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*Rosvooruzhenie and Russia's  
Return to the World Arms Market*

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The collapse of the Soviet economy and the Soviet Union itself had profound consequences for the Soviet defense industry and, in particular, Soviet arms exports. Political and fiscal crisis not only gutted the military procurement that kept arms factories working, but also destroyed the mechanisms that kept Soviet arms flowing to clients abroad. Over the last five years, however, the Russian arms trade has slowly recovered from the first dark days after the fall of communism. The process by which the Russian arms industry has reasserted itself on world markets reflects in microcosm the development of the new Russian state, society, and economy. A vast military-industrial machine serving the state's ideological and foreign policy goals has been replaced by a form of state, patronage capitalism. Those very few who parlay fortune and political connections into a share of the arms export pie can benefit greatly from near-monopolies on exports of arms to newly-opened world markets. Taking advantage of cheap labor and raw materials, *Rosvooruzhenie*, the Russian state arms export company, has formed an alliance with factory directors to return Russia to the world arms market with immense profits as the aim.

The post-Soviet arms industry is fundamentally a product of the Soviet Union's collapse and its ramifications. Not only did the fall of communism devastate Soviet industry in general, but the end of the Cold War, which reduced tensions generally, not just along the NATO-Warsaw Pact front line in Central Europe, produced a dramatic and continuing decline in global demand for arms. Despite chronic political instability in the Middle East and increased interest in modern weaponry among the newly-industrializing states of Southeast Asia, the world arms market both as a whole and regionally is substantially smaller than it was five years ago, bottoming out at half its previous peak. To make matters worse for arms producers, the end of the Cold War not only reduced the demand for arms but increased supply by releasing a vast stock of surplus equipment from down-sizing militaries, thus flooding world markets. Arms reduction treaties and a rush by financially-strapped governments to cut defense spending have released second-hand weaponry.

During this period, all industrial states faced the same dilemma of how to handle an excessively large defense-industrial complex, but Russia was hit much harder for a variety of reasons. Arms purchases are not just a one-time transaction, but involve both concrete continuing commitments to service complex systems and supply spare parts as well as more nebulous links of patronage and protection. The disintegration of the USSR threw both terms of the equation into question. Russia's ability to reliably service its weapons seemed doubtful, and in 1991-1992 Russia's currency as a Great Power patron was devalued. Furthermore, not only was Russia's domestic economy more dominated by its military sector than any other power, but defense spending fell more quickly in Russia than elsewhere. Russia's defense plants were often the only employers in particular regions. While in the

relatively flexible labor market of the United States, with its moderate unemployment, defense workers might reasonably find other jobs, this was not the case in the Soviet Union.

The poor state of today's Russian military -- material, moral, and especially financial -- is beyond doubt and does not require much comment. As examples of just how resource-poor the military is, the 1994 budget, a sharp drop from earlier years, provided for the purchase of 17 aircraft, and covered seven percent of the shipbuilding program. Matters have yet to improve: in 1995, Deputy Defense Minister Kokoshin told the Russian government that the military had received only 35 percent of what it needed to support research, development and new purchases. In that same year, the Defense Ministry did not purchase a single helicopter. Even in 1996, output across the military-industrial complex was still down 30 percent from the year before; the Russian navy informed the Red Sormovo plant in Nizhni Novgorod that three Kilo subs it had ordered should instead be sold abroad since it would not be able to purchase them itself. Two went to China -- the third would go to Africa or Southeast Asia. By 1996 a key point had been reached: the Russian arms industry now exported more than it produced for domestic use. The Russian military had no plans to purchase any new armored personnel carriers or Smerch multiple-rocket systems in 1996. Even before that, the premium the industry received from hard currency purchases meant that exports had caught up with domestic purchases as a revenue source by 1995.<sup>1</sup>

This trend does not mean that exports necessarily grew, only that domestic procurement had plummeted. The collapse in domestic military production was only slightly worse than that in military exports. In 1992, the U.S. exported 1,241 tanks; Russia exported seven.<sup>2</sup> As can be seen, the decline in Russian exports was precipitous and far more rapid than the overall world decline in arms exports. Whether measured by figures produced by the Stockholm International Peace Research Institute (SIPRI) or *Rosvooruzhenie's* own figures, arms shipments fell from 1987, the last year of decent exports before collapse, to less than a tenth of their previous level by 1994. To be sure, much of the drop-off came from sales on grants and credit, not cash transactions. Arms export policy under the Soviet Union placed less importance on profits than on foreign policy imperatives. As a result, much of the USSR's arms trade lost money by sending weaponry to states with no intention of paying for it; still, while the state budget possibly suffered from subsidizing arms for allies, individual defense plants and their workers only saw continued employment through the production of arms, whatever their destination. That was no longer the case by 1994.

#### Arms exports (billions of dollars)<sup>3</sup>

	SIPRI		<i>Rosvooruzhenie</i>	
	World	Russia	World	Russia
1987				22
1988			40.034	14.658
1989	37.616*	14.529*	38.133	14.310
1990	30.891	10.459	29.972	9.724
1991	25.257	3.838	24.470	4.448
1992	24.776	3.385	18.405	2.329
1993	24.494	3.388		2.504
1994	21.725	0.842	22.8*	1.71
1995		3.9	22.8*	2.7, later 3.05
1996				3.5 (est.)

In addition to the global factors restricting arms exports, the new Russian arms industry lost many of the Soviet Union's traditional markets. Central and Eastern European states in particular, aiming to distance themselves from Russia and align themselves with NATO, turned away from their traditional Russian suppliers. As late as 1994, Valerii Tretiak, Deputy Director of *Rosvooruzhenie*, still believed that the key market for Russian arms exports would prove to be Central and Eastern Europe. This rather astounding blindness to both the political realities of arms sales and the sentiment in the region to reduce dependency on Russia as rapidly as possible meant that Central and Eastern Europe would prove a disaster for Russian exports, despite military establishments accustomed to employing Soviet arms.<sup>4</sup>

Those formerly captive markets, seeing arms as a tool of political domination, proved a fertile ground for Western manufacturers. Hungary, for example, prepared to replace its aging MiG-21 fighters with 30 modern ones at a projected total cost of \$1 billion. American, French, and Swedish firms vied for the contract, while the Israelis suggested a upgrade of the older fighters at a substantial savings. The Russians sought to compete for the contract with their own MiG-29s and Su-27s. To the Russians, Hungarian consideration of Western fighters was part of a more general pattern. The Czech government was interested in American F/A-18 and F-16 fighters instead of substantially cheaper MiG-21s; the Romanian military had received four S-130B cargo planes and upgraded its MiG-21s with Israeli electronics; and the Poles were considering Franco-German jet trainers. The only possible conclusion was that the Central and Eastern European market was lost, since the former Warsaw Pact states only accepted Russian aircraft in debt swaps.<sup>5</sup>

Russian attempts to reestablish old patron-client relationships could even backfire to undercut exports. In June 1995, Russia offered to grant Bulgaria \$500 million of military equipment, including 100 T-72 tanks, 100 BMP-1 armored personnel carriers, and 12 Mi-24 helicopters. On a subsequent visit to Moscow to promote trade and investment, Bulgarian vice-premier Rumen Gechev requested, among other things, assistance in developing the Bulgarian arms industry, not grants of Russian weapons made by Russian workers. What Gechev received was an offer to exchange Russian military equipment for Bulgarian bonds backed by privatized property -- reportedly Black Sea resorts. Even the original grant went sour. When 100 T-72s arrived in Bulgaria in February 1996, the 12 Mi-24s were rejected on grounds of poor technical quality and high cost of upkeep.<sup>6</sup>

To add insult to injury, Russia not only lost most of the Central and Eastern European market, but now faced competition from its erstwhile fraternal socialist countries. These states share the same competitive advantages that Russia enjoys: a generally high level of technology and a cost advantage over Western manufacturers from low-priced labor. Even the states of the CIS, despite economic situations generally worse than Russia's, compete with Russia for the shrinking world arms market thanks to the factories and surplus arms bequeathed to them by the disintegration of the USSR. The one advantage Russia has is often that of a complete production cycle within its borders. Ukraine, for example, with approximately one-third of the USSR's defense enterprises (including 205 production facilities and 139 research and design institutes, particularly in radio and electronic equipment), suffered a great deal from its dependence on Russian enterprises for key components. By 1996, however, Ukraine began to recover. Sales grew from approximately \$30 million dollars in 1993 to \$42 million in 1994, \$74 million in 1995, and approximately

\$100 million in 1996, primarily in avionics and electronics. Ukrainian tanks, produced at a center in Kharkiv, proved popular on the world market: in the summer of 1996 Ukraine agreed to sell 300 T-80 tanks to Pakistan for \$550-\$650 million dollars, and also had a T-84 (diesel) variant of the T-80 on the market. Ukraine even followed Russia's lead in setting up a state company to monopolize arms sales. Volodymyr Karkanytsya announced in November 1996 that Ukrspetseksport would now unite all of Ukraine's arms exports in hopes of increasing state control and promoting sales abroad. The chief question for the Ukrainian arms industry was whether it could escape dependence on Russian-made components. Russian sources insisted that the T-80 tanks sold to Pakistan were entirely reliant on Russian parts. Given Russia's important strategic relationship with India, it was unclear whether Ukraine would be able to circumvent that difficulty.<sup>7</sup>

In Belarus, a rapidly-deteriorating economy adds the competitive advantage of desperation. That is, the government of Belarus is so hungry for hard currency that it is quite willing to sell military equipment inherited from the Soviet Union at fire-sale prices. In April 1996 the Belarusian government sold Hungary 100 T-72 tanks scheduled for elimination under the Conventional Forces in Europe agreement to replace Hungarian T-55 tanks destroyed under CFE, all for a fraction of what new tanks would cost. Chinese premier Li Peng also visited Belarus in June 1995 to discuss military-technical cooperation, likely bearing in mind the possibility of high technology at low prices.<sup>8</sup>

Even unified Germany proved to be an exporter of Soviet arms. While the now-combined Bundeswehr kept many Soviet weapons, most notably the MiG-29 fighter, it sold BMP-1 infantry fighting vehicles to Sweden for only \$20,000 apiece. While the Swedish military had determined that the BMPs were useless on the modern battlefield, they could serve to replace trucks in situations where the BMP's armor protection would be useful.<sup>9</sup>

As a result, Russian arms exports hit bottom in the early 1990s, dropping from a plateau of \$22 billion in 1987 to only \$1.7 billion in 1994. Conversion of defense plants to civilian production did not offer a practicable solution -- history suggests that the most cost-effective way of converting an economy from military production to civilian is to simply let defense plants go bankrupt. Conversion is so expensive that the resources involved, with limited exceptions, can more efficiently be spent investing in entirely new production or retraining workers. Politically, however, throwing defense workers out of work in the name of efficiency appeared unacceptable to the Russian government. Moreover, what might be economically efficient at the abstract level was a horrifying prospect to managers of defense factories and to workers who saw few other prospects. Instead, in 1993 the Russian government turned to reinvigorating its arms exports as a source of foreign exchange, with the active cooperation of defense plant managers -- a solution shaped by the struggle for money and power at the highest levels.

With markets closing, production falling, and workers unpaid, at the end of 1993 President Boris Yeltsin created a state monopoly, *Rosvooruzhenie*, to take over the marketing, financing, sale, and delivery of Russian military equipment and thereby reimpose order on the Russian arms industry's chaos. Confronted with conflicting jurisdictions over arms sales abroad, on November 18, 1993, Yeltsin gave the new state company exclusive control over the export of arms in a secret *ukaz*. Under its first director Viktor I. Samoilov, this company took over and joined together the activities of three previously existing organizations: Oboroneksport, handling defense equipment sales and support; the Ministry of Foreign Economic Ties' section for production licensing and

delivery; and Spetsvneshtekhnika, managing foreign technical assistance programs. By eliminating interecine competition, *Rosvooruzhenie* would at least in theory be able to link arms factories with foreign purchasers while establishing delivery plans, financing, and service and training contracts.<sup>10</sup>

Yeltsin's order had several subtle but crucial wrinkles providing clues into the political struggles surrounding arms exports. First, Yeltsin in effect cut off the Russian military, the Defense Ministry, and Defense Minister Pavel Grachev from the arms trade by placing *Rosvooruzhenie* under the oversight of the president's Security Service and his own chief bodyguard Aleksandr Korzhakov. Korzhakov, Yeltsin's confidant and the power behind the throne in the Kremlin, thus had ultimate authority over Russian arms exports and, more importantly, over the billions of dollars in revenue those exports would generate. Next, the governmental measure implementing Yeltsin's *ukaz* was signed not by Prime Minister Viktor Chernomyrdin, but by Deputy Prime Minister Oleg Soskovets, the Kremlin's "grey cardinal," linking him closely to arms exports. Finally, one of Samoilov's priorities in the new *Rosvooruzhenie* was the removal of military reserve officers, a theme that would recur over the next several years. In short, Yeltsin's order tightly and inextricably linked money and power, while cutting off Pavel Grachev and the Defense Ministry from any authority over the arms trade -- a highly unstable combination.<sup>11</sup>

This peculiar setup accordingly downplayed considerations of foreign policy and Russian national security in the export of arms, emphasizing instead the pure search for profit. Of course, all governments seek to involve themselves in arms exports and to promote them as a tool of prestige and influence. The Russian system, however, ensures that national security and foreign policy will have very little influence on arms sales, which are instead pursued simply for the sake of the revenue they can generate for defense plants and *Rosvooruzhenie*. Without understanding that profit overrides national interest or rational policymaking, it is difficult to explain both the particular political disputes that have grown up around *Rosvooruzhenie* in its short history and its regular sales of advanced military technology to possible rivals. Of course, to hold power and influence in Russia today is to be accused of corruption and abuse of office. Those accusations, in the case of *Rosvooruzhenie*, seem to be justified.

Some criticism of *Rosvooruzhenie* and its predecessor-organizations in the mass media has been rather naive, especially that directed against the cheap sale of Russian arms on the world market. In 1993 Turkey purchased 110 Russian armored personnel carriers at \$150,000 apiece, \$35,000 less than the American equivalent or other alternatives, leading one military correspondent to rage against that "unjustifiable" price. Two journalists were scandalized at the sale of a Foxtrot diesel submarine to Australia for use as a museum exhibit for only \$200,000. In another case, a journalist discovered a sale of two Kilo diesel submarines to China for only \$90 million each, less than half the price of comparable German submarines, and a betrayal of Russia's interests. While their concern is perhaps understandable, Russia's most prominent advantage on the world arms market is precisely its ability to undercut the production of other states, thanks to rock-bottom labor costs. The relatively poor performance of Russian weaponry during the Gulf War and the war in Chechnya is likely of less importance to the buyer than quite justified concerns about continuing availability of service and spares. Russia thus has little choice but to offer its production at a significant discount.<sup>12</sup>

*Rosvooruzhenie* has been dogged, however, by more genuine scandal throughout its existence, scandal concerning more whether cash was flowing in the proper manner than with any concrete allegations of corruption. Take, for example, the 1994 low point of Russian arms exports as measured by both SIPRI and *Rosvooruzhenie*'s own figures. Those results were hardly a ringing endorsement of Yeltsin's new arrangement for the arms trade. Viktor Samoilov, the first director of *Rosvooruzhenie*, was sacked over this matter during the winter of 1994-95 and replaced by Aleksandr Kotelkin, a former air force officer with rumored connections to Soviet military intelligence. Samoilov's dismissal was followed by a purge in April 1995, and by the temporary transfer of military officers assigned to *Rosvooruzhenie* back to their home units. An investigation conducted by Marshal Evgenii Shaposhnikov, President Yeltsin's personal representative to *Rosvooruzhenie*, found substantial financial irregularities. In addition to unconscionably large fees to foreign middlemen in the arms trade, sometimes totalling 20 percent of the value of the order, the firm was guilty of skimming off diesel fuel intended for Cuba and selling it on the open market, in addition to setting up its own unauthorized commercial structures. It transferred export orders to individual enterprises without first signing contracts to export the finished products, resulting in \$5 billion worth of arms being left to rust in the fields around Russian arms factories. The Russian Federation's own General Procurator started criminal proceedings against *Rosvooruzhenie* for tax evasion and illegal hard currency operations, including concealing the hard currency proceeds of commercial dealings.<sup>13</sup> While there certainly was corruption in *Rosvooruzhenie*, Samoilov's chief sin seems to have been presiding over declining sales. The lesson that political survival and lucrative salaries depend on steadily increasing revenues was not lost on *Rosvooruzhenie*'s staff: Russia's arms export authorities cursed themselves with high expectations by constantly stressing to their superiors and the mass media that higher sales were just around the corner.<sup>14</sup>

Pavel Grachev, then Minister of Defense, took advantage of *Rosvooruzhenie*'s difficulties and Samoilov's removal to attempt to seize the foreign arms trade for himself. He announced that Defense Ministry control of arms exports was necessary to avoid the chaos and confusion that had led Ethiopia to switch its lucrative arms contracts to American suppliers. He recounted a conversation with the Sheik of the United Arab Emirates: "He says, 'four billion dollars... do you have room in your airplane? Here, load this four billion in your airplane, I trust you, here's a list, you send me the arms on this list.' I say: 'what are you talking about? I don't sell, I facilitate the sale.' Then he says, 'listen, send me tanks...' and I can't. I sit there like a fool." It seems clear that Grachev was trying to recapture the income stream of arms sales abroad for the Defense Ministry: the military's own *Voentekh*, created to handle the sale of surplus equipment, had been forbidden on July 22, 1994, from participating in international arms sales.<sup>15</sup> The personnel of *Rosvooruzhenie* itself, and in particular Shaposhnikov, were horrified at the prospect of Defense Ministry interference. While the Defense Ministry should be consulted on arms sales, they argued, there was no call for wholesale annexation.

*Rosvooruzhenie* cemented its influence over the plants producing the arms it exported by creating a symbiotic relationship with the factory directors who stood most to benefit from increased arms exports and hard-currency earnings. Typically hold-overs from Soviet days, especially in the largely non-privatized defense sector, factory directors could count on a passive workforce and few legal constraints to sustain a healthy standard of living even though their factories' output and sales might steadily decline. Even with the

high commissions that *Rosvooruzhenie* could charge for its middleman's services, ranging from 3.5 percent to as high as 7-10 percent, factory directors found that well-paying export contracts made their interests coincide quite closely with *Rosvooruzhenie*'s. Both found that Russia's billions of dollars in arms exports left ample profits for all concerned.<sup>16</sup>

One of the most striking attributes of *Rosvooruzhenie*'s management of arms exports is the continuing sale of advanced Russian technology to Western states over the objections of the Russian military, and additionally the sale of advanced weapons technology to China, a potential future threat to Russia's sparsely populated Far East. Again, this seems quite difficult to reconcile with rational calculations of national or strategic interest, and is much more easily explained by placing profit in first place among *Rosvooruzhenie*'s priorities. This attribute of the Russian arms trade, in which *Rosvooruzhenie* and factory directors hold almost exclusive control over the entire process, marks a fundamental difference between Russia's exports today as compared to those of the Soviet Union. Current trade seems to be fundamentally driven by the need to maximize revenue, not by ideological affinity or geopolitics as in the Soviet period, nor even by more general considerations of Russia's interest. The chief question is where money can most readily be obtained.

This context helps to explain the sale of the most advanced Russian weapons systems to the West. *Rosvooruzhenie*'s precursors sold T-80 tanks and Tunguska anti-aircraft systems to Great Britain at a time when their export was expressly prohibited under Russian law. In February 1993 an American firm signed an agreement by which it would be fully briefed on the technical characteristics of Russian weapons on the world market for the total cost of \$20,000. As one agent of Russia's Federal Counter-Intelligence Service noted acidly, "For similar services the CIA pays its own agents much more."<sup>17</sup> Equally difficult to understand outside the pursuit of profit is the sale of the S-300V anti-aircraft system (Russia's equivalent of the Patriot missile) to the United States. The sale of this system to Armenia, closely tied to Russia's air defense, is not particularly difficult to understand. Even its sale to the Greek community on Cyprus, Russia's "little brother in faith," is not excessively puzzling, despite Turkey's strenuous objections. Selling the S-300s to the West is, however, quite difficult to fathom. The story of the S-300s sale first broke through a Canadian attempt to buy a version of the S-300 from the Belarusian military, continuing a pattern in which cash-starved Belarus served as a conduit for advanced Soviet air-defense technology to reach the West. The United States had earlier purchased air defense command posts (MP-22-E) from Belarus, but Canada could not use the same channel to purchase the S-300. When that Canadian deal fell through, the United States simply bought the system directly from Russia for approximately \$60 million. Although the export variant was not as technologically advanced as the full version for the Russian military, many within the Russian armed forces, to say nothing of the mass media, were quite disturbed at the sale of this technology to the West, particularly as the purchase was not of a serial run, but of a single model clearly intended to be reverse-engineered to find its design principles.<sup>18</sup>

A quite similar situation arose with the ZM-80 (*Moskit*) anti-ship missile. Known in the West as the S-N-22 Sunburn, the missile attracted the attention of the Pentagon, which wanted to buy 100 missiles for \$107 million. Once again, the evidence suggests the U.S. military was purchasing the system to mine its technology, study worthy design innovations, and develop appropriate counter-measures. The Ministry of Defense Industry had no problem with this; the Ministry of Defense did. *Rosvooruzhenie* kept out of this



dispute, and the military objection really did come too late, as the export variant had long since been approved for foreign use.<sup>19</sup>

The sale of advanced military technology to China is also difficult to understand except in the context of calculations dominated by the search for profit. U.S. Defense Secretary William Perry accused Russia and Ukraine of planning to sell SS-18 missile technology to China. Russia denied the charges, while promising to investigate the matter, however, it is indisputable that its sales of aviation, submarine, and tank technology to modernize China's armed forces are proceeding apace and have the potential to substantially alter the regional balance of power. In addition to Russia's delivery of numerous Kilo diesel submarines to China, Russia and China also signed a \$2.2 billion agreement providing for the production of Su-27 fighters under license in China and the transfer of T-80 tanks. Chinese premier Li Peng's visit to Moscow at the end of 1996 was intended in part to finalize details of the Su-27 sale. Given the more-or-less steady improvement in Sino-Russian relations over the last ten years, the possibility of endangering Russia's own security by arming China appears to have been considered and discounted.<sup>20</sup>

The way in which factory directors and *Rosvooruzhenie* can cooperate to mutual advantage was amply demonstrated by the shake-up in Yeltsin's administration after the first round of the presidential elections and its implications for the management of arms exports. On June 7, 1996, the Russian Federation's General Procurator Iurii Skuratov made an official complaint to Yeltsin about irregularities in the legal status of military officers working in *Rosvooruzhenie*, and the deleterious effects on military morale of the extremely high salaries they were receiving -- up to several thousand dollars a month, much higher than officers in the armed forces could expect. Nothing was done about the matter until the first round of the presidential elections made it clear that Yeltsin would have to get rid of the most unpopular members of his circle, including Defense Minister Grachev, Deputy Prime Minister Soskovets, and his chief bodyguard Aleksandr Korzhakov. Two days after Korzhakov, *Rosvooruzhenie*'s chief patron and protector, was removed, Yeltsin requested that the investigation and regularization of *Rosvooruzhenie* go forward. At this point, however, the factory directors who had benefitted from the arms sales that *Rosvooruzhenie* had arranged stepped in to defend Kotelkin and the rest of its management. A petition of factory directors and chief designers begged Yeltsin to leave things well enough alone; instability was the last thing they wanted. On July 7, Yeltsin accordingly backtracked, ordering that no changes in *Rosvooruzhenie*'s management take place. The only factory directors that seem unhappy with the current state of affairs are those whose plants are not benefitting from Russia's growing arms sales.<sup>21</sup> Kotelkin seems to have survived the loss of Korzhakov without undue difficulty, and his tactical alliance with the managers of arms factories seems to have served him well. Some rumors insist that Prime Minister Viktor Chernomyrdin has his own candidate in mind for *Rosvooruzhenie*, but such speculation has not yet resulted in any specific personnel changes.

Despite this constant political instability, *Rosvooruzhenie* has been able to reestablish Russian exports to its traditional markets, as well as expand to new ones. The cheap prices and simplicity of Russian products far outweigh any concerns about their quality and effectiveness raised by the poor performance of Russian arms in the Persian Gulf War and the war in Chechnya.<sup>22</sup> Unable to expand sales in Europe or North America, *Rosvooruzhenie* has largely turned to the more promising customers of the Middle East and Asia.<sup>23</sup>

In a world plagued by the outbreak of peace, the Middle East is perennially fertile ground for arms manufacturers. Even with Russia's traditional customers like Libya, Iraq, Syria, and Yemen either under international sanctions or simply unable to pay their bills, *Rosvooruzhenie* has made great strides in boosting its arms exports to the region. Syria, in particular, but Egypt as well, are also seen as Russian arms consumers. Not only is there a historic tradition among many Arab states of buying Soviet arms, but getting military equipment from Russia is also a simple way of decreasing dependence on the United States and its growing influence in the region.

The first step to reestablishing sales in the Mideast was resolving the nagging question of the immense debts to the Soviet Union left outstanding from the halcyon days when arms were bought with credits that never needed to be repaid. Syria alone had built up \$10 billion of arms debt, but in May 1994 Russia agreed to write down that debt by 80-90 percent to enable Syria to resume arms purchases, this time for cash. The possibility of \$500 million in new purchases was more than enough to compensate for giving up the slim chance of collecting on old Syrian debt.<sup>24</sup>

Russia temporarily gave up one of its most lucrative arms customers, Iran, in response to an American carrot-and-stick approach, a fact that might seem to counter the overall thesis that Russian arms sales are at present driven solely by the profit motive of *Rosvooruzhenie* and the factory directors with whom it works. In October 1994, Russia agreed to sign no new arms contracts with Iran. Russia had already transferred two Kilo diesel submarines to Teheran's control, making Iran the first Persian Gulf state to possess submarines. There is great reason to doubt, however, Russia's sincere desire to maintain its commitment to no new arms deals with Iran. At the same time as Russia's declaration, Iran announced that it would not accept a third Kilo submarine to match the two it had purchased earlier. Russian batteries did not hold their charge well in the warm waters of the Persian Gulf, so the Kilos proved much less useful than the Iranian military had hoped. Given that previously agreed orders as part of a multi-billion dollar contract would go forward as scheduled, the practical impact of the Russian decision was minimal. By February 1996, a spokesman for Russia's Ministry of Foreign Trade was already happy to announce that Iran was ready to purchase \$1 billion of arms over the next two years, and in January 1997 a third Kilo submarine went to Iran.<sup>25</sup>

Most aggravating for U.S. arms producers must have been Russian encroachment on the arms procurement of the rich Gulf sheikhdoms, not the loss of non-existent business with Iran. The wealthy oil states, nervous about the dangers represented by Iran, Iraq, and their own restless populations, are buying arms heavily and will likely continue to do so for the foreseeable future. Thus it seems relatively surprising that Kuwait and the United Arab Emirates, almost entirely dependent on the United States for their military security, turned to Russia for arms purchases. In July 1994, Western sources reported that Kuwait was planning a major purchase of armored personnel carriers and anti-aircraft systems from Russia, and by December *Rosvooruzhenie* could confirm the sale of 60 BMP-3 infantry fighting vehicles to Kuwait and 50 to the U.A.E. at a price of around \$800,000 each. At Abu Dhabi in March 1995, Kuwait signed a comprehensive purchase agreement for \$762 million. It seems that the Gulf sheikhdoms are attempting to ingratiate themselves with as many powers as possible, both to counterbalance the influence of the United States and to exert some leverage against increased Russian arms sales to Iran and Iraq.<sup>26</sup>

On balance, Russia's arms sales to the Gulf States will not likely prove destabilizing. Those states not under international sanctions are also those with the most resources available for arms purchases. The revisionist or destabilizing powers of the region -- Iraq, Iran, and Libya -- are unlikely to prove major markets for Russian arms. In general Russia appears to be observing international sanctions in the region, and the very fact that Russian arms must now be paid for, instead of being given away on easy credit, will keep procurements in the region substantially below the level of the 1980s. Even though Russia has written off most Syrian debt, it will certainly expect prompt payment for any new purchases. The greatest danger to peace and stability in the region from Russian arms sales will not come from the Mideast proper; instead, Russian sales to Cyprus and the possibility of a Turkish military response seem far more dangerous.

Despite continuing political instability in the Middle East, Russia's best prospects are in Asia. Rapidly growing economies can afford increasingly advanced technology, creating a small-scale arms race capable of providing large defense contracts for *Rosvooruzhenie*. Russia's Asian market is dominated by the region's two poor giants: India and China. India had been one of the Soviet Union's traditional arms markets, but Russia temporarily lost that customer when the collapse of the Soviet Union crippled India's ability to get vital spare parts. India was accordingly forced to look elsewhere. With the creation of *Rosvooruzhenie* and the consolidation of Russian state authority, India could return again to its traditional armorer. By November 1994, India was contemplating the purchase of 18-20 Mig-29Ms, 18-20 Su-30s, and upgrades for its aging MiG-21 "Fishbed" fighters, as well as Kilo submarines to replace the older Soviet Foxtrot subs it was decommissioning. Despite the perhaps unreliable nature of the stream of supply from Russia, Indian authorities were won over by the "cheaper... harder... and familiar" Russian hardware. In January 1995 Indian Prime Minister Narasimha Rao agreed with Chernomyrdin on a multi-part deal involving the sale of fighter aircraft, the upgrade of MiG-21s, and the lease of 120 self-propelled artillery systems that over the next year would come to full fruition. Two months later at the weapons exposition in Abu Dhabi, India signed in secret a contract for 12 Tunguska anti-aircraft systems, and more purchases appeared to be forthcoming.<sup>27</sup>

India signed a similar deal for 10 MiG-29s at a price of \$200 million, far cheaper than any Western alternative, and in July 1995 *Rosvooruzhenie's* director Aleksandr Koltelkin predicted that a contract for jet trainers would soon follow. The last of that batch of ten arrived in India in December 1995, and in addition to maintaining its own aircraft India would service Malaysia's new MiGs as well. With 80 percent of the Indian Air Force made up of MiGs, the relationship was quite strong. Taken together, India's interest in the Msta-V self-propelled howitzers and additional Su-27 fighters, a six-year, \$7 billion military-technical cooperation deal, and the perhaps \$3.5 billion dollars worth of contracts that Evgenii Primakov signed in India in March 1996, meant that India's disinclination to purchase the aircraft carrier *Admiral Gorshkov* was only a minor difficulty. In November 1996 the Indian cabinet approved the purchase of 20 Su-30 aircraft with an option to purchase 20 more, and then in January 1997 agreed to purchase two Kilo submarines and build another two in India under license. Those were intended to replace six aging submarines of Soviet design, and would join eight Kilo submarines India already had in service. Clearly, India would remain a key customer for Russian arms.<sup>28</sup>

China also proved a valuable customer, substantially ending the chill in relations that had lasted since the Sino-Soviet split. Intelligence and diplomatic sources reported in

November 1994 that China had bought four Kilos at around \$240 million each, and American naval overflights kept a close watch on the slow progress of a Kilo sub, lashed to the deck of a freighter, as it made its way to China. Opinion in the U.S. Navy held that China aimed at purchasing 10 Kilo subs with an option to take that up to 22. By the end of 1995, the total number of Kilos China had bought totalled eight, most or all from the Red Sormovo plant in Nizhnii Novgorod.<sup>29</sup>

The Chinese military also sought to modernize its air force using Russian aircraft. After a long wrangle over the terms of the deal, Russia and China agreed in 1995 to extend a 1991 agreement on the sale of Su-27 fighters to China. While delivery would be immediate, part of the understanding was that production would eventually be established inside China. Sino-Russian cooperation expanded in 1996, as reported by *The New York Times*, to include a \$1 billion dollar deal for 72 Su-27 fighters under stunningly good terms for the Chinese. Two-thirds of the price tag would be paid off in barter goods, and China would set up production domestically under license.<sup>30</sup>

With India and China as Russia's best customers in Asia, the very arms buildup that Russia supplied triggered new business for *Rosvooruzhenie*. Malaysia purchased 20 MiG-29s in 1994 at a cost of \$550 million dollars, paid partly in palm oil, joining a general trend towards more modern forces in Southeast Asia. Vietnam bought six Su-27s in 1995 to modernize its air fleet, motivated in part by fear of China.<sup>31</sup>

Although the Mideast and Asia are Russia's markets for the future, *Rosvooruzhenie* has even managed to pry open the Latin American market, especially in Brazil. For a variety of reasons, the United States remains unwilling to promote its weapons to the full extent possible in Central and South America, creating an opportunity for cheap and effective Russian arms to make an entry. In 1994, for example, Brazil bought a consignment of SA-18 anti-aircraft missiles, and was close to a deal to purchase nearly 300 T-72 tanks at a cost of around \$1.2 million each. (Brazil previously had NO MBTs.)<sup>32</sup>

*Rosvooruzhenie*, then, represents in microcosm in both foreign and domestic policy the state of the new Russia, and in particular the recovery of a particular kind of state authority based on patronage capitalism. Abroad, *Rosvooruzhenie* has both reasserted Russia's presence in some traditional arms markets while showing increasing activity and ambition in exploring new ones, regardless of the West's preferences in the matter. At home, former communist apparatchiks, whether factory directors, military officers, or foreign trade bureaucrats, have embraced whole-heartedly the pursuit of profit and the business opportunities offered by Russian weapons, in demand abroad and built at or near world standards. Relying on an alliance of nomenklatura capitalists in Moscow and factory directors eager for export contracts, *Rosvooruzhenie* has brought Russia back to world markets while making great profits for those in position to take advantage of crony capitalism, making it a model in miniature of contemporary Russia.

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