

Chapter 7

Conclusion

Russia's *Oboronnyi-promyshennyi kompleks* (OPK) has embarked on a pathway to recovery and resurgence. It has emerged from its bleak post-Soviet reputation as a fragmented and disintegrating behemoth into a more streamlined, centrally controlled institution worthy of its status as one of the world's most prominent arms suppliers. Whilst the OPK's long-term success is far from assured, the doubts surrounding its continued existence have quickly dissolved as its economic position has gone from strength to strength. Reliable economic links have been forged with India and China through regular military orders and the emerging markets that Rosoboronexport has fought hard to cultivate in Latin America, the Middle East and Southeast Asia are all beginning to pay dividends.

Domestically, the key drivers required for the OPK are all underway in some capacity. The Russian Government has finally realised the importance of linking OPK restructure with military reform. State structures and new Commissions, such as the Military Industrial Commission chaired by former Defence Minister Sergei Ivanov, are now coming into play and will greatly assist the required linkage. Corruption remains endemic, but a more aggressive government approach to kerbing it, through high profile arrests and the introduction of Western auditors, are proof that the issue is being taken seriously. Restructuring the OPK is also well underway, with the government pushing for greater state control, and the creation of large, sector specific conglomerates such as *Obyedinyonnaya Aviasroitel'naya Korporatsiya* (OAK). Finally, the urgent requirement for larger domestic orders is also being tackled, with the State Defence Order (SDO) finally devoting the bulk of its finances towards equipment replacement or refurbishment. It is too early to say whether or not the long-term success of the OPK is assured, but the domestic drivers that are required for this are all currently being implemented or built upon.

The external drivers have all been implemented and the OPK will continue to benefit from the Russian Government's efforts at consolidation in this field. China remains an important external driver due to its unquenchable desire for military capability and expansion. However, Russia remains savvy to the inherent economic and strategic risks associated with over-reliance upon the Chinese market. These factors, in conjunction with greater Chinese military self-reliance past 2012, suggest that the Chinese market will contract after this timeframe. In the meantime, however, it will remain a valuable customer.

India shares a more intimate relationship with Russia than does China, and this factor is shaping the growing military ties between the two countries. A similar

strategic footing, Russian technical input and joint ventures, and heavy Indian reliance upon Russian weapon systems are the major tenets that shape Indo-Russian relations. These tenets will ensure that India remains the key Russian weapons customer in the long-term.

The growth in arms sales to Russia's emerging markets is irrefutable. The multi-billion dollar deals struck between 2006 and 2008 have the real potential to alter regional balances of power, and in turn generate further sales. This bodes well for the OPK, but the dynamics of the arms deals are generating questions about Russian motives. The more generous terms offered to Indonesia, the oil components of the arms deal with Algeria and Myanmar and the possible beef barter deal with Argentina are all indicators of a Russian policy change, because the constant in all previous arms deals since 1991—large cash components—are no longer a feature of these arms deals. However, regardless of Russian motives, the advances in exports are most beneficial to the OPK.

The final link will be complementing these export initiatives with more robust domestic demand. Here, Putin's plan to invest in R&D, and subsequently to modernise the armed forces, is beginning to bear early fruit, as indicated by the rapidly rising SDO figures.

Over the next decade it will be interesting to observe the OPK's ongoing development and market diversification in the face of Chinese indigenous competition and Russian domestic influences. It would be premature to suggest that the future of the OPK is assured. The new export opportunities will need to be consolidated. It will also be important for President Dmitry Medvedev and Defence Minister Anatoliy Serdyukov to continue the strong commitment shown by their predecessors towards the OPK's future development. A change of leadership policy, or problems with pushing through the reforms could arise. However, the diversity of the market and the emerging domestic demand suggest that the OPK is likely to endure and probably prosper beyond the next decade. At the close of 2008, the Russian Defence Industrial Complex stood at the cusp of greatness—an unimaginable prospect in 1998. It may just become the 'phoenix from the ashes'.