The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Medvedev's Dumb Phone

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December 10, 2013




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Russian Technologies head Sergei Chemezov presented Prime Minister Dmitry Medvedev with what he called "the first Russian smartphone."

To which Medvedev responded, "Apple is worried."

Apparently, Medvedev follows internal developments at Apple personally.

A key characteristic of every so-called "Russian" gadget, designed and developed with

taxpayer money, is that it is always presented first to the country's leaders. We would never hear that Apple had just presented its latest iPhone to U.S. President Barack Obama. Instead, we hear that it presented its phone to the public, that so many units were sold and that Apple shares rose or fell by so much as a result. If Apple offered Obama its first phone off the assembly line, two things would happen: One, Obama would ask if Apple's management was crazy; and two, consumers would feel offended by the gesture.

But I am getting a strong sense of deja vu from this latest smartphone presentation. Three years ago, Vladimir Yevtushenko, chairman of the board of Sistema, presented then-Prime Minister Vladimir Putin with "the first domestically produced smartphone," saying, "It matches the iPhone 4."

But as Eldar Murtazin, an technology analyst with Mobile Research Group, quickly noted, the model in question did not match the iPhone 4. It was produced by ZTE, a Chinese manufacturer of inexpensive phones whose technology lags behind even Huawei. That phone was uncompetitive in both Russia and the world, and anyone who wanted one could buy it directly from China at a fraction of its sale price in Russia.

Sitronics, Yevtushenko's subsidiary company responsible for all such creative electronics projects, held an initial public offering in 2007. At the IPO, its market capitalization amounted to $2.3 billion, with one global despository receipt, or GDR, priced at $12. But that price obviously reflected investors' overly optimistic hopes for the Russian electronics wonders presented to Putin and Medvedev.

But when Sitronics underwent delisting in August 2012, the share value had dropped to 92 cents per GDR. In some countries, any company with close ties to government leaders and that sold shares to investors at one price and then bought back those shares a short time later at a price that was more than 12 times lower might very well prompt a serious investigation by regulatory bodies.

There's more. In August 2011, Anatoly Chubais, head of Rusnano, showed Putin a breakthrough and unique "Russian tablet" designed to replace Russian schoolchildren's many textbooks. But there was a hitch: The tablet, of course, was not made in Russia. It had been developed by Plastic Logic, a British company, and turned out to be too expensive to compete on the Western market.

Rusnano signed a $700 million contract with Plastic Logic to build a production facility in Zelenograd and apparently planned to recoup expenses by pushing the tablet on Russia's 14 million school children. But even Chubais failed. Rusnano acknowledged in August 2013 that it had lost 3 billion rubles ($92 million) and abandoned the project.

Officials use a very simple scheme to obtain government funds for "new Russian gadgets." First, they acquire second-hand technologies from the West at outrageous prices. Second, they present a product mock-up to Putin and Medvedev as "the latest breakthrough." Third, the money spent to acquire the technology stays in the West, and the remaining sum spent on implementing the project is written off the books and pocketed.

Sounds pretty high-tech to me.

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Original url: https://www.themoscowtimes.com/2013/12/10/medvedevs-dumb-phone-a30360