

High Tech and Vekselburgers

by Irina Aervitz

Dmitry Medvedev Charmed Potential Investors in California, but his Dream of a Russian Silicon Valley is Several Hurdles Away from Realization

Last week's parade of lighthearted episodes surrounding Russian President Dmitry Medvedev's visit to Silicon Valley and Washington DC nearly took on the qualities of entertainment rather than foreign policy. Yet behind all the smiles and burgers, Medvedev had a serious agenda – enlisting American help in his declared goal of turning Russia into an innovation economy. But do the opportunities outweigh the risks?

During a meeting hosted by California's Governor Arnold Schwarzenegger, the former actor joked about his fond memories of filming the cop thriller "Red Heat" in Moscow in 1988. The next scene was at the headquarters of Twitter, where a jeans-clad Medvedev created his first Twitter account (actually he has two: "KremlinRussia" in Russian and "KremlinRussia_E," in English) and produced his first, or as the Twitter blog put it, "inaugural" tweet. Then on to a photo op with Apple CEO Steve Jobs, who gave Medvedev a new iPhone 4 and unwittingly unleashed a facetious polemic in the blogosphere about the practicalities of using this particular phone in Russia, since it functions on the American AT&T service plan and most Russian iPhone owners have to hack their handsets to use local networks.

At a press conference at the White House the next day, U.S. President Barack Obama joked that now that they are both on Twitter, they could finally do away with the infamous "red phones." The two presidents then headed for a burger bar, a meal that Medvedev promptly tweeted about on his new account.

All of this produced warm feelings for the "better half" of the double-headed Russian leadership, an individual who seems to be personally curious about the Silicon Valley's unparalleled innovation know-how. Medvedev also met with the top management of networking equipment giant Cisco Systems and put in a high-profile appearance at Stanford University with former Secretaries of State George Shultz and Condoleezza Rice, as well as a more informal meetings with the representatives of the Russian-language diaspora in the Silicon Valley.

It was not a coincidence that Medvedev flew to California before sharing burgers with Obama in Washington DC. He announced that he came to Silicon Valley to "see with my own eyes the origins of success," and to leverage his visit to obtain cooperative arrangements between the two countries in the high-tech sector. It is, of course, Medvedev's declared ambition

to bring more high-tech innovation to Russia to break the "curse" of abundant natural resources.

Part of that strategy is to create a concentration of research centers, high-tech businesses, education organizations, government programs, and potentially angel investors and venture capitalists in Skolkovo, a town just outside Moscow. The project was nicknamed Russia's Silicon Valley, or as skeptics dubbed it, "VekselBURG", after oligarch Viktor Vekselberg whom Medvedev asked to head the project. The Russian government has so far committed \$500 million in investments toward this project and further promises considerable tax benefits to attract the necessary stakeholders who will make Skolkovo a success.

Medvedev's personal endorsement of Skolkovo is indeed taken seriously in the Silicon Valley. Cisco Systems announced that it would invest \$1 billion over ten years in high-tech innovation in Russia. Marc Musgrove from Cisco said that the investment would be made in five phases and will include a talent development project, which would more than double the number of operational "networking academies" (there are currently 133). Cisco will also establish a physical presence in Skolkovo, and has already signed a memorandum with Vekselberg on setting up the second global headquarters for Cisco Emerging Technologies Group there. And the firm has come up with an innovation prize program with \$175,000 in cash rewards for the best three business plans created by Russian startups, which also presupposes subsequent capital investment by Cisco into those companies.

"We are thrilled that president Medvedev is interested in how the Silicon Valley takes technologies to the markets. Russia has always had extraordinary technologies, and as its population grows to understand free markets we expect an entrepreneurial hotbed to form there," said Timothy Draper, the founder and managing director of Draper Fisher Jurvetson (DFJ), a leading venture capital firm in the Silicon Valley. Asked what Russia has to offer the Silicon Valley, Draper said that Medvedev "offers us further opportunity to expand the 'global Silicon Valley.' China and India have thrived with their efforts to build an entrepreneurial ecosystem. I expect Russia will too. The benefits will result in more trade, more jobs and more wealth for people from both regions." Putting words into actions, DFJ is now working with Russia's VTB bank and the state-owned high-tech firm Rusnano to develop a strategic relationship.

Norm Fogelsong, a general partner at the Institutional Venture Partners (IVP), an investor in Twitter, said that "leading venture capital firms like IVP look forward to working with both Russian entrepreneurs and Russian investors." He added that "Skolkovo is a great dream, one that can be realized."

However, he cautioned, “it will take time. Going back to the days when Frederick Terman was the Dean of Engineering at Stanford University, it has taken more than 70 years to make Silicon Valley what it is today, the world’s leading center of entrepreneurship and technological innovation.”

“In our days any American, European, or Chinese invention becomes widely used in no time and, we believe, the same should happen to Russian innovations. We are delighted to participate in this project. Russia produces some of the world’s best engineers and boasts the intellectual firepower to innovate, so it has every chance and prerequisites for innovative development,” said Alla Zabrovskaya of Google.

There are challenges, however. Most discussed are the deficiencies of the legal system in Russia, paltry protection for intellectual property rights, as well as the government’s monopoly or control over virtually all aspects of business. Skolkovo, despite its noble aspirations, may also fall victim to corruption and shady dealings behind the glossy facade of the large-scale business incubator. Medvedev candidly admitted to these challenges, telling a broad audience at Stanford University that “big money” was not enough to build the dream of Silicon Valley. “That’s why this money should be spent correctly. It should be put in the right hands and there should be correct rules,” he said.

Esther Dyson, a venture capitalist, noted in a recent article in *The Moscow Times* that “with enough political will and oversight, Russia can create the conditions in which a smaller version of Silicon Valley can grow by itself. Think of the project as a garden rather than a construction site.” Her analogy of a garden is brilliantly insightful – after all, the art of gardening involves a combination of disciplined planning to create an almost self-managing ecosystem and the freedom of self-expression that can produce unexpected beauty. This nurturing, rather than commanding, strategy might be the key to creating a high-tech oasis in Russia, and that may be where the government’s role should be focused. But such an approach is uncharacteristic of Russia’s usual “realpolitik” style of government, and as such there is considerable doubt as to whether the model of Silicon Valley can be replicated on the oil-drenched Russian soil.

But Dyson still sees mutual benefits in the innovation partnership. “Medvedev can offer a country with a lot of problems – which represents a great opportunity for the providers of the solutions. In return, U.S. companies can offer some investment, but more importantly they can contribute trained, experienced managers and a culture of transparency. The culture the United States can bring is much more important than its money,” she said.

Alexandra Johnson, the managing director of DFJ-VTB Aurora (one of the results of the changing innovation landscape) and a founder and organizer of the annual Global Technology Symposium in Silicon Valley, was impressed with Medvedev’s warm and confident energy at the meetings she attended. The president, she said, seemed able to inspire many business people, academics, venture capitalists and students to think of

Russia’s future in more optimistic colors. It was obvious, she said, that Medvedev was personally invested in unwrapping the enigma of Silicon Valley with its unique culture and its almost intangible “spirit.” But it would not be easy to capture this spirit with a cluster of physical buildings and a big sign saying “Silicon Valley here” on it, she added.

Vasily Starostenko, the president of the Russian Student Association at Stanford University, proposed to create a partnership between the network of student associations in universities close to the Silicon Valley and their counterparts in Russia, one of them being the Moscow School of Management Skolkovo. The idea of establishing relations between young American and Russian professionals is supported by Alexander Zolotov, an architectural engineer and an active member of Zarya, a network that connects Russian-speaking students and graduates at American universities. It seems that Medvedev’s big vision has inspired a wide range of Silicon Valley players to partake in the grand project of modernizing Russia. Russian students, corporations, venture capitalists, and even California Governor Arnold Schwarzenegger have all offered to help. Schwarzenegger even proposed to create a trade mission of technology experts to Moscow to help with the Skolkovo venture.

The advantages of Skolkovo for the stakeholders are yet obvious. The motives are diverse: some simply share an enthusiasm for a dream; others either want to enter the Russian market or view Russia as part of a global expansion strategy; for others the persuading factor is presidential endorsement. The discreet charm of the president himself, in the full glory of his high-tech savvy persona, is part of the promotional strategy for Skolkovo. Everyone hopes, however, that Russian politics and legal practice will undergo similar modernization in realizing the dream of innovation in Russia.

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