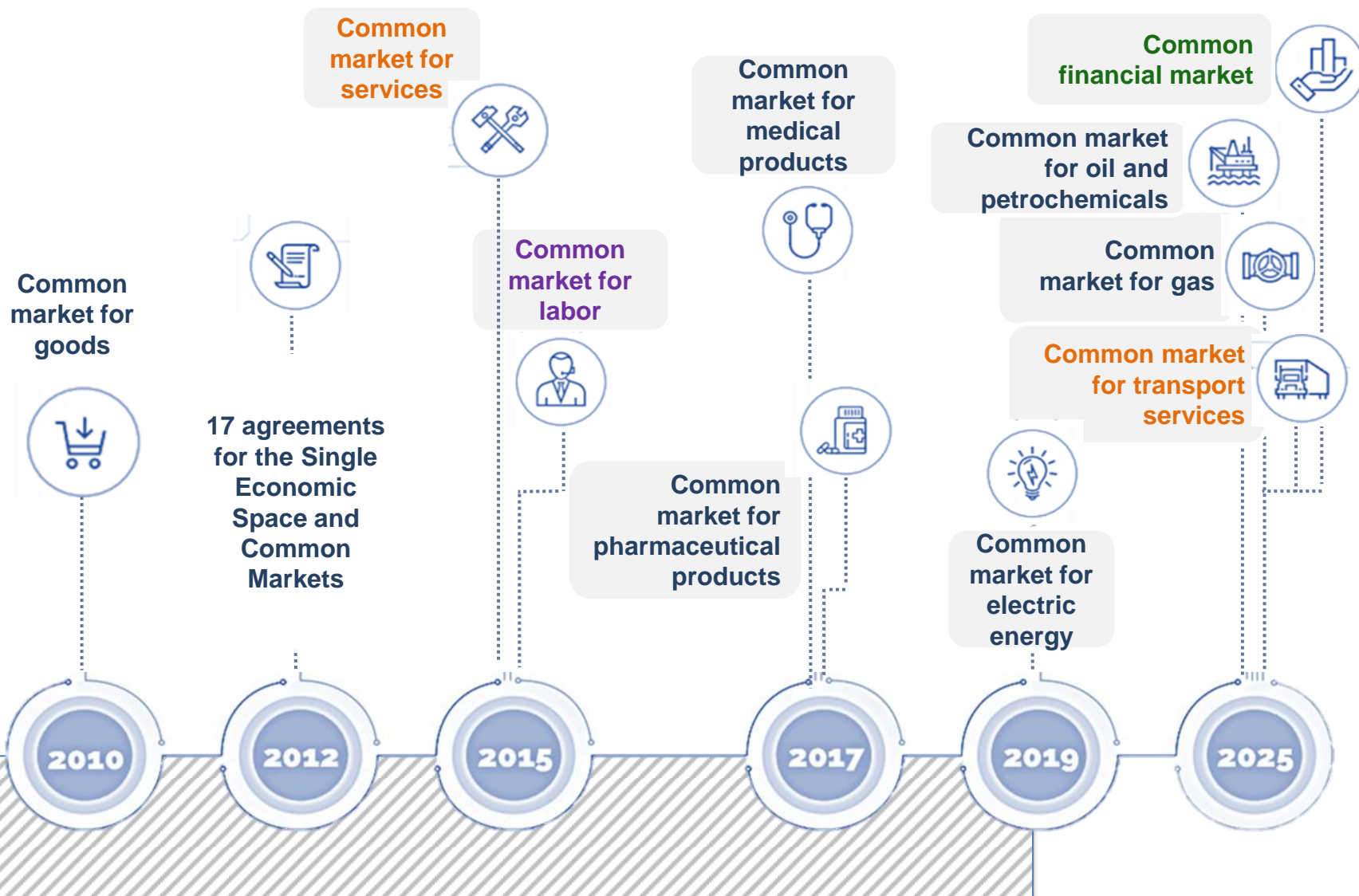
Economic and Trade cooperation: China

### Depth of integration

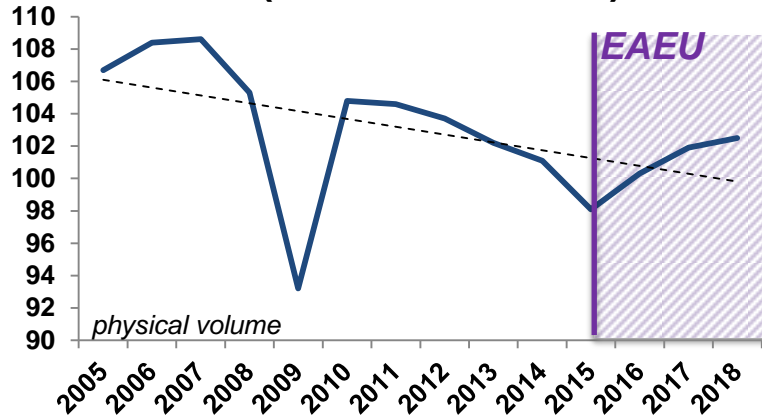


## Single Economic Space of the EAEU – 4 freedoms principle: free movement of Goods, Capital, Labor, freedom to establish and provide Services





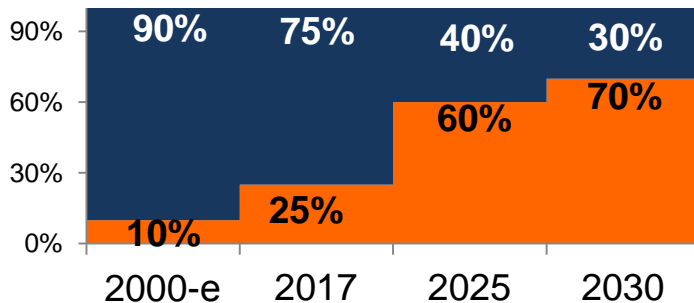
GDP (5 member states)



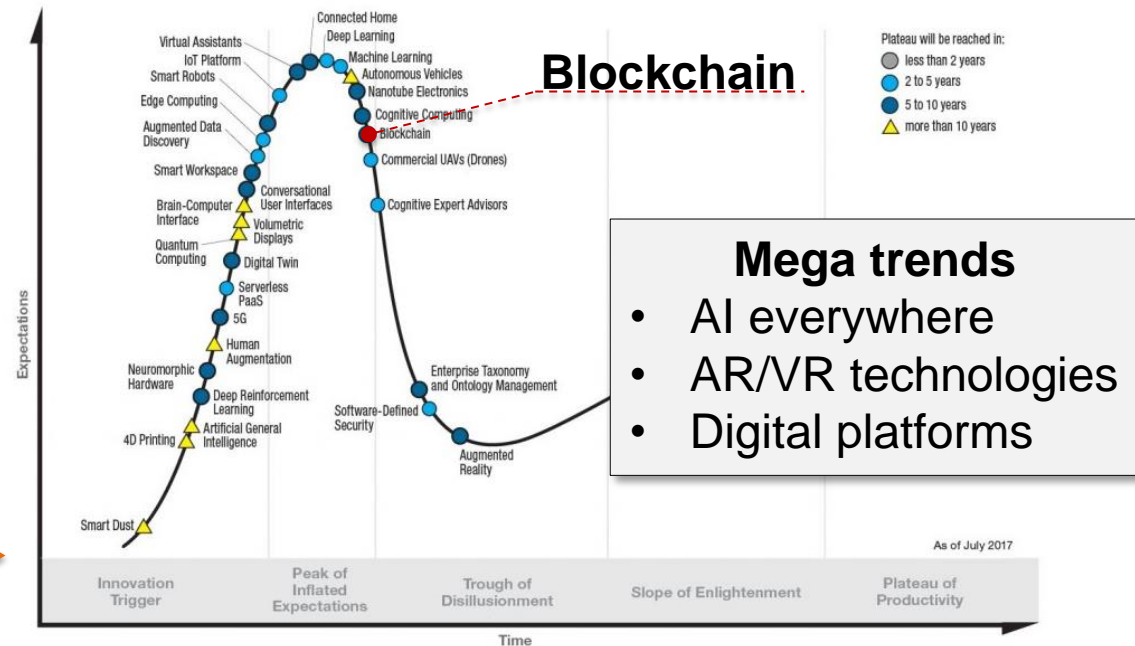
Where are the drivers to stimulate the economy development in the EAEU?

- Innovations provide dynamics
- Mass production of new technologies
- The structure of global economy is changing towards the new industries

Share of **new economy** is growing



What is the new economy?



EAEU member states agreed *“The Main Directions of the **Digital Agenda** Realization of the EAEU till 2025”* (Oct. 2017):

digital transformation of the integration **processes** in the EAEU, key **markets**, **industries** and cross-industries, **infrastructure** development

- +10.6% EAEU GDP
- +1 mln new jobs in ICT
- +1.73% in labor productivity
- spread of e-commerce
- international Internet traffic growth

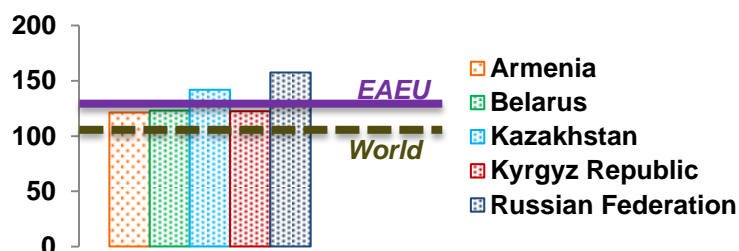
## A solid basis for digital development

### Infrastructure

#### Fixed broadband subscriptions (per 100 people)



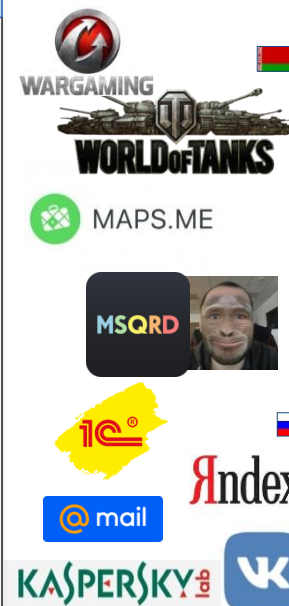
#### Mobile cellular subscriptions (per 100 people)



### People

#### International Olympiad in Informatics

Country	Result	Past Participation	
	IOI 2019	IOI 2018	IOI 2017
Belarus	Bronze		
	Bronze		
	Silver		
	Silver		
Kazakhstan	Gold		
	Silver	Silver	
	Bronze		
	Bronze		
Kyrgyzstan	No Medal		
	Bronze	No Medal	
	Bronze	No Medal	
	Bronze	No Medal	
Russia	Gold		
	Gold	Silver	Silver
	Gold (2 <sup>nd</sup> )		
	Gold	Gold	Gold





## The EAEU Digital Agenda

### Chairman's Project Office: 6 priority areas for digital projects

- Digital traceability – consumer safety, counterfeiting, increasing collection of payments
- Digital trade – increasing the size of the market, awareness of individual consumer requests
- Digital transport corridors – shortening transportation times, improving the efficiency of logistics systems
- Digital industrial cooperation – import substitution, the creation of high-value value chains
- Agreement on data turnover – creating digital assets, improving management efficiency
- The regulatory sandbox system – accelerated implementation of new business processes

### The EAEU annual competition of innovative projects “Eurasian digital platforms” (<http://contest.eaeunion.org/>):

- One competition – 5 countries scope
- Wide media support, the final stage – annual International forum “Eurasian Week”
- Goodwill for future fundraising

criteria





### 1. Operations with crypto-currencies:

- 1) **Completely prohibited** (Bangladesh, Bolivia, Indonesia)
- 2) **Prohibited for financial organizations** (India, Italy, China, Lithuania...)
- 3) **Allowed for licensed/registered mediators or in case of fulfillment of certain requirements (capital adequacy, accounting, etc.)** (UAE..)
- 4) **Allowed only through the bank identification procedures** (South Korea)
- 5) **Allowed but not to be used for payment (Croatia)**
- 6) **Allowed, incl. payment (Venezuela, Japan)**

### 2. Initial coin offerings (ICO):

- 1) **Prohibited** (South Korea)
- 2) **Determines by the existing law (investment law, financial law, corporate law, consumer law)** (Germany, USA...)
- 3) **Allowed for the registered participants** (Switzerland (>1mn CHF))
- 4) **Allowed** (Australia, Hong Kong)

### 3. Mining:

- 1) **Prohibited** (Bolivia, Nepal)
- 2) **Allowed** (Vietnam, China, USA, South Africa)

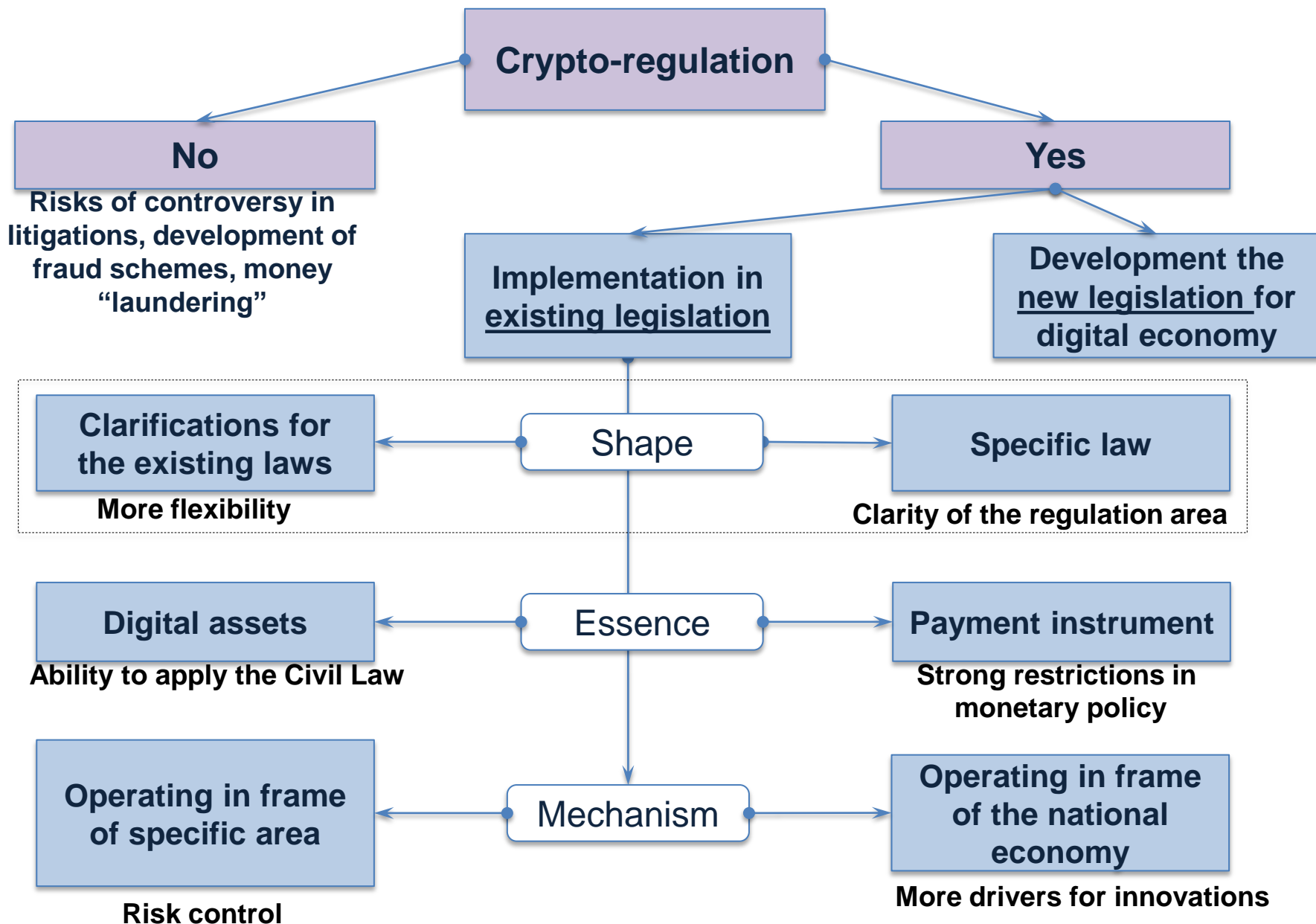
### 4. Regulatory practice:

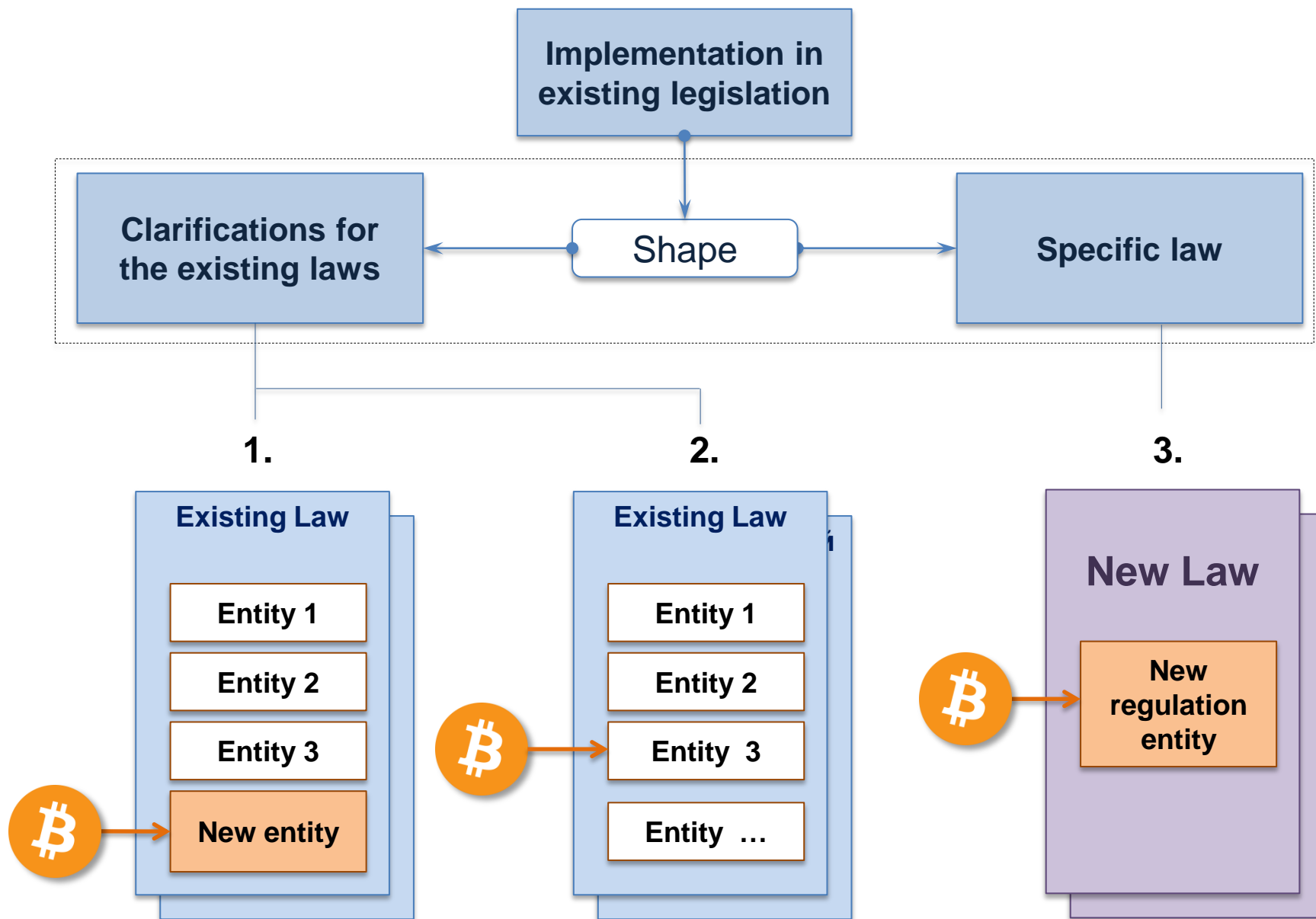
- 1) **Special legislation created** (Bermuda, Malta, France ...)
- 2) **Formed “regulatory sandbox”** (Bahrain, Canada)
- 3) **Special institutions, environment created** (Malta, Singapore, Switzerland)
- 4) **Existing financial law is applied** (Canada, Lithuania, USA ...)
- 5) **“Soft law practice” is applied** (Brazil, Great Britain ...)

### 5. Taxation:


- 1) **Income tax** (USA (10-37%); Great Britain (19-20%))
- 2) **Sales tax** (USA (0-8%))
- 3) **VAT** (Great Britain (20%); Thailand (7%))
- 4) **Capital gains tax (CGT)** (Great Britain (19-20%); Thailand (15%)...)
- 5) **Profit tax** (Switzerland (7,83%, 1-26%))


**There is no single standard.  
An experimentation is going on**







- |  |                          |  |
|--|--------------------------|--|
|  | <input type="checkbox"/> | <ul style="list-style-type: none"> <li>15 Jan. 2018 – Armenia intends to create a free economic zone for the development of blockchain projects</li> </ul> |
|--|--------------------------|--|

- |  |                                     |  |
|--|-------------------------------------|--|
|  | <input checked="" type="checkbox"/> | <ul style="list-style-type: none"> <li>18 June 2018 – Decree “About measures for the President Decree realization”</li> <li>20 Apr. 2017 – Decree N8 “About the digital economy development” came into force.</li> <li>21 Dec. 2017 – Belarus President signed <a href="#">Decree N8 “About the digital economy development”</a>. The document legalized the activities in the following areas: mining, blockchain, crypto-exchange and other operations with crypto-currencies for the residents of <a href="#">Hi-Tech Park</a></li> </ul> |
|--|-------------------------------------|--|

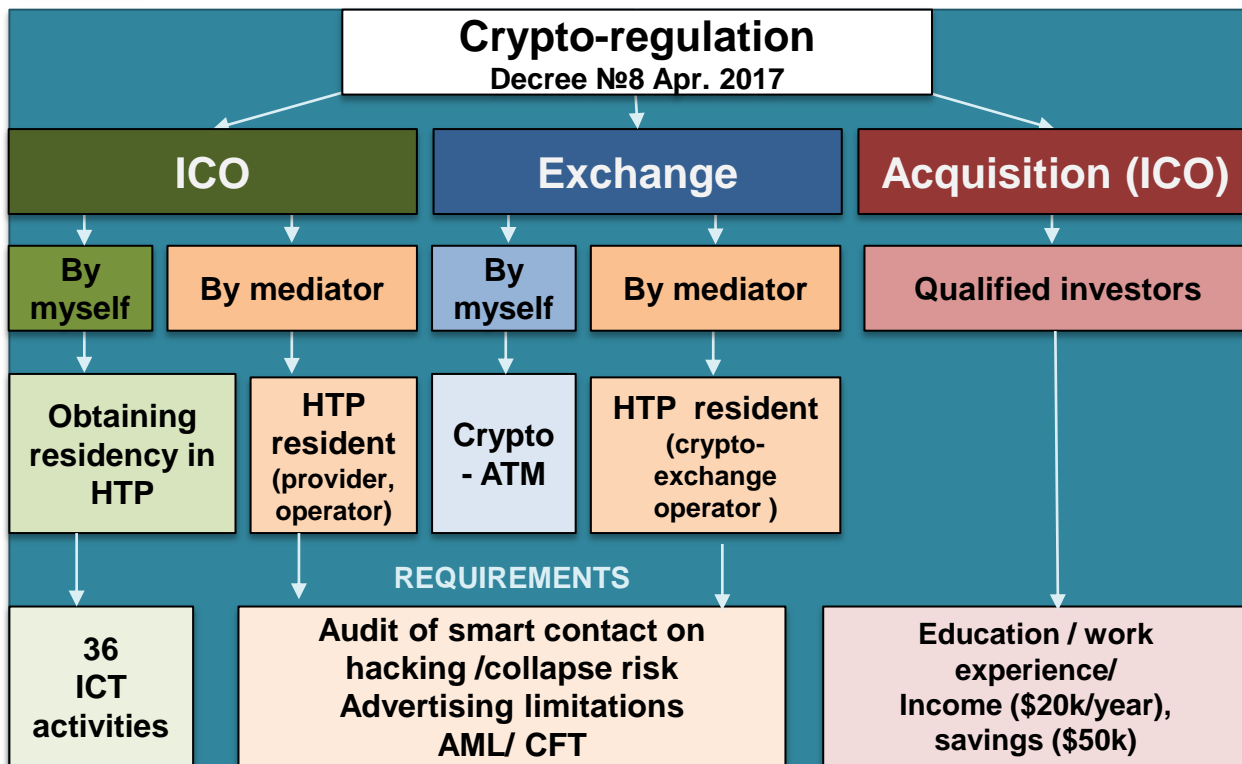
- |  |                          |   |
|--|--------------------------|---|
|  | <input type="checkbox"/> | <ul style="list-style-type: none"> <li>05 July 2018 – Astana International Financial Centre (AIFC) with <a href="#">regulatory “sandbox”</a> FinTech were launched</li> <li>23 Mar. 2018 – National Bank issued the short-term bonds on the blockchain “Invest Online”</li> </ul> |
|--|--------------------------|---|

- |  |                          |   |
|--|--------------------------|---|
|  | <input type="checkbox"/> | <ul style="list-style-type: none"> <li>17 Jan. 2018 – a ban on crypto-currencies is not expected, the blockchain technology is used in the work of the National Bank, its implementation in the public procurement system is being discussed</li> </ul> |
|--|--------------------------|---|

- |   |                          |  |
|---|--------------------------|--|
|  | <input type="checkbox"/> | <ul style="list-style-type: none"> <li>18 Mar. 2019 – new Law passed № 34-FZ «About implementation of the new changes in the first, second parts and 1124 article of the third part of the Civil Law of Russian Federation» (about digital rights)</li> <li>22 May 2018 – 3 draft Laws passed the 1<sup>st</sup> bill hearing including laws: “About the Digital Financial Assets” (№ 419059-7), «About the Alternative Approaches for Fundraising” (crowdfunding)» (№419090-7), ««About implementation of the new changes in the first, second parts and 1124 article of the third part of the Civil Law of Russian Federation» (№ 424632-7)</li> </ul> |
|---|--------------------------|--|

**CURRENT SITUATION: different dynamics, understanding, and approaches to the regulation. Risks of new barriers on the forming markets of the new economy**

**Belarus:** 3.1% EAEU GDP, 5.1% EAEU population (9.5 mln people)



## «Regulatory Sandbox»



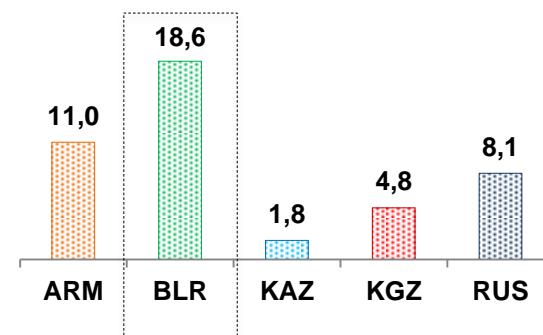
**HTP**  
BELARUS

Decree №8  
Apr. 2017

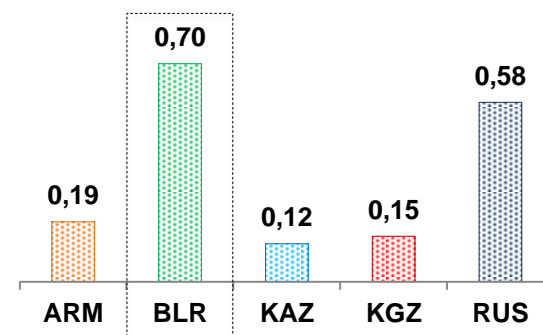
## Economy

- Changes in banking legislation, exchange regulation
- Accounting standards for tokens

**ICT service export**  
(% of total service exports, BoP, 2018)



**ICT goods export**  
(% of total goods exports, 2018)



**December 21, 2017** (enforced March 28, 2018)

**President's Decree "On Development of Digital Economy"**

- ✓ Hi-Tech Park enhanced
- ✓ Zero Tax till 2049
- ✓ 36 types of approved business activities
- ✓ Tokens, Cryptocurrencies, ICOs, Smart Contracts legalized
- ✓ Employment of foreign nationals simplified
- ✓ Institutions of English Law introduced

684 Member Companies



## Minimum taxes on salaries

**9%** Income Tax  
[13% outside Hi-Tech Park]

**7%** Average Contributions  
for Social Security  
[35% outside Hi-Tech Park]

## Tax benefits for mining and crypto till 2023

**0%**

VAT and Profit Tax on  
mining, buying/selling and exchanging cryptocurrencies,  
other transactions with tokens

**0%**

VAT  
Profit tax  
Offshore duty  
Customs duties

**0%**

Income tax in equity carve-out  
Sales of shares in HTP resident  
Tax on revenues of foreign companies





## Development of tax policy and tax administration measures

- Does the jurisdiction have the right to taxation?
- If yes, what's the tax rate? How to determine the moment of added value creation? What type of taxes: VAT, sales tax, GST...?

## Payment tokens (crypto-currencies):

- Scale?
- System of automatic reports for the tax authorities – the same for crypto-currencies?
- Transactions or offshore withdrawals?

## AML/CFT, KYC policies



**IMF**  
International  
Monetary Fund

A platform for the exchange of ideas and the development of an agreed position on the regulation of crypto assets, improving the monetary policy



**WORLD BANK**

The first  
«bond-i» on  
blockchain



**FATF**  
AML/CFT risks

- Identification / verification issues
- Transaction anonymity



**Financial Stability  
Board G20**

Assessment of the impact on the stability of the global financial system  
Transmission Channel  
Monitoring

**Learning Coin  
(training coin) - private  
blockchain and quasi-  
crypto-currency for own  
educational needs  
("knowledge center"),  
April 2019**



**EU**  
European Union



**CELAC**  
Community of  
Latin American and  
Caribbean States

## EEC: 10 events in 5 member states during the last 2 years

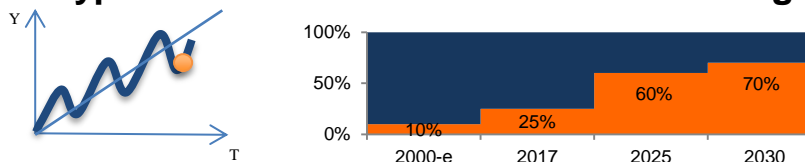
<p><b>Expert</b></p> <p><b>Dec. 2017</b></p> <p>place in the system of monetary circulation and the impact on the macro economy".</p> <p>Moscow 18 Dec. 2017</p> 	<p><b>Inter</b></p> <p><b>Feb. 2018</b></p> <p>cryptocurrency: channels of influence on macroeconomic policy in the Eurasian region"</p> <p>Moscow 12 Feb. 2018</p> 	<p><b>March 2018</b></p> <p>place in the money treatment and impact on the economy of the EAEU countries"</p> <p>Moscow 28 March 2018</p> 	<p><b>Scientific</b></p> <p><b>Apr. 2018</b></p> <p>technology. Prospects for regional financial integration in the Eurasian economic Union (EAEU)".</p> <p>Moscow 20 Apr. 2018</p> 	<p><b>International</b></p> <p><b>June 2018</b></p> <p>regulatory challenges in the context of the EAEU macro economic stability"</p> <p>Minsk 18 June 2018</p> 
<p><b>Per</b></p> <p><b>July 2018</b></p> <p>cryptocurrencies on the implementation of agreed macroeconomic policy and the formation of common financial market within the EAEU"</p> <p>Astana 4 July 2018</p> 	<p><b>Inter</b></p> <p><b>July 2018</b></p> <p>possibilities for harmonization approaches in crypto-currency and blockchain regulation"</p> <p>Moscow 26 July 2018</p> 	<p><b>Oct. 2018</b></p> <p>cryptocurrencies and blockchain: a new economy or an unsafe experiment?"</p> <p>Erevan 23 Oct. 2018</p> 	<p><b>Apr. 2019</b></p> <p>perspective to deepen the Eurasian integration" and presentation of the EEC Report</p> <p>Moscow 24 Apr. 2019</p> 	<p><b>IV Intern</b></p> <p><b>Sept. 2019</b></p> <p>challenges and prospects of crypto-currency and blockchain regulation in the EAEU. How to place accents?"</p> <p>Bishkek 24 Apr. 2019</p> 



## Background and motives of the crypto-currency usage



## Risks of crypto-currencies and blockchain for integration



## Elements of crypto-currency and blockchain regulation in the EAEU member states



## International experience: best policy approach



## Recommendations for the EAEU member states



**SINGLE GLOSSARY** as a common understanding of the crypto-currency essence  
**PRINCIPLES** as the memorandum of understanding  
**Recommendation paper**



(in Russian)



## EAEU goals

Article 4 of the EAEU Treaty

- The sustainable economic development of the member states in order to improve the living standards of their population
- A common market for goods, services, capital, and labor within the Union
- Comprehensive modernization, cooperation and competitiveness of national economies within the global economy



**PRINCIPLES** for the formation of a harmonized regulatory environment providing the usage of digital assets, digital signs (tokens), crypto-currencies within the EAEU  
(waiting for approval)



**SINGLE GLOSSARY** of the main terms and definitions of crypto-currency and blockchain activity  
(waiting for approval)

**«Single language»** (Glossary) and a **single understanding** of priorities (Principles) should provide the basis for harmonization of the EAEU national policies



- **Digital Asset**
- **Digital Sign (Token)**
- **Crypto-currency**
- Digital Wallet
- The Operator of Digital Wallet
- Mining
- Digital Signs (Tokens) Exchange Operator
- The Operator of Digital Signs (Tokens) Exchange Platform
- Initial Offering of Digital Signs (Tokens)
- Distributed Ledger Database
- Ledger of Transactions Blocks (Blockchain)
- Smart Contract

## “Umbrella” or “Matreshka” (nest-doll) approach



**Digital Asset**

General category providing comparability in digital economy regulation

**Digital Sign (Token)**

Provides the regulation of tokenization processes

**Crypto-currency**

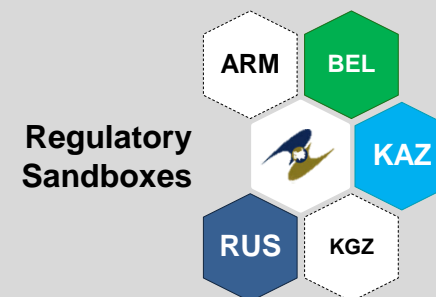
Allows to take into account the national legislation for fiat money

- 1. Common understanding and interpretation of the basic terms and concepts necessary for the formation of a harmonized regulatory environment within the EAEU**
- 2. Maintaining a balance between risk control and the implementation of innovative incentives for economic development**
- 3. Harmonization of approaches to the regulation of activities in the field of digital assets, digital signs (tokens), crypto-currencies in the territory of the EAEU Member States**
- 4. Interaction with third countries and international organizations to develop and apply advanced standards for regulating the circulation of digital assets, digital signs (tokens), crypto-currencies**

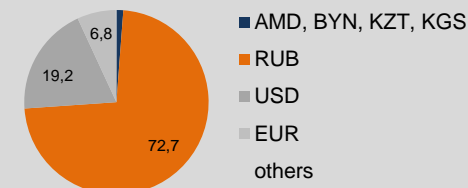




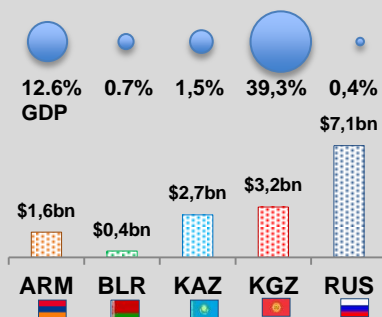
- **Analytics/think-tank** (high probability of realization, but limited effect)
- **EEC Discussion platform**
- **Regulation** (national/central banks: monetary policy issues):  
policy harmonization → framework law, common standards
- **Infrastructure**: “sandboxes”: Belarus: Hi-Tech Park, Kazakhstan: AIFC FinTech Hub, Russia: regulatory sandbox of Central Bank
- **Mega-projects**:
  1. Payment token for the mutual trade payments between the EAEU member states
  2. Payment token for low-cost cross-border remittances
  3. Payment token for people without a bank account
  4. Investment token providing access to finance for the SMEs
    - Investment token for real sector tokenization (20% equity)
    - Elimination of the intermediary (custodial services, notary)
    - Goods traceability (Tracr concept)
    - Digital identity: sharing personal information
- **Ecosystem** (long time, low probability, rather evolution process):  
regulatory basis + real projects on blockchain + support of the member states



1. **Currencies** used in **mutual trade** between the EAEU member states

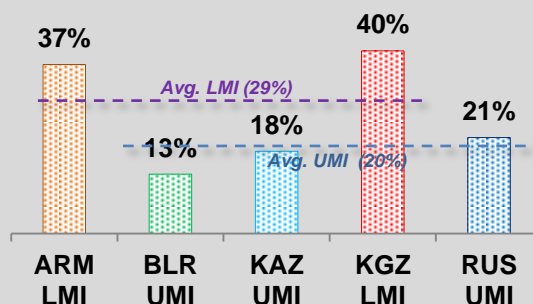


2. **Cross-border remittances** of people are crucial for small economies



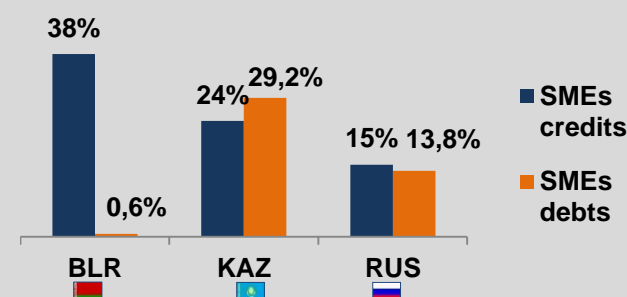
\*The volume of in-out remittances/GDP (2018 prices)

3. People access to finance: **no bank account** because of insufficient funds



\* % age 15+; LMI – lower middle income (GNI per capita \$1006-\$3995, 2017), UMI – upper middle income, \$3896-\$12055

4. **SMEs access to finance** is limited and short-term



\* As a % of the total entities credits, debts, 2018, calculated in US\$

**Thank you for your attention!**

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