

# High-Tech Advocate: Spurring Russia's Economic Growth Through Information Technologies



**Leonid Reiman, Minister of Information Technologies and Communications** has become the force behind one of Russia's most radical economic reforms – developing the nascent IT industry on the basis of Russia's enormous intellectual capital. Can IT become a driving force of modernisation, replacing oil and gas as the mainstay of Russia's economic growth?

## **Why has the government chosen to prioritise Russian IT development as a way of promoting economic growth?**

To achieve our national goal of doubling GDP by the year 2010 we need to reduce reliance on raw materials revenues and transition into an exporter of value-added goods. We're betting in large part on the vibrancy of our IT industry, which has been growing by leaps and bounds. Over the past four years it has doubled in size. This year alone we expect the IT market to increase by 22-23%. And the potential is huge. By 2010, we expect it to contribute 5% of our country's GDP.

But there is more to it than that. IT is a way for Russia to capitalise on its tremendous human potential. We are producing some of the world's top engineering and scientific talent, as has always been the case. Big companies are vying with one another for our specialists. By placing an emphasis on the IT industry, we are creating opportunities for our young people. We are

creating a future for our country and bringing Russia more into line with the rest of the modern world.

## **Which specific historical or global examples do you draw on to support the policy of the state successfully creating a vibrant technology sector?**

We've studied many models used by other countries. In the process our vision has gone beyond turning Russia into a back office or simply an outsourcing centre for the rest of the world. We are looking to create an environment that would encourage a dynamic interaction between IT industry, universities, research institutes, and venture capital. We are looking to have a fluid model akin to Silicon Valley – one where all these different elements will be working together organically. We see our mission as giving the industry the right impulse, creating the right conditions for it – and then stepping aside and letting the private sector and markets do what they do best.

Our vision is for Russia to become a global centre of innovation and entrepreneurship, a place where radically new, break-through technologies are developed. This is both our history and our future. We want Russia to be a place where "the next big thing" is born. What you need for that is the right combination of policies: the right tax regime, an attractive investment environment, empowerment of raw talent. And that's precisely what we are working on.

## **What advantages does Russia have compared with other countries?**

Russia's main advantage is the very high level of its engineering and scientific talent. Because many of our programmers have trained as physicists, chemists, or mathematicians, they don't have the problem of tunnel vision. They have a grasp of complex mathematical algorithms, they are creative, they are capable of handling very big development projects – we are ahead of our competition on all points. An ad-

ditional advantage we have is cultural closeness to the west. We are a European country with European values. Western companies that come to work in Russia or rely upon our services find themselves right at home here.

**How did you come to be a leading advocate for developing Russia into an information society?**

This has been my personal mission for many years. I see information technologies as a great moderniser and equaliser. Information technologies empower people. They bring transparency to the workings of the government. They contribute to the development of a vibrant civil society. Without making information technologies available to each and every citizen, a country can't possibly hope to have a truly democratic society. As a full-fledged information society our country will be able to become part of the global community, in the full sense of the word, that much faster.

Bridging the internal digital divide is a critical issue for us at the moment. In Russia we have a paradox: we have highly trained specialists operating at the cutting edge of information technologies, and we have people who don't have a basic telephone line at their home. We are working to change that through our e-Russia program. We are putting computer terminals in post offices. We are implementing a telemedicine program and projects for distance learning. We want Russia to be an equal-opportunity society, a country where all citizens have equal access to information, whether they live in Moscow or in a city eight time zones to the east. The only way to achieve that is through information technologies.

**The Russian government has, in the past, been perceived as sending mixed messages to foreign investors. Will foreign companies be able to participate in the Russian market?**

Absolutely - they already are. Some of the world's IT industry giants - Intel, Motorola, IBM, Siemens, Alcatel, Boeing - have been here for years, and they are here to stay. They all praise the

quality of Russia's high-tech specialists.

We at the Ministry are working to attract venture capital into the industry. The most powerful new ideas come from start-ups, but for start-ups to develop, venture capital needs to find them. There is no question that our IT market is different from those in the U.S. or Europe. Our typical high-tech start-up doesn't need a \$5m investment. It may only need \$500,000, and that puts it below many of the VC firms' radar screens. But this is where smaller VC firms have particular advantage. And we are seeing a growing number of VC firms establishing smaller divisions, with \$20-50m dedicated to Russia technology funds, which they are allocating among promising Russian start-ups. I have yet to meet a high-tech venture capitalist working in Russia who complained of a shortage of investment opportunities.

**The idea of technoparks has been a subject of rapidly increasing interest in Russia. What are technoparks going to do for IT companies and investors?**

Technoparks are part of a larger vision. By itself a technopark is simply a collection of offices - an infrastructure. What it needs to be is a place that brings together intellectual and financial resources, a place where new ideas are conceived and developed, where new businesses are hatched.

But it's not enough to build the technoparks. We see our key role in creating an enabling environment for the industry: in eliminating a vast array of taxes that are holding it back; in helping start-ups free up their capital so that they can put their resources to better use, for example to hire the best specialists available on the market. In all of this we are working closely with the private sector to ensure that we are all on the same page.

There is no question that a lot remains to be done. We are in the very beginning of the process. But for those looking to participate, to take part in an exciting industry that's going to change the future of a great nation, Russia's IT industry is the place to be. **rir**

**Russian IT: The main economic driver?**

Can IT exports replace oil as Russia's main economic driver? Leonid Reiman points to the encouraging numbers. In the past four years the Russian IT industry has doubled in size. At 25% growth, it's the fastest-growing segment of the Russian economy. Software exports have been growing at 40-50% annually, quietly and without fanfare turning Russia into an outsourcing heaven for the giants of the global IT industry. By Mininformsvyaz calculations, by 2010, Russia's software market will increase five times and reach \$40b, while Russian products will comprise 7% of the global software exports.

**How to get there?**

First and foremost, says Reiman, by listening to the industry. The IT industry is different from all others. Its capital is its people. Its exports pass national borders at the speed of light. Its main product is services. Technoparks, with well-equipped offices and special tax regimes, are one way to meet its needs, especially if they are built where technical talent is already in place: St Petersburg, Novosibirsk, Nizhny Novgorod, and cities rich with scientific history in the Moscow region, such as Chernogolovka or Dubna. But why wait until those big, capital-intensive projects are completed? What the industry needs right now is new laws: laws governing intellectual property, information exchange, e-commerce. A whole new attitude toward information sharing is needed, and so is a new vision of taxation. These are tall orders, but without resolving them, says the industry, technoparks will remain nothing but bricks and mortar.