

Meeting Summary

The Russian Armed Forces, Military Spending, and the Arms Industry

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This was the sixth of six meetings in the series, “Economic Change in Russia and its Implications for U.S. Policy,” a CSIS project sponsored by the Carnegie Corporation of New York.

Oliker’s presentation focused on Russian threat perception and its capabilities to respond to these perceived threats. An objective assessment would suggest that Russia has probably not been as safe in the past two hundred years as it is now. But the leadership is deeply worried that this situation will not last and that threats are on the horizon. So its main focus is on preventing threats to this stability from emerging and defeating them if they do emerge. Despite the Russians’ statements about the threat posed by NATO and their plans to maintain a million-man force and nuclear parity, security expenditures show that they are mainly focused on their neighborhood and the home front. In other words, Russia is building a small war capacity combined with a deterrent nuclear force. The country is also looking to cement its prestige and secure its economic growth. The US is viewed as a roadblock in Russia’s pursuit of its economic goals and its efforts to build ties around the world.

Ultimately Russia’s main security focus is at home. Since 2005, the internal security budget has been higher than the defense budget. The leadership’s greatest fear is the breakout of violence in the North Caucasus. They also, however, view any political dissent, be it in Dagestan or St. Petersburg, as a source of instability and a threat to the state. In terms of the military, money is being directed to rapid reaction forces and professionalization. Nuclear weapons also remain important as a means of deterrence, which

requires parity with the US. U.S. missile defense plans therefore create substantial concerns about the effectiveness of Russia's deterrent in the future.

The Georgian war confirmed that the Russian armed forces have made some progress. Russia's military action there demonstrated the capacity to choose and implement a contingency plan effectively with large numbers of forces—including ending the campaign when called upon to do so. It is also worth noting that there were no substantial human rights violations committed by Russian forces (although there were violations by auxiliary South Ossetian units), which is a substantial departure from historical precedent. However, there were several clear failures: their joint operations, command and control, air operations, intelligence, and the GLONASS navigation system were all criticized by Russian analysts in the wake of the conflict. In other words, the military was better trained and better able to implement, but it was working with outdated equipment and technology.

Crane's presentation focused on the resources Russia is currently spending on defense, what it will spend in the future, and the capabilities these resources might be able to provide. Notwithstanding its bellicose rhetoric, the leadership has taken a cautious approach to increasing defense spending. Crane estimates that Russia could be spending significantly more on defense. While defense budgets have been rising consistently in recent years, their share of the GDP has remained stable at about 2.5%, despite large budget surpluses. Finance Minister Aleksei Kudrin in particular has been skeptical of the capacity of the Ministry of Defense and the military-industrial complex to use money wisely. Further, there are no long term strategic plans to spend money on defense, unlike the "national projects" for education, agriculture and healthcare. Moreover, it is worth looking at what the defense budget buys. Even after six to seven years of sharp increases in defense spending, the procurement budget is still low; the industry continues to depend on exports to keep it alive.

If Russia maintains current approaches, assuming a long term economic growth trend of 4.6%, defense spending is likely to increase to 2.7% of GDP or \$60 billion in 2015, roughly a doubling of the current number. Russia will then be among the top 3 or 4 defense spenders in the world, but still very small by comparison to the US. The push in expenditure will be for procurement, operations and maintenance, in part driven by military strategy, but mostly by industrial policy.

The government's recent focus has been on centralizing the arms industry to create national champions. That said, from an international perspective, these companies remain too small to be competitive; the top 5 are not among the largest 40 producers in the world. Putting the size of the new firms to one side, the national champion strategy thus far has not succeeded, for two primary reasons. First, although there has been a nationalization drive, the companies remain partly private. Crane argues that this is a function of managers' and bureaucrats' desire to extract rents. Personal financial concerns have taken precedence over policy priorities. Second, the industry has emerged as a typical Soviet-era conglomerate; the locus of authority remains at the plant level. There has been little restructuring and consolidation as a result. So far, the national champion strategy has only produced cost escalation of weapons systems and complaints about faulty equipment.

The discussion focused on the emergence of national champions and recommendations for US Russia policy. The national champion strategy is not only counterproductive, but it also could retard Russian economic growth. Possible signs of improvement would be consolidation; deployments of new weapons systems using new technologies such as a fifth-generation fighter; new command and control systems; and better communication. In the short term, the national champions could perform better if they had more effective management.

The recommendations for US policy centered on the premise that Russia remains important for US interests. However, maintaining a productive, business-like relationship will be a challenge given Russia's current foreign policy posture. Possible areas for cooperation include missile defense and arms control. Good relations with Russia could also help achieve the overall goal of achieving stability in the CIS. Practical policy recommendations included: pursue a START follow-on agreement; support Russia's WTO membership; reintroduce the civilian nuclear (1-2-3) agreement; create a high-level bilateral commission along the lines of the Gore-Chernomyrdin Commission; and increase cooperation in Afghanistan.