



CASE STUDY

RUSSIA: The Negative Impact of New Data Localization Policies

Cloud computing and data analytics deliver enormous benefits to governments, consumers and businesses, enhancing lives and spurring unprecedented economic growth.

Unfortunately, some countries are now adopting, or contemplating, data localization policies that threaten to destroy the gains and growth potential of software and data-driven innovations such as cloud computing.

Computer networks store and process data in multiple locations in multiple countries. But data localization policies require service providers — and the data they manage — to be located inside the country where their services are accessed. These “walled-off” providers can no longer contribute to or receive the benefits of the global cloud.

Russia is one such country that recently adopted a data localization law. In September 2015, Russia mandated that all companies serving the Russian market must process and store Russian citizens’ personal data in databases located inside the country. In enacting the law, the government cited the need to protect Russian citizens from unlawful access to their data by foreign governments.

But data localization laws are not an effective mechanism for protecting citizen information. Data are not kept safer by virtue of being kept in a specific location. The ideal method for keeping data secure is the use of robust security technology, processes and controls, and data protection legislation coupled with effective enforcement. If there are concerns regarding mandatory disclosures required by foreign governments, these are best served through international cooperation versus isolation.

Not only are data localization laws ineffective, they deter essential economic growth and innovation. Many companies will be unable or unwilling to operate in countries with data localization requirements due to the complexity and extremely high associated costs. Most companies — even the very large ones — are simply not able to build and maintain servers in every country they serve.

Although it is too early to evaluate the full ramifications of the new Russian law, there is little doubt that it will impact Russian consumers and the Russian economy. The European Center for International Political Economy has estimated that the law will cost the country around 0.27 percent of its GDP.¹

Data localization requirements cannot be ignored. They compromise access to globalized supply chains and negatively impact investments, exports and economic growth — not just for the country that imposes them, but for the global digital economy as a whole.

¹ The report “Data Localisation in Russia: A Self-imposed Sanction” may be found at <http://ecipe.org/publications/data-localisation-russia-self-imposed-sanction/>.