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Emerging Global Print Markets: Russia

This month's eReview is based on *Emerging Global Print Markets: A Five-Country Comparative Study* (PICRM-2006-06), by RIT Professors Stan Widrick and Frank Cost. This monograph focuses on the current state and near-term growth trends of the printing industries in five countries with emerging market economies: Brazil, China, India, Mexico and Russia. For the month of January, the printing and publishing industry of Russia will be discussed.

Introduction

Russia does not have a long history of capitalism. Prior to the rise of Vladimir Lenin and communism, Russia was ruled by a monarchy. Lenin and the Communists seized power and formed the USSR in 1917 at the end of World War I. The brutal rule of Stalin (1928-53) strengthened communist ideology and Russian dominance of the Soviet Union at a cost of tens of millions of lives. Economic and social progress were essentially flat from 1930 through 1985. General Secretary Mikhail Gorbachev (1985-91) introduced Glasnost (openness) and Perestroika (restructuring) in an attempt to modernize Communism, but his initiatives inadvertently released forces that splintered the USSR into Russia and 14 other independent republics by the end of 1991.

Russia struggled to establish a modern market economy and achieve sustainable economic growth following the fall of the Communist party. Russia's transition has been incredibly painful as its economic system was based upon the closed imperial system of the USSR. This closed attitude resulted in a resistance to strategies for value-creation and open market competitiveness when interacting with Western trading partners and now-independent neighbors. Between 1991 and 1999, real GDP had contracted an estimated 43%, including a 5% drop in 1998 despite the country's wealth of natural resources (and most notably its oil resources), its relatively well-educated population base, and its diverse - although increasingly outdated - industrial base.

The Russian economy underwent a great deal of stress as it transformed from a centrally planned economy into a free market system. In addition to the drop in real GDP, during the 1990s Russia also realized a 60% depreciation of the ruble, the flight of foreign investment, and the threat of runaway inflation. However, in 1999 several positive changes occurred. Real GDP increased by the highest rate since the fall of the Soviet Union, the ruble stabilized, inflation was moderate, and investment began to pick up once again. The increases in oil prices have also allowed

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Russia to pay down its debt.

While some progress has been made towards economic reform, recent years have seen a recentralization of power under Vladimir Putin, who took power on December 31, 1999, creating a platform for the erosion of embryonic democratic institutions. A determined guerrilla separatist conflict still plagues Russia in Chechnya and threatens to destabilize the North Caucasus region.

Russia is the largest country in the world, and holds diverse and valuable natural resources. These natural resources have provided the fuel that has driven Russia's economy. Resources include major deposits of oil, natural gas, coal, and many strategic minerals, as well as timber.

Economic Overview

Table 1 provides data on the overall economic health of Russia since 2000. While total GDP has more than doubled between 2000 and 2005 from \$259 billion to \$764 billion, the real growth rate has been substantially smaller because of the high rate of inflation. The real growth rate has been between 5 and 7% over the last few years.

The Industrial Production Index has been virtually flat between 2000 and 2004. Despite flat rates, FDI in Russia has increased from \$2.7 billion in 2000 to \$11.7 billion in 2004.

The balance of trade for Russia is favorable, as it has oil and natural gas that can be exported. The balance of trade increased from \$52.0 billion in 2000 to \$74.5 billion in 2004. A substantial proportion of exports are concentrated in petroleum and petroleum products, natural gas, wood and wood products, metals, chemicals, and a wide variety of civilian and military manufactured goods. Many of these exports do not require substantial packaging and printing.

Table 1. Macro-economic overview

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Measure	2000	2001	2002	2003	2004	2005
Total GDP (billions of U.S. dollars)	259.7	306.6	345.5	431.5	588.8	673.6
Real GDP growth	10.0%	5.1%	4.7%	7.3%	7.2%	6.4%
GDP at PPP (billions of international dollars)	1,057.3	1,134.4	1,207.1	1,319.5	1,449.2	1,585.5
Annual rates of inflation (% growth)	20.78%	21.46%	15.79%	13.66%	10.88%	12.8%
PPP (Rb per international dollar)	6.83	7.77	8.82	9.86	11.51	13.52
Manufacturing Production Index (1995 = 100)	108.1	109	105	103.7	107.0	
FDI inflows (billions of U.S. dollars)	2.714	2.748	3.461	7.958	11.672	
Exports (billions of U.S. dollars)	114.4	113.1	121.7	151.7	203.2	
Imports (billions of U.S. dollars)	62.4	74.3	84.4	102.8	129.7	
Annual lending rates	24.43%	17.91%	15.71%	12.98%	11.4%	
Gross domestic savings per capita			772			
Tax rates on individuals (% ranged)		13%	13%	13%	13%	
Exchange rates against U.S. dollar	28.13	29.17	31.35	30.69	28.81	28.28

As of 2005, the average annual income stands at 89,851 Rubles (\$2,702). As can be seen in Table 2, the gross national income per capita (as measured in U.S. dollars at purchasing power parity) has increased from \$1,780 to \$4,460 from 2001 to 2005. Similarly, consumer expenditure has increased from \$139.9 to \$322.9 per capita over the same time period. The average gross annual income has been growing in a pattern somewhat faster than the inflation rate. The inflation rate in the Russian economy

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About the Center

Dedicated to the study of major business environment influences in the printing industry precipitated by new technologies and societal changes, the Printing Industry Center at RIT addresses the concerns of the printing industry through educational outreach and

has generally been higher than the rate faced by the other emerging market countries studied, with inflation as high as 21% in 2001, although this has decreased to 12.8% in 2005.

Income levels in Russia have grown over the last six years, and the percentage of families with incomes above \$10,000 US has reached 10.4% in 2005 compared to only 0.6% in 2000. A look at the percentage of households with an income over \$5000 increased from only 6.5% in 2000 to 44.3% in 2005.

Table 2. Market intensity

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Measure	2001	2002	2003	2004	2005
GNI per capita estimates at PPP (U.S. dollars)	1,780	2,100	2,590	3,410	4,460
Consumer expenditures (billions of U.S. dollars)	139.9	163.9	220.8	270.8	322.9
Private consumption as a percentage of GDP	45.64%	47.45%	51.18%	45.99%	42.29%

Historically, Russia has been resistant to trade with the U.S., and the data used in this study reinforces this relative hesitance to engage in legitimate business transactions for imported goods. As seen in Table 3, there has been a modest increase in the levels of trade with the U.S., although it is still exceptionally low compared to the other countries examined in this study. At the national level, trade increased from \$2.72 to \$3.94 billion between 2001 and 2005. The comparative trade dollar per capita, in terms of imports to the U.S., totaled \$27.81 in 2005.

Table 3. Market receptivity

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Measure	2001	2002	2003	2004	2005
Imports from the U.S. (billions of U.S. dollars)	2.72	2.4	2.45	2.96	3.94
Per capita imports from the U.S. (U.S. dollars)	18.84	16.67	17.16	20.83	27.81
Trade as a percentage of GDP	37%	35%	35%	34%	35%

Commercial Infrastructure

As an indicator of the potential of an economy to support growing business interests in the area, commercial infrastructure details the adoption of communication technologies by the population. Table 4 details the telecommunication infrastructure dynamic of the country over the five-year study period. Like many other countries, Russia's reliance on landline telephony has remained steady between 2001 and 2005, but this technology has not grown nearly as fast as cellular technologies. In 2005, there were 83.62 cellular telephone subscriptions per 100 people in Russia, contrasting sharply to the 5.31 subscription rate from five years earlier. This represents a 1,574% growth rate, far outpacing the average of other countries in this study. While there is a global interest in cellular telephony as a replacement to landline technology, Europe has made the conversion faster than other areas. It is likely that Russia, as a close neighbor, has followed by example. Finally, Russia's television ownership rate is exceptionally high compared to the other countries, although this figure has decreased between 2001 and 2005 from 1,002.5 sets per 1,000 people to 924.8.

Table 4. Commercial infrastructure

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Measure	2001	2002	2003	2004	2005
Telephone mainlines (per 100 habitants)	22.80	24.43	24.96	26.75	27.94
Cellular mobile subscribers (per 100 habitants)	5.31	12.12	24.99	51.23	83.62
Television sets (per 1,000 people)	1,002.5	968.0	950.0	935.1	924.8

Table 5 provides an overview of the penetration of PCs and the Internet in Russia. The use of personal computers has increased from 11.2 million in 2001 to 22.0 million in 2005, which represents an average annual increase in excess of 20%. By 2005, 81.2% of Russian households with a PC were online. The number of Internet users continues to explode, and in 2005 included almost 17.2 million people out of a population of 142 million. The support for Internet use has been less robust, with an increase of PCs per one hundred people from 7.5 to 12.13 between 2001 and 2005. The relatively low number of PCs per 100 people suggests that the Russian population is less market ready for the Internet as a supplemental information, entertainment, and commercial source than the other countries. However, the number of Internet hosts per one million people has more than doubled from 2,427 to 5,937 over the study period.

Table 5. PC penetration and access to the Internet in Russia
[click to view image full size](#)

Measure	2001	2002	2003	2004	2005
Households (millions)	52.3	52.7	52.7	52.9	53.0
Personal computers (PCs) in use (millions)	11.0	13.0	16.0	18.9	22.0
PC households online (% of PC households)	44.0%	56.0%	71.0%	75.6%	81.2%
Internet users (millions)	4.3	6.0	10.0	17.6	17.2
Number of PC's (per 100 habitants)	7.50	8.95	8.99	10.42	12.13
Internet hosts (per million people)	2,427	2,816	4,271	5,037	5,937

The Russian Printing Industry

Russia's graphic arts industry is experiencing significant growth in diverse directions. Despite a significant number of large offset press installations, demand in the sheet-fed market is unmet, particularly in the provinces. Meanwhile, the demand for packaging and labels is rapidly growing. Although demand for flexographic technology dropped between 2000 and 2003, overall market potential for these machines remains stable. Digital printing, which up until a few years ago was still perceived as exotic within the Russian market, is also growing rapidly. Initially, demand for digital was not driven by customers realizing the advantages of the technology, but by printers that had bought equipment as part of a drive to become the leaders in a new field. Such an approach to buying new technology is a characteristic of Russian business, and is not industry-specific. The average age of most modern print houses is five to eight years. These started to appear during the post-Soviet period, and were fitted with the most up-to-date machines to satisfy their market leading ambitions.

According to an ISI Emerging Markets 2005 report, out of 6,500 Russian printing enterprises, 65 are under the jurisdiction of the Ministry of Printing, Television and Mass Media Communications. Around 1,800 are the property of Russian Federation municipal enterprises and government offices. The rest are private legal entities, numbering approximately 4,635.

The oldest Russian state printing enterprises produce 50% of all

Russian printed goods. These enterprises command no more than 18% of the revenue base because they produce commodity deliverables that do not capture a high commercial price. Some of these enterprises produce specialized printed products, such as ZAO's "Pushkin square", while others were established to produce printed materials and packaging for internal purposes. These companies are interested in working with large customers and they maintain high product quality. They can be viewed as direct competitors for global printing companies.

The market for printed products is highly concentrated in the following areas: Moscow, Saint Petersburg, Oblast of Samara, the Republic of Bashkortostan, and the Komi Republic. The concentration of skilled personnel in major cities has created a lack of skilled personnel in many outlying regions. The shortage of qualified personnel is the biggest problem for local printers. Most printing engineers graduated from the Moscow Printing Academy or Omsk Polytechnic Institute long ago. They are heavily influenced by EU printing equipment manufacturers who enjoy strong ties to the Russian printing industry. Most printing engineers and mechanics have a very limited knowledge of new technology and materials. State-owned printing houses are able to send their personnel to Moscow for study, while smaller printers cannot afford to lose their staff even for a short period of time.

It is important to acknowledge that the market for print services is one of the "darkest" and most opaque from perspective of seeking information. Companies do not heavily advertise using either the Internet or print media. To illustrate, out of the 267 companies included into the printing industry portal www.ruprint.ru, only 18 companies provide their web site information. Instead, these companies depend on traditional sales channels, with an emphasis on an existing customer base, advertising through word of mouth, mail distribution, and street advertising.

Industry Trends

Declining Consumption of Newspapers and Magazines

In January 2005, Russia had registered almost 26,000 newspapers, more than 16,500 magazines, and about 3,400 almanacs, newsletters and bulletins. In all, there were 21,300 more than on January 1, 2000. While the number of registered publications in Russia is increasing, the amount of Russians who read daily newspapers is decreasing. This decline is blamed on a poor press-distribution network that denies the public good access to daily publications.

Table 6. Newspaper and magazine consumption in Russia

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Measure	2001	2002	2003	2004	2005
Population (millions)	144.4	144	142.8	142.1	141.7
Adult literacy rate (% of population aged 15+)	99.6%	99.6%	99.6%	99.6%	99.6%
Annual non-daily newspaper circulation (millions)	8.3	8.6	8.7	8.9	9.2
Circulation of periodicals (million copies)	612.1	618.7	624.2	634.3	648.2
Number of magazine titles published (thousands)	3,775	4,034	4,162	4,233	4,372
Consumer expenditure on newspapers, magazines, books and stationary (billions of U.S. dollars)	745.2	780.4	1,10.3	1,336.7	1,582.3

Increasing Paper Production

Another way to gain a perspective on the printing industry is to look at paper production (see Table 7). The annual production of paper and paperboard in 2001 amounted to 5.62 million metric tonnes, and increased to 7.22 million tonnes in 2005. (One metric tonne is equivalent to 1,000 kilograms, which is about 2,200 pounds.) The production of printing and writing paper remained rather stable, with 639,000 tonnes produced in 2001 and 614,000 tonnes produced in 2005. The production of newsprint increased from 1.73 million tonnes in 2001 to 2.06 million tonnes in 2005.

Table 7. Paper production in Russia, in thousands of tonnes
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Measure	2001	2002	2003	2004	2005
Production of newsprint	1,731.8	1,714.0	1,814.0	1,979.0	2,058.8
Production of paper and paperboard	5,624.8	5,978.0	6,377.0	6,789.0	7,219.1
Production of printing and writing paper	639.0	507.0	589.0	601.0	614.0

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