

ECIPE PRESS RELEASE — NEW POLICY BRIEF

Data Localisation in Russia: A Self-imposed Sanction

By Matthias Bauer, Hosuk Lee-Makiyama, Erik van der Marel, Bert Verschelde

Brussels, Belgium, 20 June 2015 - Cross-border data flows are an integral mechanism of today's economy, impacting a country's competitiveness and growth. All economic sectors rely on secure, cost-efficient and real-time access to data. A requirement that all data-related business processes must take place within a country does not only affect social networks and e-commerce, but any business directly or indirectly.

The Russian privacy legislation (the "OPD Law") has been amended by a new law (FZ-242) that includes a clear data localisation requirement. Article 18 §5 of the law requires data operators to ensure that any collection or use of personal data of Russian citizens is made using databases located inside Russia.

Data localisation leads to productivity losses as firms may not be able to use services provided from abroad, or must set up their own domestic data centres inside Russia. Experience shows that the data-intensive service industry will pass on new costs from regulatory compliance to other sectors of the economy, and the productivity loss it generates leads to lower returns of investment.

The losses are equivalent to -0.27% of gross domestic product (GDP), equivalent to a loss of 286 billion roubles (US\$ 5.7 billion). Applied with 2015 IMF forecasts, the Russian economy would contract by -4.1% this year. Investments in the Russian economy would drop by -1.41% or 187 billion roubles, with considerable effects on employment. The manufacturing sectors are hardest hit, as they must absorb cost increases from their suppliers.

These highly negative results have taken into account any possible positive effects (e.g. from Russian data processing firms replacing foreign ones). However, the losses are too large to be offset by new jobs created or government initiatives like subsidies and other

incentives. Russia's production structure would shift towards less innovative and volatile sectors such as agriculture, raw materials and energy.

Yet the numerical results of this analysis do not fully capture the longer term adverse effects of regulations of data flows on technological progress, competitive behaviour and Russian firms' innovative capacities. Since these factors are the main drivers of long-run economic output growth, our results are likely to significantly underestimate the economic losses arising from data localisation requirements.

Publication details: *Data Localisation in Russia: A Self-imposed Sanction*, ECIPE Policy Brief No. 6/2015

Media Contact: Hosuk Lee-Makiyama at hosuk.lee-makiyama@ecipe.org