

Synopsis

The continued existence of the Russian defence and arms industry, known as the *Oboronnyi-promyshennyi kompleks* (OPK), was called into question following the disintegration of the Soviet Union in 1991. Industry experts cited the lack of a domestic market, endemic corruption, and excess capacity within the industry as factors underpinning its predicted demise. The most telling factor was the sudden removal of considerable government subsidies and high defence industry wages that had traditionally buttressed the industry's economic viability and encouraged the cream of Russia's workers into the sector. It was a crippling blow. However, the industry's export customers in China, India and Iran during those early years became the OPK's saving grace. Their orders introduced hard currency back into the industry and went a long way to preventing the forecasted OPK collapse. Although pessimistic predictions continued to plague the OPK throughout the 1990s, the valuable export dollars provided the OPK the breathing space it needed to claw back its competitive advantage as an arms producer. That revival has been further underpinned by a new political commitment, various research and development initiatives, and the restoration of defence industry as a tool of Russian foreign policy.

In order to gauge the future prospects for the OPK, it is necessary to examine the domestic and external drivers that have either underwritten its success to date or are still required to ensure its long-term endurance. Domestically, continued success demands a closer collaboration between the OPK and the Russian armed forces. It also requires serious efforts to curb endemic corruption, further consolidation of the defence industry, and continued development of the Russian domestic market for arms. Externally, the strength of the state arms exporter, Rosoboronexport, global market diversification and joint military ventures with strategic partner countries are essential ingredients for long-term OPK success. Cultivating and maintaining the economic and political momentum vital for the OPK's progress will be a daunting undertaking for Russia. However, Russia's accomplishments in these key areas since 2000 suggest that continued success is a genuine prospect and that the OPK could potentially grow to be the proverbial 'phoenix from the ashes'.

China and India constitute approximately 60 per cent of the total Russian arms transfer market. Trading and cooperation with these two countries has provided Moscow with the finances to sustain its defence industry through continued orders and valuable finance for research and development programs for military hardware. However, post 2012, the Chinese market will be nearing total saturation and the Indian market will have contracted somewhat, as the indigenous defence industries of these nations can be expected to usurp the

demand for Russian equipment. This scenario, together with a more active foreign policy under Vladimir Putin has seen Russia launch aggressive marketing campaigns into the Middle East, Southeast Asia and Latin America. The strategy has already begun to pay dividends, with multi-billion dollar contracts being signed by Algeria, Indonesia, Venezuela, and possibly Libya. The Russians hope that large sales to these countries will trigger further sales within the respective regions. The realised or potential contracts for arms from Saudi Arabia, Malaysia, Mexico, and Brazil suggest that this strategy is producing the desired result.

The short-term future of the Russian OPK looks promising. The rising domestic defence order is beginning to challenge the export market as the OPK's most important customer. Meanwhile, exports will be safeguarded by continued foreign demand for niche Russian defence products such as cruise missiles and air-defence systems, as well as cost effective and user friendly Russian aircraft, ships, submarines and land systems. Flexible financing options offered by Rosoboronexport will stimulate demand in new or renewed markets such as Algeria and Indonesia and sustain the economic viability of the OPK for at least the next decade.

Although the long-term future of the OPK is more difficult to predict, Russia's solid research and development foundation and successful international joint military ventures suggest that the current thriving trend in exports is likely to continue. To preserve traditional markets, Russia will, over time, probably permit greater technology transfer and perhaps even shift its exports to higher-end niche military equipment. Russia represents the next generation of affordable and rugged military equipment for the arsenals of the developing world. Coupled with Russia's growing ability to rearm itself through rising oil prices and a more streamlined defence industry, the future of the OPK looks bright.

* * *

Disclaimer

The opinions and views expressed in this paper are those of the author alone and do not reflect in any way those of the Australian Department of Defence. In addition, all data included in this paper is available from open source materials.