



Russian Technology Industry Overview: Measurement and Testing Equipment Market

Russia is one of the most diverse and rapidly developing telecommunications and consumer electronics markets in the world. The tremendous growth of Russian businesses, high world oil prices, political and economic stability, as well as growing foreign direct investments have all contributed to the growth of Russia's technology industry and the demand for testing and measurement equipment.

According to the World Bank, over the last five years Russia's economy has grown by more than 6% each year and is projected to continue to grow at an average rate of 6% YOY through 2010.¹ Carlos M. Gutierrez, the secretary of the American Chamber of Commerce in Russia recently stated - "With inflation below 10 percent, and an 11 percent increase in real disposable income within the past year, early debt repayments and budget surpluses, Russia's economy is indeed on the rise."² According to Gutierrez, US exports to Russia grew 20 percent to \$4.7 billion last year. This growth is occurring in a wide range of merchandise and service categories and is especially high in consumer electronics.

The development of Russia's technology sector has been increasingly supported by the government. In 2004, a new Ministry for Information Technology and Communications was created to develop central coordination for the industry. Russia's semiconductor industry is also experiencing a long awaited upturn that is being led by ambitious programs undertaken by the Russian government to develop Russia's technology sector. The State's major programs are based on the usage of electronics and require high volume production of semiconductor devices in Russia.³ Along with Russia's plans to restore its Global Navigation System (GLONAS) by 2008 and a capacious market of consumer electronics, the prospects for local semiconductor device manufacturing are on the rise.⁴ According to an article that ran in Business Week in the beginning of last year "rising disposable income and a growing middle class have caused an explosion in all types of consumption."⁵ The article continued to say, "70% of Russians' income is disposable, vs. around 40% for a typical Western consumer," making it a hotbed for consumer electronics.

¹http://www.washingtonpost.com/wp-adv/specialsale/spotlight2006/articles_v6/economy.html
http://english.people.com.cn/200703/03/eng20070303_353916.html

²http://www.commerce.gov/opa/speeches/Secretary_Gutierrez/2007/April/04_Gutierrez_AmCham_Moscow.html April 2007

³http://wps2a.semi.org/wps/portal/_pagr/126/_pa.126/451?&dFormat=application/msword&docName=P038898

⁴http://wps2a.semi.org/wps/portal/_pagr/126/_pa.126/451?&dFormat=application/msword&docName=P038898

⁵Business Week Russia: Shoppers Gone Wild February 20, 2006
http://www.businessweek.com/magazine/content/06_08/b3972071.htm

The development of Russia's technology sector has produced a growing demand for all types of electronics equipment in Russia. It is reported that the Russian electronics production market is demonstrating firm growth rates of 10-15% each year. Vladimir Vasilyev, director general of NXP Semiconductors in Russia, believes that the Russian microelectronics market is now at the level the computer market was some ten years ago. According to him "the market players, global distributors, and producers are certain the market will soon start rapidly growing. There is a demand of the developing Russian industry for these kinds of products."⁶ Vasilyev also mentioned the possibility of growing state orders that will further drive demand for electronics equipment. So far the situation is in favor of European, Asian, and American producers, which account for 90% of all microelectronics production. Market participants believe innovation activity in the area is capacious for investments.⁷ Therefore there are ample opportunities for U.S. technology manufacturing companies to significantly grow their market share in the CIS through organic growth and investments, as well as through acquisitions.

The US Commercial Services estimated the Russian telecommunications market to be at \$28 billion in 2006. The annual growth of the sector continues at 20-25% annually.⁸ Furthermore, the Russian Minister for IT and Communications has proposed that **the country switch from analogue to digital broadcasting by 2015, requiring further investment into test and measurement equipment.** The high growth rate of Russia's telecommunications market has resulted in a high demand for imported, turnkey products and solutions. Russia currently spends more than \$2.5 billion annually on telecommunications equipment alone and imports of foreign-made products account for 60% of the equipment market.⁹

Rapid growth is also being experienced by Russia's developing wireless internet market. A report published by Maravedis (a leading telecom market research group) in 2006 projects high growth in Russia's broadband wireless Internet access services to continue. Wireless internet access services such as WiMAX, which provides high-speed data services over a wireless data infrastructure, are expected to grow significantly. Since 75% of Russian households cannot get basic dial-up Internet access, wireless Internet service providers are expected to tap into this latent demand for broadband Internet connections.¹⁰ In 2006 Internet access and data transmission services reached \$2.1 billion, or 24 percent growth, compared with \$1.7 billion in 2005.¹¹ Additionally, the Russian government just recently (April

⁶<http://eng.cnews.ru/news/top/indexEn.shtml?2007/04/12/245356>

⁷<http://eng.cnews.ru/news/top/indexEn.shtml?2007/04/12/245356>

⁸Report created by the U.S. Commercial service. "Technologies Market in Russia: 3rd Generation Telecom." Prepared by Elizaveta Minyaeva 08/2006

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_7085/\\$file/X_1584463.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_7085/$file/X_1584463.DOC).

⁹<http://www.russoft.org/docs/?doc=1332>

¹⁰Maravedis Telecom Market Research and Analysis May 2006

<http://www.maravedis-bwa.com/PressRelease-Broadband-Wireless-and-WiMAX-in-Russia.html>

¹¹http://wps2a.semi.org/wps/portal/_pagr/126/_pa.126/451?&dFormat=application/msword&docName=P038898

2007) granted licenses to the three major mobile operators in the country to begin providing services on the third-generation (3g) mobile platform.¹² The development and growth of these technologies in the Russian market will continue to drive demand for the various products offered by Western technology equipment manufacturers.

Western technology equipment manufacturers can certainly benefit greatly from this mounting demand by expanding its presence in Russia. ACG can help These companies in establishing a major presence in Russia and significantly grow its revenues in the region. Our firm can become your one-stop full time solutions provider for the CIS. We can set up a professional sales office in Moscow and other major cities, provide assistance with recruiting local bilingual personnel, and become your interim management team in the short-term. We can undertake major marketing and PR campaigns, optimize and increase distribution and sales channels, foster development of strategic alliances, help with major client sales and negotiations, develop culturally sensitive sales strategies, and perform other administrative functions.

The general business outlook for US companies in Russia is very good. According to some recent surveys, 84% of foreign companies active in Russia report being successful in meeting their goals and 95% plan to expand their operations in the country.¹³ Consistent with these figures, Russia's booming economy, and the flourishing technology sector, we believe that U.S. technology players could reap substantial rewards if it chooses to expand its presence in the Russian market.

The ACG strategy is to focus on long-term partnerships with our clients. We would hope to work with your company as you continue to explore the market, and to help you manage over the long-term any relationships that you establish in Russia and Eastern Europe overall.

Best Regards,

Alexander Aginsky
Managing Director

¹²http://www.sptimes.ru/index.php?action_id=2&story_id=21432

¹³http://www.commerce.gov/opa/speeches/Secretary_Gutierrez/2007/April/04_Gutierrez_AmCham_Moscow.html April 2007