

Russia's Digital Economy Policy and Korea-Russia Cooperation Measures

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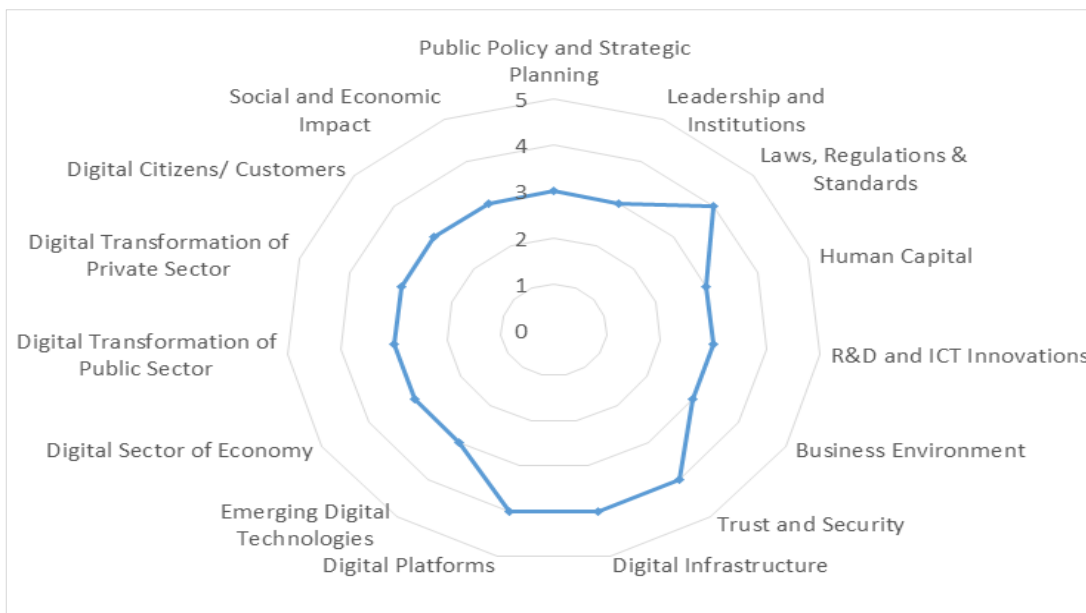
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I. Russia's Current State of Digital Competitiveness

Russia's digital economy can be assessed at a medium level, according to the World Bank. Russia displays relative strengths in S&T, legislative and policy framework, cyber security

industry while it has structural weaknesses in the digital transformation ecosystem, digital skills, access to capital markets, and open innovation culture.

Figure 1. Russia's Digital Economy Assessment Summary



Source: World Bank (2018), Competing in the Digital Age, Russia Digital Economy Report, p. 4.

In a similar context, Russia's digital competitiveness ranks 40th among 63 countries around the globe in *World Digital Competitiveness Ranking 2018*. Russia shows relative strength in knowledge factors (24th), particularly in sub-factors such as training & education (12th) and scientific concentration (23rd). This implies that Russia needs to concentrate on forming a digital-friendly business environment and digital transformation in the traditional industries and society.

II. Russia's Digital Economy Policies

The National Technology Initiative 2035 was adopted in April 2016. It presents ten core technologies for the digitalization of the Russian economy, and nine strategic sectors that are to be digitalized. The ten core technologies are: 1) Big Data, 2) Artificial Intelligence, 3) Distributed Ledger Systems, 4) Quantum Technology,

5) New and Portable Power Sources, 6) New Manufacturing Technologies, 7) Sensorics and Robotics Components, 8) Wireless Technology, 9) Technology Management of the Properties of Biological Objects, and 10) Neuroscience, Virtual and Augmented Reality Technologies. The nine strategic sectors are: 1) EnergyNet (energy from personal power to smart grid, smart city), 2) FoodNet (system of personal food production and food and water delivery), 3) SafeNet (new personal security systems), 4) AutoNet (unmanned management of road vehicles), 5) AeroNet (unmanned aerial transport), 6) MariNet (unmanned marine transport), 7) HealthNet (personal medicine), 8) NeuroNet (artificial elements of consciousness and mentality), and 9) FinNet (decentralized financial systems and currencies). Each sector has a working group combined with academia, industry and government.

Russia's national program on the digital economy approved in 2017 sets forth goals in the categories shown in Table 1.

Table 1. Russia's Major Goals in Digital Economy

Regulations	<ul style="list-style-type: none"> • Guaranteeing favorable legal institutions for technological uses and related economic activities, formation of new regulatory environment, and adoption and development of modern technologies • Introducing changes and capability mechanism in the regulatory sector of digital economy • Removing legal barriers and establishing separate legal institutions • Preparing measures to accelerate economic activities, using modern technologies and data resources • Adopting EAEU digital economic development policy • Laying foundation for the development of regulations in the digital economy
Personnel	<ul style="list-style-type: none"> • Completing the education system for nurturing digital economy specialists • Creating a labor market which fulfills the needs of the digital economy • Establishing an incentive mechanism for personnel to develop capability and to encourage participation in development of the digital economy in Russia

Forming research competencies and technological groundwork	<ul style="list-style-type: none"> • Constructing a search engine system with global competitiveness, guaranteeing technological independence from national security and other digital technologies, and applicable to research on digital platforms • Fostering the institutional environment for R&D in the digital economy
Information infrastructure	<ul style="list-style-type: none"> • Developing a telecommunications network which conforms to the needs of the economy and technological requirements • Creating an accessible, safe, and efficient data processing system in Russia • Adopting a digital data platform which complies with demands of the government, businesses and citizens • Establishing an efficient system that provides space data collection, processing, and preservation services to the government, businesses and citizens
Information protection	<ul style="list-style-type: none"> • Protecting the people, society and country from domestic and overseas information threats • Guaranteeing consistency, substantiality and safety of Russia's ICT infrastructure at all levels of information space • Providing legal protection for the interests of the people, businesses and nation in the digital economy • Placing Russia at the forefront of information protection technologies exports • Employing Russian technologies on software, infrastructure, and information protection

Source: Правительство России. 2017. "Национальная программа «Цифровая экономика Российской Федерации.»

III. Russia's International Cooperation in Digital Economy

Russia-China Cooperation

Russia and China cooperation in the digital economy has recently been proceeding actively. On 11th Sep. 2018, China's Alibaba and Russia's MegaFon, Mail.Ru, and sovereign wealth fund announced plans to establish AliExpress Russia, a joint venture. This shows that cooperation between Russia and China is continuing to deepen in the digital sector despite the West's economic sanctions on Russia. China's gain from this would be Huawei's entry into the Russian market in the near term, and realization of the Digital Silk Road Policy as part of the One Road and One Belt Initiative.

Chinese businesses are interested in merging Russian digital companies. Namely, Huawei is considering the acquisition of a Russian IT firm, VOCORD. VOCORD, founded in 1999, produces software and hardware solutions for facial recognition, video analysis, audio recording, among others. With support from the Skolkovo Foundation, it has great potential to grow in the future. Huawei opened an AI center in Russia and is actively participating in the B2B and B2G market in Russia, not to mention the B2C market. In order for Huawei to deeply penetrate into the Russian market, it needs to obtain promising start-ups and their technologies related with facial recognition systems for the banking, retails, and public sectors. Particularly, Huawei requires shares in Russian companies to win government procurement projects because generally non-domestic products and software have limited access in the government procurement sector.

Meanwhile, Kaspersky, a leading Russian ICT firm, is an active player in China. In 2012 the company concluded a cooperation agreement with Venustech. Since then, it has been experiencing a tumultuous relationship with the Chinese government, but continuing its work in China. Kaspersky is also collaborating with the Cyberspace Administration of China in the area of countering network threats and hacking, training cyber security experts, raising public awareness of cyber threats, and etc.

InfiNet, a Russian hi-tech company headquartered in Ekaterinburg, is providing broadband wireless access systems to Chinese companies and government organizations. The China Mobile Group, a leading telecommunications enterprise in China with 8,000 million subscribers, used InfiNet's products while building a fixed wireless broadband network in the Xinjiang region. Sinopec also applies InfiNet's BWA system on oil-excavating devices to send data. Chinese users highly evaluate Russia's BWA system for its flexibility, simplicity, accountability and advanced functions.

Russia-Italy Cooperation

Russia and Italy have been traditional economic partners since the 15th century. They have been cooperating in various traditional economic sectors such as energy, transports, machinery & devices, food, fashion, furniture, etc. On the other hand, cooperation in the digital economy seems to be in the embryonic stage. This is mainly due to the fact that neither of the two countries are in a leading position on the global stage in the digital economy. Italy established the Digital Agency (Agenzia per l'Italia Digitale) in 2012 and adopted the "2014-20

Strategy for Digital Growth" for development of e-government afterwards.

Italy in recent years has shown interest in working with Russia in the digital economy. In 2018, the Italian business delegation to the Start-up Village, a business forum organized by the Skolkovo Foundation, was the biggest among foreign delegations and consisted of over 30 start-ups. The Italian delegation built and used its own pavilion. Since Russia and Italy have been successfully cooperating in the traditional sectors, there are possibilities of collaboration in the digital economy. Perhaps the two countries can create opportunities by establishing a joint strategy for digital transformation.

Russia and Italy can also cooperate in the e-commerce sector. Namely, Italian SMEs can enter the Russian e-commerce market through online platforms. They can target affluent consumers in Russia who often consume European goods and food. They can also succeed by investing in online platforms with local ICT companies such as Vkontakte, Odnoklassniki, Mail.ru, etc.

Meanwhile, security and technologies problems in the digital sector are likely to pose a barrier for international cooperation. One example is the recent dispute between the US and China over 5G technology. The US saw Huawei's involvement in Western Europe's 5G network as security threat. Thus, American envoys to Europe urged against the use of Chinese products in 5G network construction. The Italian government is yet to face such an issue yet. However, due to security problems, international cooperation between Russia and Italy in digital economy can be limited.

IV. Prospects of Korea-Russia Cooperation in Digital Economy

To activate digital cooperation between Korea and Russia, national policy and mechanisms for bilateral cooperation are necessary. Therefore, we suggest the conclusion of a “joint digital economic initiative” between Korea and Russia, based on which a roadmap by sectors can be formulated. As leaders on both sides have agreed on cooperation in the 4th industries, it is now time to design more specific cooperation projects and establish relevant institutions. In addition, a cooperation mechanism that spans industry, academy and government may help to realize the joint initiative. **KIEP**

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