

Contending With Russia's Military Machine

STEPHEN BLANK*

In early 1992 Russia inaugurated an extensive arms sales policy that continued to expand with support from President Yeltsin, Prime Ministers Yegor Gaidar and Viktor Chernomyrdin, the ministries of Foreign Trade (MVT), Defense (MO) and Foreign Affairs (MID), and the military-industrial complex (VPK). This depth of support, as Russia concurrently undergoes major economic reform, displays Russian confidence in its defense industry's quality. Increasingly, high officials view arms sales as the way to overcome the state's failure to fund and develop defense conversion, a failure that has brought the military industry to its knees. Yet, arms sales policy poses strong domestic and foreign policy challenges to Russia's democratization.

Building a democratic Russia and integrating it with the West challenge the post-Cold War order. Russia's political orientation is that order's decisive test. The issue is not whether Russia should sell arms. Limits on Russian sales are unrealistic and infeasible. Rather, public policy-makers must consider the development of democracy, security, and international stability when addressing the arms market in Russia.

The Renewed Military-Industrial Complex

Arms sales reopen the dangers of extensive Russian involvement in foreign conflicts, weapons proliferation, and of the VPK's dominance over domestic policy. Indeed, the critical issue for domestic policy is whether the state or defense industry controls arms sales policy. And the state appears to be losing this crucial battle to demilitarize Russia's economy and impose civilian, democratic, and fiscal control over defense industry.

Arms sales policy measures Russia's willingness to facilitate peaceful conflict resolution and regional stability abroad. It also gauges whether and how Yeltsin and the reform movement can curb the VPK's excessive influence on politics and economics. Extensive state-sponsored arms sales can only revive production facilities, fund and sell a steady stream of competitive weapons and technologies, regenerate military-industrial influence upon policy and key political institutions, and allocate vital resources to the military sector. Indeed, arms sales push defense modernization, despite state claims that receipts would only finance the housing of Russian military personnel. The program aims to revive military industry and its intimate association with the state, albeit under a formally

* Stephen Blank is associate professor of Russian studies at the Strategic Studies Institute, U.S. Army War College, Pennsylvania.

“capitalist” or “market” economy.

Insufficiently controlled arms transfer policies shaped Soviet Russia's greatest international crises: Cuba, China, Egypt, Syria, Iraq, Korea, and Afghanistan. Democratic Russia cannot forget these lessons. As a general rule, the steady provision of arms, spares, and technicians has led suppliers to depend upon recipients to maintain their influence. States receiving foreign arms could start a crisis or war that could involve or affect their suppliers against the latter's better judgment and vital interests.

In addition, new arms sales or dual-use technology transfers could plunge Russia into future crises. Large-scale arms sales cement ties between elites or interest groups in both states. The ensuing potential for political corruption, regional insecurities, and superpower-proxied

“Private control of state assets could lead (and allegedly has led) to unsupervised sales to aggressive states like Iran and China.”

conflicts divert productive socio-economic resources while fueling warfare.

If Russia lost total control over its arms sales, abuses and domestic and foreign crises would still threaten global balances. Private control of state assets could lead (and allegedly has led) to unsupervised sales to aggressive states like Iran and China. Large-scale arms transfers also create domestic lobbies who deflect the state from its real interests. Producers' desires to retain influence abroad, maximize their gains, or amortize expensive armaments is well known.¹ At home, large-scale arms transfers exclusively on behalf of private interests give the VPK a disproportionate power to extract the state's political and economic resources, as happened in 1992.

High volumes of Russian arms sales would likely diminish prospects for domestic democracy and international “good behavior.” Nonetheless, high officials say the arms trade and demand for Russian air, air defense, missile, and infantry weapons in particular is growing. Officials also increasingly defend the policy as being in the national interest.² Accordingly, it is necessary to determine this policy's implications for Russia's domestic stability and reforms.

Arms Sales and Russian Politics

As implied above, the direction and pace of demilitarization and conversion are crucial barometers of the direction and quality of Russian reforms. In addition, whoever controls the sale of arms will have direct control over the funding of the Russian defense industry's conversion and modernization, as well as direct access to foreign currency. For these reasons, the struggle to control arms sales policy and obtain the capital necessary for conversion and modernization is a crucial process affecting both defense policy and overall industrial policy.

Therefore Russia's program of arms sales and technology transfers has also

been an area of intense policy conflict involving the MVT, MID, MO, and VPK, agencies set up under the MVT to sell and advertise arms, and top policy-makers. All these players aim to maximize their control over arms sales and the institutional, political, and economic power to realize their interests. Because bureaucratic and political struggles continue, the ultimate outcome of the struggle between government agencies and industry for control on the one hand, and among rival government agencies on the other, remains moot. But while these conflicts are murky, one can trace their direction and ultimate implications.

Indeed, it is easier to analyze the implications of the struggle between industry and the government or among rival agencies than to chronicle them. Ultimately, two basic options exist for the VPK. First, defense industrialists may gain factual control over sales, selling whatever and to whomever they want, thereby setting back genuine civilian control by established government agencies. Fierce rivalry for markets will then lead to an "accelerated sell-off" of arms to anyone having currency. At the same time, the VPK will organize for and demand state subsidies and protection. Given the uncertain state of Russian politics and the government's need for support where it finds it, the government likely will yield to these pressures and create an overbuilt defense industry with severe and inherent redundancies and inefficiencies. Indeed, there are some signs that this process is already underway.

Deputy Defense Minister Andrei Kokoshin, Foreign Trade Minister Sergei Glazyev, and President Yeltsin's conversion advisor, Mikhail Malei, favor a second alternative: a large-scale, vertically organized military industrial system with state support for relatively few designated high-tech and dual-use technology producers who have shown success in the market. They will be the "locomotive" of Russia's overall industrial recovery, especially in electronics, communications technology, and cutting-edge systems. Naturally, the state will protect and subsidize these cartels. That system, too, will recreate a somewhat different version of the protected relationship between the VPK and the government that formerly existed since cartels require these subsidies and protection. Alternatively, should the MO, and not the MVT, gain control of this program's regulatory machinery, that outcome will certainly preclude civilian control of the VPK and lead to a similar structure under MO control.

The MO has set up an agency to monitor defense exports, gain funds, and rival the MVT and the semi-public sales organizations. It is switching to a contract relationship with suppliers where it will be the sole client, and it hopes for more direct control over the pace, direction, quantity, and quality of production. On the other hand, to the degree that other rival ministries like the MVT win out, they will have a privileged position and will exercise more influence over domestic and defense policies. Thus the structural linkages among defense industry, its captains, the government, and the economy are the crucial issues at hand.

In a detailed analysis of the bureaucratic maneuvering around arms sales, Charles Petersen concluded that by mid-1993 the MID had abandoned its effort to frustrate arms sales, a position to which it had adhered out of principle early in 1992. Instead, it now campaigns publicly for Russia's arms producers. Many of Kozyrev's foreign trips, like those to the Gulf in 1992-93, are openly intended to solicit purchases.³

The VPK lobby also appears to be winning over the MVT. The VPK (and the MO) deeply resents the MVT effort to regulate arms sales policy by restricting sales and charging higher prices, as well as its cumbersome and formalistic bureaucratic regulations. Therefore it constantly challenges the

“... by mid-1993 the [Foreign Ministry] had abandoned its effort to frustrate arms sales, a position to which it had adhered out of principle early in 1992.”

MVT's statutory right to control prices and sales, and seeks direct access to buyers and freedom from restrictions. More importantly, it wants to control the entire process of sales and derides the ministry's “torpor.”⁴ Meanwhile, the MO, too, seeks free access to world markets to dump surplus weapons without competition. This ambition puts it at odds with the MVT. The MO equally resents the MVT's control over the process which it blames for loss of sales. The MVT fears losing control over arms sales and the VPK fears competition from producers who can undersell it further. For example, in Russia's initial approach to sell arms to Malaysia, eighteen different competitors turned up in Kuala Lumpur, an undisciplined competition that almost lost Russia the deal.⁵

Already in March 1992, Yeltsin granted defense enterprises in the heavily militarized Tula region free access to foreign markets. This practice has steadily grown since then to encompass other firms and regions.⁶ The only limit would be the government's list of what may be exported. Yet, it now appears the government cannot fully control the flow of arms abroad. The complex arms sales bureaucracy also could permit these semi-public corporations to form intimate “revolving doors” or “family circles” (mutual protection networks) with defense industrialists in a mutual search for profit, and become lobbyists even though they are semi-public organizations.⁷ In practice, therefore, the state's gradual acceptance of the need to protect the VPK's capability through arms sales falls somewhere between the two conceptual alternatives presented above.

Contrary to the \$10 billion Russia hoped to earn annually from arms sales, the government revealed earlier this year that it only earned just under \$2 billion in 1992. Accordingly, Foreign Economic Relations Minister Sergei Glazyev, an advocate of arms sales, proposed that states with a debt-servicing capability which place large orders should be granted credit. He advocated that the government should subsidize the defense industrialists who produce the systems these states want, expand multi-national research and development, and sell

production licenses to third parties.⁸ To the degree these proposals are accepted, they will result in a Russia suffering from insufficient foreign capital and investment, *subsidizing* both its industrialists and states that can pay for the arms! It also will involve Russia in what amounts to giveaways of technological processes in return for arms sales.

Yet pressure continues for more de-regulation. In April 1993, the Russian Defense Industry Commission, the VPK's lobby, proposed a system of exports where:

manufacturers will independently set prices, keep hard-currency earnings, choose between middlemen, and pay their commission fees. The Russian Defense Industry Commission is itself volunteering to handle the selection and licensing of firms to replace the Foreign Economic Relations Ministry.⁹

At the same time, Russia's Ministry of Industry proposed conversion loans and subsidies to defense industries of 450 billion rubles to save them from cutting wages to the minimum, resulting in labor flight and total collapse.¹⁰

More was to come. New guidelines for reforming the system were approved on 23 April 1993. They resulted from a struggle between the Inter-departmental Commission on Military Technical Cooperation (ICMTC), the Russian State Defense Industrial Committee that represented the manufacturers (Roskomoboronprom), the MO, and the MVT. As part of this process the MVT agreed to cede the Main Directorate for Collaboration and Cooperation (GUSK) to the League of Defense Enterprises, and set up joint-stock companies with them and MVT to assuage their dissatisfaction. This met the League's demand for the right to export independently and was a substantial concession to them.¹¹ The net result was to de-monopolize arms sales.

Undoubtedly, one powerful argument for these concessions was that arms exports in 1992 accounted for over half of Russian exports to developing countries, and that overall military-technical exports made up one-third of total exports over the last few years. But apart from the desire for cash, the VPK's desire to sustain its power base is a key motive. As Sergei Karaoglanov, chairman of Oboroneksport, said on 4 March 1993: "Commercial profit is not our sole aim. For us the priority in this endeavor is to retain the status of the Russian military industry. That is why we invest the major portion of profits in the military industrial sector."¹²

The effects of these bureaucratic and political maneuvers can be seen in other industrial sectors and in important foreign policy initiatives. At home the trend seems to point to the development of an intimate revolving door between the VPK and the government wherein the former has successfully lobbied for more control over its exports and government subsidies to cover the costs of conversion. Here we see a new overt form of interest group lobbying and politics

and the possibility for the VPK's direct access to key domestic and foreign interest groups. And those ties offer growing possibilities for either corruption or mutual linkages.

The Nature of the Domestic Program

Russia explains or justifies its arms sales policy openly. Its reasons are: 1) need for cash, 2) need to keep production facilities, technicians, and scientists employed lest massive unemployment and falling investment ruin that sector and undermine readiness and technological competitiveness,¹³ 3) leverage or influence over other states' politics,¹⁴ 4) resentment over the loss of markets, in particular to the United States, and 5) desire to reassert Russia's standing as a great power.

But the hidden agenda is to control defense industrial policy. If arms sales are a prominent indicator of the struggle between the government and the VPK over the course of reform, the reform of the old military industry is failing.¹⁵ Though some analysts maintain that formal state control, embodied in authority over licenses, gives the state control over enterprises and the VPK, the balance of opinion,

“Though the relationship of industry to the [Ministry of Defense] has greatly changed since the Soviet epoch, the primacy of defense industry's access to material benefits has apparently been restructured, not transformed or destroyed.”

already in 1992, contended that the VPK was winning the battle to emancipate itself from reforms and from control by Yeltsin and then Prime Minister Gaidar's government.¹⁶

Indeed, it is clear that arms sales proceeds will go to modernize plants and reflect VPK priorities. Nor will the VPK scrutinize their customers too closely. The struggle to revolutionize or democratize military policy is not over. Two basic errors in the democratization of military policy occurred during the dismantling of the USSR in December 1991: the failure to place civilian leadership over the Ministry of Defense and the failure to an agreed defense policy among the republics prior to the hasty formation of the Commonwealth of Independent States. Failure to civilianize the MO left the military with authority and control over military industry, and with links to industrial lobbies and ex-officers who now “head” private concerns to the VPK. The VPK and/or MO use those connections to block military and economic reform.¹⁷ Nor is it coincidental that the hue and cry demanding renewed arms exports arose contemporaneously with U.N. embargoes on Iraq and Libya, favorite customers of the VPK. The second failure, the lack of common defense policy in the CIS, has led to acrimonious rows over who controls what forces, assets, and plants, and impedes meaningful military reform.

By all accounts military industry faces imminent catastrophe due to conversion to a market economy. In 1992 alone procurement was cut by two-thirds. Mass unemployment, bankruptcies, shutdowns, and falling investment are widespread. The resources available to the government to counter this trend, despite subsidies and increased procurement in 1993, are nowhere near sufficient.¹⁸ The VPK has effectively haunted the government with the threat of collapse in order to win the right to export arms and to get subsidies. But the reforms must break the old VPK to succeed and normalize Russian state life. A *sine qua non* of successful reform is economic demobilization. Professor Alexei Yablokov, an advisor to President Yeltsin, observed that 75 percent of all firms in St. Petersburg and 50 percent in Moscow, as of 1 January 1992, worked for the military—this after years of supposed conversion.¹⁹

Defense industrialists and their uniformed allies organized in 1992 to slow down, alter, or stop reforms and gain continued state support.²⁰ In alliance with labor unions, they have not hesitated to threaten the government with strikes. They continually maintain that not only do they face disaster, but they represent Russian industry's best and brightest, embodied in First Deputy Defense Minister Kokoshin's statement that:

Our defense industry, when properly focused, is perhaps the main national resource of competitiveness in the area of industrial products (particularly scientific-intensive products) and services.²¹

VPK leaders also assert that arms sales will finance conversion, whose necessity they now claim to recognize.

However there is good reason to suspect the VPK's "conversion" and its arguments. Nobody denies that past conversion policy failed.²² But while Western analysts, civilian and uniformed military reformers in Russia, and Yeltsin view past policy as an attempt at a "non-conversion" that left the military economy largely intact, VPK members and officers charge the state with failure to devise and fund a coherent policy.²³ One reason to suspect them is that many enterprises and managers still cannot function in a market environment.²⁴ Hence, they press for arms exports to obtain capital and salvage as much as possible of the old military economy. Many military industrialists still believe that conversion must be a planned, state-directed and supported action or policy.²⁵ Though one can sympathize with their travails, such views betray a fundamental incomprehension of market economics.

In setting up a state program, Yeltsin acceded to VPK pressure even as he tried to turn the proceeds to conversion, de-militarization, and social amenities, and to assume gradual control over arms sales. He and his colleagues understand the risk they are taking in enhancing the VPK's resources and power and in postponing the demilitarization of the economy which is essential to the success

of reforms. In this concept of conversion, industry has four years to convert while it tries to capture old and new markets and comply with international law in producing defensive weapons.²⁶

Yeltsin and his colleagues also have more urgent reasons to control Russian arms exports. Despite many decrees, officers and industrialists continue privately to sell military assets and weapons systems indiscriminately, even to combat zones like Nagorno-Karabakh, Abkhazia,

“Yeltsin and top military leaders admit their failure to banish corruption which has become pervasive throughout the armed forces.”

etc.²⁷ Such “privatization” could lead Russia into conflicts with other CIS members or further abroad, corrupt the defense establishment, and limit state control over military policy. But Yeltsin and top military leaders admit their failure to banish corruption which has become pervasive throughout the armed forces.²⁸

Yeltsin also has to control arms sales because of “privatization's” economic implications. Throughout the world too many arms producers and sellers are chasing too few buyers. World markets cannot sustain the level of purchases that Russian officials cited, \$15 to \$30 billion a year for five years to pay for conversion, a figure whose extravagance is only equalled by its unrealism. Mikhail Bazhanov, chairman of Russia's State Committee for Conversion, supports state sales precisely to prevent “commercial travelers” from triggering “frantic dumping” that would cause stiff resistance from “the international arms market mafia.” Russia could neither compete nor benefit in such a market of falling prices.

Yeltsin must also regulate arms sales to overcome the opposition to state regulation. In addition to the extravagant figure of \$30 billion a year for five years to finance conversion, other proponents fancifully claim that 40 percent of current defense production or systems on the shelf are globally competitive and “could feed and water” Russia, or at least the defense industry's dependents. Or else they maintain that if arms exports were removed from purely “departmental” control (i.e. MVT) and turned over to government as an issue of “state importance” (i.e. MO or VPK control), Russia could sell \$30-32 million of arms annually.²⁹

Because none of these figures is remotely realistic, all these statements suggest the hidden agendas of rival interests competing to control arms exports. For example, Air Force Commander-in-Chief General Pyotr Deinekin won the right for the Air Force to sell directly to customers, bypassing the export agencies under the MVT. He stated that the Air Force had full authority to realize its opportunities. Those structures that “interfered” (his word) with the Air Force received “some kind of unofficial earnings” from arms sales. Needless to say, the

MVT opposes the Air Force's competition.³⁰

The 1992 victories of the right wing on security policy, and the appointment of key members of industry boss Arkady Volsky's faction, Civic Union, who openly claim to represent the VPK, to key government positions on the Security Council, lends credence to the view that the MVT faces tremendous pressure from a veritable orgy of arms exporters; these include the MO and private merchants, who seek to gain control of the process even if it is formally under MVT regulation.³¹ If the VPK controls defense personnel policy through the Security Council, it does not matter whether or not the state exercises formal control over arms sales.³²

The influence of the VPK lobby can also be found in the MVT since Glazyev assumed leadership at the end of 1992. In early 1993, Glazyev recommended that Russia subsidize arms exports to those states that can service their debts, although Russia itself cannot obtain hard currency and pay *its* debts.³³ This would be a major step down the old Soviet road of arms exports to states who could not or would not pay for them. Glazyev and the MVT also recommended relying principally on Third World trade and moving away from trade with the West, even though the latter has steadily grown over the last few years. Instead, Russia should reorient its economy toward multilateral offsets of mutual requests, barter, and even a new unit of payment that would counter Western currencies' pressure on the ruble.³⁴ Thus, the MVT supports diverting the Russian economy away from the industrial "North" to states like China, Vietnam, and the "South."³⁵

At home Glazyev and the MVT advocate creating large financial-industrial groups of joint-stock companies that can export competitive products abroad, including arms. These firms will be technologically related, vertical collaborations of enterprises, research organizations, trade firms, banks, and investment firms—a kind of monster conglomerate that would supposedly concentrate resources in the most efficient way to produce competitive goods, including weapons systems, for the world market. He criticizes the current privatization policy because it will break down these structures rather than promote this form of industrial concentration.³⁶ The cartellization policies he seems to be calling for appear contrary to current economic wisdom that small entrepreneurial firms fuel true progress. But more than that, such giant oligopolies would reintroduce trends toward "administered prices" and state intimacy with the VPK. MVT officials admit openly that this smacks of protectionism and paternalism, and entails a revision of privatization and the anti-monopoly policy that would break up the old VPK. Heir to Soviet and tsarist gigantism, this approach betrays an adherence to traditional models of industrial organization and relationship with the state as well as a common perception of interest.

The cartellization and vertical integration of the arms sales industry, coupled with state support and regulation, would likely foster a lasting and intimate

relationship between state officials and entrepreneurs. It would resemble other military industrial relationships of subsidies, protection from competition and the rigors of the civilian market, and the revolving door of officials and industrial managers. By all accounts, this system has vastly increased procurement costs and remains a constant cause of concern that the organizations linked thereby could usurp democratic procedures. In Russia, where democracy is much more fragile and industrial gigantism and state domination are deeply rooted traditions, such a relationship is reason for more than a little concern.

Essentially two models are being proposed as defense industry tries to emerge from Russia's economic crisis. On the one hand we have the cartellization, vertical integration, and state regulation approach, and on the other hand, producers clamoring for a free hand to export at whatever prices they can in order to win market share and hard currency. Those two alternatives are, of course, abstract constructions of policy models. In reality, it appears that government restrictions and regulations are being substantially eased, though not abolished. And key policy-makers are advocating protection, cartellization, and vertical integration of giant firms that can compete in a market economy. Regardless of the economic benefits of either one of the two models, politically the combination of gigantism and oligopolistic organization of the arms industry, under conditions of minimum government regulation and a high degree of government protection, offers Russian democracy and its imperative of a de-militarized polity the worst of possible worlds.

Russian Policies Relating to Arms Exports

A final and pervasive justification for arms sales abroad is the great disillusionment with and resistance to Western (mainly U.S.) efforts to restrict the export of know-how and technology, in uranium, space stations, actual weapons, and other fields. Russia regards this as a U.S. effort to stifle competition and cripple Russian economic power.³⁷

Today it is by no means clear what the state will sell to whom and how. Indeed, recent reports strongly suggest that Russia will literally sell to anyone, including the United States and NATO, although there have been conflicting statements concerning those questions.³⁸ Tracing the destination of actual or proposed arms exports is also very difficult. Hardly a day passes without a report, confirmed or not, that arms are being sold to one state or another, or are being funnelled to belligerents in various wars. Certainly corruption is rampant and unchecked throughout the government, as is universally admitted. This factor makes tracing arms and technology transfers even harder. Russia is aggressively selling weapons systems, particularly, but not exclusively, high-performance aircraft, the MiG-31, MiG-29, and Su-27 fighter at arms shows in Paris, Dubai, and Singapore. Russia is also exhibiting, for the first time, submarines and combat ships.³⁹

Despite statements by Yeltsin, former Vice President Alexander Rutskoi, and Kozyrev to the contrary, Russia already is arming potential regional rivals in the Middle East as well as Asia. Naturally the currency requirement has depressed sales, but they do continue.⁴⁰ In fact, the program of arms sales to South Korea suggests that weapons will be transferred abroad to pay off Russia's staggering foreign debts, a very disquieting possibility in view of the amount of debt involved and the easy temptation to reduce it through weapons sales.

Whether these reports indicate official policy, private or semi-private initiatives, trial balloons, or the diverse forces that are pushing military sales, is not always clear. Nor can one easily isolate who among these groups figures in those reports. The many players dealing in the arms sales game and the diverse pressures imposed on the Russian government make controlling military assets difficult. On 16 March 1992, the Far Eastern Military District received notice of the decree banning sales of the former Soviet MO's property. But, strapped for rubles, it nonetheless sold a former top secret facility on its territory to local or

“... a corporate unit of the Russian armed forces, acting on its own, sold a high-level strategic and intelligence asset for almost nothing.”

foreign entrepreneurs to cover construction costs for 1985-90. This facility, 78 kilometers from China, was built to station SS-20 missiles and nuclear arms for possible use against China, though it was situated in a formally nuclear-free zone.⁴¹ In effect a corporate unit of the Russian armed

forces, acting on its own, sold a high-level strategic and intelligence asset for almost nothing.

The organization and ultimate directions of arms transfer policy become crucial questions in light of such incidents. Russian commentators know that if Russian arms end up in dangerous states or in terrorists' hands there will be negative consequences. Nonetheless, there are many VPK complaints about losing market share among those buyers. Russia knows that technology and production capabilities available to many states have weakened the checks that superpower competition imposed on regional actors and would be “Bismarcks.”⁴² Hence, officials fear that their own advanced conventional and/or mass destruction weapons may be used against the CIS.⁴³

Yet, the trends of arms sales policy rarely reflect these fears and challenges. In the first stage of arms sales policy in Russia and the USSR, 1989-91, a dramatic decline in military production took place amid spiraling inflation. This was the result of both domestic and foreign pressures unleashed by Gorbachev's perestroika and glasnost. In the second stage, the government tried to respond or adapt to the onset of global integration and decreased demand for weapons abroad by instituting reforms. Not only did defense production fall, state orders were cut by 67 percent in 1992 and foreign markets were subjected to great

foreign pressure and competition. In the third and final stage, which started soon after reforms began to affect industry and the pressure of sale closures began to be felt, the defense industry organized itself and placed sufficient pressure on the government so that it began to assist struggling defense industries with subsidies and sales promotions. Nonetheless, the global trends toward increased worldwide production, decreasing demand at home and abroad, intense foreign competition, and so on, could not be avoided.⁴⁴ Russia's size and unsettled internal and neighboring ethnopolitical conflicts gave the VPK a strong argument for continued high production and exports despite the global trends.

As of the fall of 1993 these trends continue in full force. On the one hand Russian officials insist that the arms sales program is not the purview of the MO and is carried out under strict conditions under the jurisdiction of regular state organs.⁴⁵ Thus the head of Oboroneksport, General S.A. Karaoglanov, said in 1992 that the arms trade should be centralized and that his organization was unsurpassed in Russia as an honest, uncorrupted, and effective arms trader on behalf of the state and its interests.⁴⁶ Unfortunately he was recently fired for corruption, indicating just how pervasive corruption is throughout the government.⁴⁷ Similarly the political struggle to accelerate arms sales and to control them continues. The former

“... unless a systematic reform, i.e. conversion of defense industry, takes place in an atmosphere of a stable reform process, both the general economy and defense industry will remain in crisis, as will the political situation.”

Supreme Soviet had also blamed Karaoglanov for not conducting more vigorous sales campaigns, demanding more aggressive exporting abroad.⁴⁸ At the same time defense industrialists, as in Tula, still demand more credits, concessions, audit over commercial banks, and price controls over energy and fuel, precisely what Russia must not do to reform. Otherwise, they maintain, the defense industry will collapse and mass unemployment will ensue. More to the point, as the reporters of this latest demand indicate, these firms still cannot produce competitive consumer goods at a time when demand for their military products has fallen, but those products remain the only source of foreign currency.⁴⁹

Thus while the political struggle over arms sales and overall defense policy continues, it is still the case that nobody knows just how much is being sold per unit or in toto. Second, the inability of contending groups to agree on a defense concept has also contributed to gridlock in this policy since, to sell arms, one must obtain nine departmental authorizations.⁵⁰ This cumbersome and stifling bureaucratic regimen and the inability to police corruption or rebut the defense industry's demands for credits and concessions all reflect the failure to consummate full economic reform, and to link macroeconomic reform with

systematic reform of defense industry and the microeconomic sector.⁵¹ Or, in other words, unless a systematic reform, i.e. conversion of defense industry, takes place in an atmosphere of a stable reform process, both the general economy and defense industry will remain in crisis, as will the political situation.

Conclusions and Public Policy Recommendations

It is a difficult task for the U.S. government to influence, if not restrict and eventually curtail, Russia's arms sales to dangerous states or in unstable regions. Moreover, America's hands are hardly clean. Vigorous competition to sell planes in Malaysia undermined the earlier efforts to arrive at some sort of bilateral agreement concerning the provision of arms and technologies to third parties. And that competition also demonstrated the vigor with which the U.S. government will defend or intercede on behalf of its defense industry. Russians frequently cite U.S. efforts to oust Russia from the world market to justify an equally vigorous Russian arms sales offensive. Factual corroboration of arms producers' claims does not facilitate a reduction in their activity.

While it is probably beyond U.S. capability to shape the relationships that will eventually mature between Russia's government and its defense industrialists, we can support reform policies that help to demilitarize Russian politics and economics and encourage civilian control over the VPK. To this end, we should encourage the formation of joint ventures between U.S. and Russian defense industrialists to prevent them from falling under the influence of hostile foreign parties or losing trained personnel to states like Iran or China. Those joint ventures would also then be subject, to some degree, to U.S. legislation and safeguards against certain kinds of weapons transfers.

“... we should encourage the formation of joint ventures between U.S. and Russian defense industrialists to prevent them from falling under the influence of hostile foreign parties...”

We need to reinvigorate talks on joint or mutual self-regulation of arms sales both with Russia and with other providers. Since we cannot, unilaterally or by multilateral efforts, stop the flow of arms or of science and technology, a regime of providers, like the MTCR, can regulate the arms trade and serve as a

functional confidence-building mechanism in the market. Integration into such a regime will give Russia a better idea of the limits of the market place and dampen extravagant claims about potential gains from arms sales.

Such an outcome would not only enhance the perception of the visible benefits of partnership with the West, but would also demonstrate the very limited gains and numerous risks involved in defying those regimes that control proliferation. Moreover, participation in such regimes will make it harder for buyers to extort concessionary terms from sellers, as is now the case, and to

demand offsets that only further diffuse dangerous weapons platforms and technologies. That would also create obstacles for outlaw states like Iraq against securing high-tech weapons and weapons of mass destruction.

Current U.S. policy is coming to recognize the long-term necessity of regulating arms sales. It has imposed sanctions on Russia and India, as well as China and Pakistan, even though the latter sanctions directly hurt American exporters and producers. In Russia's case, the sanctions led to the withdrawal of objectionable sales to India and to a pledge from Russia to adhere to the MTCR. Pressure on Chinese shipments to Iran forced China to accede to a third-party search of a freighter in 1993. The use of U.S. law to impose sanctions on violators of the MTCR (or the threat to do so) positively affects arms sales policies. For these sanctions to be most effective, however, the United States must draw down on its own sales abroad and use persistent diplomacy with other states. While the United States cannot stop the market in science and technology, we can, through political, economic, and diplomatic means, channel the market.

Such an effort also imposes the requirement to work with consumers and producers to reduce the regional insecurities that drive their arms programs. Ultimately, the United States must willingly entertain, much more seriously than before, novel forms of security relationships in the Middle East/Persian Gulf, South and East Asia, and central and east-central Europe. The need to do so is growing, perhaps faster than the United States can respond, and certainly faster than we have responded to it previously.

Russia's arms sales program presents a number of threats to Russia itself, U.S. interests, and allies. The loose policies of Russian arms and technology exports threaten U.S. interests in regional nonproliferation. Not only are high grade weapons being exported, often at fire sale prices, but the means to produce those weapons are going abroad with them as well. Therefore, the Clinton administration equates these sales to threats on vital U.S. interests in Asia and the Near East, namely, nonproliferation and the creation of a durable security system.

As far as Russia itself is concerned, U.S. policy-makers must remember that the democratization of Russia and its integration into the Western political order is another, perhaps even more essential, U.S. interest. The arms sales program threatens that interest. Inasmuch as everyone acknowledges that conversion is fundamental to Russia's progress, the specious arguments that billions are to be made or that Russia is recovering its diplomatic position in Asia are belied by the actual sales receipts and Russian relations with North and South Korea, Iran, and China. Similarly, the U.S. Defense Intelligence Agency, other competent Western analysts, and Russian observers concur that in no way can arms sales fund the revival of the defense industry. As Geoffrey Jukes writes:

The experience of military sales has overall been discouraging; it provides no

basis to support a military-industrial complex on anything like the past choices open to most of it. No third option of successful cooperation with the military to influence policy-makers into major changes exists in present or currently foreseeable circumstances.⁵²

Abroad, these sales also threaten Russia and its clients or friends, and major international interlocutors with real risks from North Korea, China, and Iran. Should Iran support the rebels in Tajikistan, for example, they could be buying Russian weapons to use against Russian troops there. Russian arms advertised for sale abroad could easily become the weapon of choice for substantial redistribution of naval power to the detriment of both the United States and Russia.

But it is important to note that to criticize the foreign ramifications of Russian arms sales is not to denounce all sales or the conversion process. As Richard Cupitt noted about Poland and Czechoslovakia, the revolutions of 1989 have forced these governments to eschew compelled conversion and to pursue it through an open policy process of bargaining, persuasion, and adaptation that includes arms sales.⁵³ This is happening in Russia but with much less openness and acceptance of the realities of the world arms market that work against big

Russian and foreign analysts alike "concur that in no way can arms sales fund the revival of the defense industry" of Russia.

returns for Russia. Thus the failure to democratize fully and implement market-based economic policies, in defense or in general, is reflected in a policy process that gives prominence to some of the most negative special interests of the old regime and to a form of industrial organization that

the government admits resembles those of Franco's Spain or the generals' South Korea. As a result, the VPK's position is liable to become stronger, not weaker, over time with dangerous potential consequences for Russia and the world. As Alexander Kononov warns:

Let us not forget that among the leaders of the August 1991 coup there were two representatives of the defence industry, Oleg Baklanov and Tizjakov. It looks as though at least part of the defence industry leadership has tried to replace on the Soviet political scene the almost-dead Communist Party. It may be the first precedent in Soviet history when the industrial leg of the military-industrial complex has tried to get the political power which would correspond with its economic weight. That is why the successful conversion of the Soviet defence industry should be put among the other key aspects of European security.⁵⁴

Arms sales policy, like every other national security issue in Russia, is intimately tied to the course of domestic policy and in turn influences it. Arms sales limit democratization, reform, and civilian control. But abroad they portend dangerous prospects for Russia and erode confidence in its willingness to participate in a New World Order. The breadth of arms sales and the consolidation of power in the hands of its most fervent supporters suggest strongly that the challenge of democratizing and demilitarizing Russian politics and economics is not being met.

Notes

¹ Andy Pasztor, "White House Girds to Promote Huge Arms Sales to Many Nations," *Wall Street Journal*, 24 July 1992, p. A7.

² "Deputy Minister Interviewed on Arms Trade," *Foreign Broadcast Information Service-Central Eurasia* (Henceforth *FBIS-SOV*), 16 June 1992, p. 21.

³ "Motion Rejected," *FBIS-SOV*, 16 February 1993, p. 37; Charles C. Petersen, "The Russian Arms Bazaar: The Bureaucratic Players," Unpublished Paper, 9 April 1993, p. 19. The author wishes to acknowledge Mr. Petersen's gracious permission to cite from his excellent manuscript, Commander J.P. Wilkins, USN, "Conventional Arms Export Policy of the Russian Federation," USAWC Military Studies Program Paper, U.S. Army War College, Carlisle Barracks, PA, 1993, pp. 1-10.

⁴ "Bureaucracy, Hampering Arms Market Sales," *Joint Publications Research Service, Military Affairs* (Henceforth *JPRS UMA*), 93-023, 7 July 1993, pp. 42-44; Petersen, p. 19.

⁵ *Ibid.*, pp. 11-21; Wilkins, pp. 1, 10; "Evolution of Foreign Economic Relations Minister Glazyev," *Foreign Broadcast Information Service Central Eurasia* (Henceforth *FBIS USR*), 1 June 1993, p. 98; "Defense Minister Grachev Interviewed," *FBIS-SOV*, 9 June 1993, p. 47; Pyotr Vasiliev, "For Sale: An Aircraft Carrier," *New Times*, No. 18, 1993, pp. 14-16.

⁶ "History Specifications, Selling Points of MiG-29," *JPRS UMA*, 93-025, 21 July 1993, p. 37; *Radio Free Europe/Radio Liberty News Briefs*, Vol. 2, No. 24 (1993), 1-4 June 1993, p. 2; Sergei Koulik, et al., "Political Aspects of Arms Trade: A Russian View," Institute of the USA and Canada, Academy of Sciences of the Russian Federation, *Russian Arms Exports: Issues of Policy and the Linkage to Conversion of Military Industries*, Henry Gaffney, Introduction, (Alexandria, VA: Center for Naval Analysis, February 1993), p. 33.

⁷ *Ibid.*, p. 35.

⁸ *Asahi Shimbun Morning Edition*, 5 February 1993, p. 7.

⁹ "Defense Enterprise Promotion League Holds Conference," *FBIS-SOV*, 28 April 1993, p. 40.

¹⁰ "Lack of Orders Depresses Defense Sector Wages," *FBIS-SOV*, 21 April 1993, p. 36.

¹¹ "Defense Enterprise Promotion League," p. 40.

¹² Moscow Interfax, 4 March 1993.

¹³ Many sources attest to the threat to the military industry. One example that is particularly relevant because it is given by Deputy Minister of Foreign Trade Shibayev is, "Shulunov, Shibayev: Arms Trade as Salvation of Defense Industry," *JPRS UMA*, 92-017, 13 May 1992, pp. 35-36. Marshal Shaposhnikov's view is in "Shaposhnikov Views Future Role of Armed Forces," *FBIS-SOV*, 26 February 1992, p. 16. Fred Hiatt, "Russia Boosts Weapons Sales to Aid Economy," *Washington Post*, 23 February 1992, p. A1; "Benefits Seen in Arms Trade With Ex-USSR," *FBIS-SOV*, 22 June 1993, p. 26.

¹⁴ *Ibid*; "Russia Seen Failing to Exploit Singapore Airshow," *FBIS-SOV*, 20 March 1992, p. 69; "Arms Sales, Relations With Iran Viewed," *FBIS-SOV*, 7 February 1992, pp. 33-35.

¹⁵ Georgy Arbatov, Mikhail Gerasev, Gennady Kochetkov, Sergei Koulik, Anton Surikov, *Russian Arms Exports: Issues of Policy and the Linkage to Conversion of Military Industries*, Papers Presented to a Conference on Russian-American Security Issues, Center for Naval Analysis, Alexandria, Va., 24 September 1992.

¹⁶ *Ibid*. This was also the consensus of U.S. analysts present there. See also the essays in Michael P. Claudon and Kathryn Wittneben, *After the Cold War: Russian-American Defense Conversion for Economic Renewal* (New York: New York University Press, 1993), pp. 32-79.

¹⁷ Stephen Blank, "New Strategists Who Demand the Old Economy," *Orbis*, Vol. 36, No. 3 (Summer 1992), p. 376.

¹⁸ "Defense Sector Seeks Help to Avert Decline," *FBIS-SOV*, 31 March 1992, pp. 22-23; "Many Defense Enterprises Barely Viable," *FBIS-SOV*, 27 March 1992, pp. 34-35; "Drawbacks of Wholesale Defense Shifts Eyed," *FBIS-SOV*, 24 March 1992, pp. 47-49; Claudon and Wittneben, pp. 33-35.

¹⁹ "Nuclear Experts Leave for Libya, Iran," *FBIS-SOV*, 25 February 1992, p. 4.

²⁰ Philip Hanson and Elizabeth Teague, "The Industrialists and Russian Economic Reform," *Radio Free Europe/Radio Liberty, RFE/RL Research Report*, 8 May 1992, pp. 1-7.

²¹ "Kokoshin on Need for National Industrial Policy," *JPRS UMA*, 92-040, 11 November 1992, p. 44; "Drawbacks," p. 48; "Economic Case for Arms Trading Argued," *FBIS-SOV*, 13 February 1992, pp. 7-8; Hanson and Teague, p. 4.

²² "Yeltsin Interviewed on Military, Strategic Issues," *Joint Publications Research Service, Arms Control* (Henceforth *JPRS TAC*), 92-009, 18 March 1992, pp. 23-24.

²³ "Drawbacks," pp. 47-49; "Official on Defense Conversion, Arms Sales," *FBIS-SOV*, 7 February 1992, p. 53.

²⁴ "Moscow Defense Plants May Cut 215,000 Workers," *FBIS-SOV*, 21 February 1992, pp. 5-6 Annex.

²⁵ "Program Examines Udmurtia's Arms Industries," *FBIS-SOV*, 6 May 1993, p. 44; Claudon and Wittneben, pp. 32-79.

²⁶ "Yeltsin Aide Drafts New Conversion Policy," *FBIS-SOV*, 27 February 1992, p. 41.

²⁷ "Shaposhnikov on Illegal Sale of Army Equipment," *FBIS-SOV*, 12 May 1992, p. 14; "Source of Abkhazia's Arms Supplies Questioned," *FBIS-SOV*, 15 July 1993, pp. 62-63.

²⁸ "Yeltsin Interviewed," pp. 23-24; Gerald Nadler, "Fam Protest, Fleet Revolt Added to Yeltsin Worry List," *Washington Times*, 22 July 1992, p. 9; "Outflow of Conventional Weapons Discussed," *FBIS-SOV*, 4 May 1992, pp. 6-7; Jack Anderson and Michael Binstein, "Making Cold Cash, Not Cold War," *Washington Post*, 29 August 1993, p. C7; "The Threat That Was," *The Economist*, 28 August - 3 September, 1993, pp. 17-19.

²⁹ "Military Industry Conversion Options Viewed," *FBIS-SOV*, 28 April 1992, p. 32; "Experts View Flaws in Arms Export Policy," *FBIS-SOV*, 28 February 1992, pp. 12-13; "Remedies for Faltering Conversion Program," *JPRS UMA*, 92-021, 10 June 1992, pp. 41-42; "Restructuring the Soviet Defense Industry," *Carnegie Quarterly*, Vol. 37, No. 1-2 (Winter-Spring 1992), pp. 10-11; Pyotr Vasilyev, "For Sale: An Aircraft Carrier," *New Times*, No. 18, 1993, p. 16.

³⁰ "Arms Sales," *Current Digest of the Post-Soviet Press* (Henceforth *CDPP*), 12 August 1992, p. 16.

³¹ "Arms Sale Hopes Bring Ministries Into Conflict," *CDPP*, 12 August 1992, pp. 8-12.

³² Alexander A. Belkin, "Needed: A Russian Defense Policy," *Global Affairs*, Vol. 7, No. 4 (Fall 1992), pp. 99-104; "Khizha Interviewed on Economic Problems," *FBIS-SOV*, 17 September 1992, pp. 31-37; "New Vice-Premier of Russia," *CDPP*, 17 June 1992, p. 20.

³³ *Asahi Shimbun Morning Edition*, 5 February 1993, p. 7.

³⁴ "Ministry Reports on Foreign Economic Policy," *FBIS-SOV*, 26 August 1992, pp. 24-25.

- ³⁵ Ibid.
- ³⁶ "Foreign Economic Relations Minister on Industrial Policy," *FBIS USSR*, 3 May 1993, pp. 7-8.
- ³⁷ "Deputy Minister Interviewed on Arms Trade," *FBIS-SOV*, 16 June 1992, p. 21.
- ³⁸ "Washington Whispers," *U.S. News & World Report*, 13 July 1992, p. 21. The list of those countries with whom arms are being sold or discussion is taking place comes to 47 by Russian admission, suggesting that this claim is not far off the mark.
- ³⁹ "Russia Seen Failing to Exploit Singapore Airshow," *FBIS USSR*, 20 March 1992, pp. 68-70; "Yeltsin Gives Air Force Access to World Market," *FBIS-SOV*, 2 March 1992, p. 28; "Outflow of Conventional Weapons," pp. 6-7; Nick Cook, "CIS Plans Fighters for 21st Century," *Jane's Defence Weekly*, 14 March 1992, pp. 430-431.
- ⁴⁰ "Chief of Staff Samsonov Arrives in DPRK," p. 4, *DPRK-CIS Accord*, pp. 15-16; "Russian Minister Conditions Nuclear Help to North," p. 13; "Yeltsin Says North Support Suspended," *Yonhap*, p. 21; "Samsonov Meets Kim Il-Song," *FBIS-SOV*, 4 March 1992, p. 17; "Scholars View Russia's ROK, DPRK Policy," p. 24; "Adverse Trends in Russian-ROK Economic Relations," pp. 84-88.
- ⁴¹ "Far Eastern Military District to Sell Base," *FBIS-SOV*, 20 March 1993, p. 6.
- ⁴² Dmitry Yevstafiev and Sergei Kirshin, "New Threats in a New World," *International Affairs*, July 1991, p. 55.
- ⁴³ Stephen Blank, "Russia and Iran in a New Middle East," *Mediterranean Quarterly*, Vol. 3, No. 4 (Fall 1992), pp. 113, 124-127.
- ⁴⁴ Richard T. Cupitt, "The Political Economy of Arms Exports in Post-Communist Societies: The Cases of Poland and the CSFR," *Communist and Post-Communist Studies*, Vol. 26 (March 1991), pp. 87-103.
- ⁴⁵ "Deputy Security Minister Views Foreign Military Cooperation," *FBIS-SOV*, 13 August 1993, pp. 9-10.
- ⁴⁶ Jack Anderson and Michael Binstein, "Making Cold Cash, Not Cold War," *Washington Post*, 29 August 1993, p. C7.
- ⁴⁷ "Expert Says Weapons Exporters To Be 'More Assertive'," *FBIS-SOV*, 11 August 1993, p. 3, Annex.
- ⁴⁸ Ibid.
- ⁴⁹ "Tula Defense Industry Leaders Seek Government Help," *FBIS-SOV*, 24 August 1993, p. 33.
- ⁵⁰ "Experts Discuss Falling Arms Sales, Future Prospects," *FBIS-SOV*, 12 August 1993, p. 11.
- ⁵¹ "Khromov on 'Conversion, Reforms, Security,'" *JPRS UMA*, 93-003-L, 5 August 1993, pp. 3-9.
- ⁵² Geoffrey J. Jukes, "The Russian Military and Policy-Making After 1991," *New Order in Post-Communist Eurasia*, Osamu Ieda, Ed. (Sapporo, Japan: Slavic Research Center Hokkaido University, 1993), p. 117.
- ⁵³ Cupitt, p. 103.
- ⁵⁴ Alexander Konovalov, "Central European Security: A View From Moscow," *European Security*, Vol. 1, No. 4 (1992), p. 74.