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# 1. Introduction

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## I. New tendencies shaping international arms transfers

As with all other aspects of international security, the new political environment created by the end of the cold war has profoundly changed the pattern of the international arms trade. No country has been more affected by these changing conditions than the Russian Federation.

From the 1950s the arms trade was dominated from the supply side by the two superpowers—the United States and the Soviet Union—which used arms transfers to support their wider foreign and security policies in the framework of the cold war. The end of the cold war and the changes that accompanied it removed this competitive ideological dimension as a factor driving arms export decisions. The United States and the Soviet Union began to adopt a cooperative approach to the management of security both in Europe and in places such as Afghanistan, Angola and Central America. Moreover, as part of this new agenda former adversaries—including European countries—began to discuss the impact of arms transfers on international security in a serious way for the first time.<sup>1</sup> The twin catalysts for this multilateral dialogue (which is still in its early stages) were the invasion of Kuwait by Iraq and the gradual relaxation of the embargo operated by members of the former Coordinating Committee for Multilateral Export Controls (COCOM).

The fact that Iraq had built its conventional arsenal from imported equipment and technology brought into sharp relief the fact that arms transfers could, under some circumstances, have a negative impact on international security. Under these conditions the five permanent members of the UN Security Council (the P5) held talks in 1991 and 1992 on the impact of arms transfers on the stability and security of the Middle East.

The gradual relaxation of the COCOM embargo was a manifestation of the change in East–West relations and the growing preference for cooperation over confrontation. In 1993 the decision was taken to end the embargo entirely and replace it with a new forum in which states could exchange information and perspectives on the international arms trade. However, Russia was not involved in these discussions (although Russian officials were briefed about their progress). It was not until 1995 that Russia became a partner in the talks that led

<sup>1</sup> In the late 1970s a US initiative for bilateral Conventional Arms Transfer Talks (CATT) together with the Soviet Union failed. The CATT initiative and the reasons for its failure are examined in Spear, J., *Carter and Arms Sales: Implementing the Carter Administration's Arms Transfer Restraint Policy* (Macmillan: London, 1995).

to the establishment in 1996 of the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.<sup>2</sup>

While the concept of collective security is gradually evolving into one of common or cooperative security in Europe, the same cannot be said elsewhere. After the cold war there will still be a large number of countries which see their armed forces as a central component in safeguarding their national security but which do not have comprehensive defence industrial capabilities. In these countries there will continue to be a demand for foreign-made arms.

In foreign policy terms first the Soviet Union and then Russia used arms transfer policy to send a clear signal to other countries—and particularly to the United States—that the changes under way were more than cosmetic.

From a strategic perspective the end of the cold war has also had an impact on the way in which major exporters view the international arms trade. During the cold war the strategic decisions of the superpowers in particular were driven by their central competition. This meant that they focused much of their attention on the main theatre of potential conflict—Europe. Arms transfers to allies were one important instrument by which the United States and the Soviet Union shaped the balance of forces in this theatre. Arms transfers were also an important element of military assistance programmes intended to achieve strategic objectives outside Europe in places such as the Persian Gulf and the Horn of Africa.

There is still uncertainty about how armed forces will be used in the new international environment and for what reasons. Under these conditions there is no clear picture of whether and how strategic arguments might underpin military assistance. Russia in particular lacks a new strategic framework in which to take decisions about its future force structure.

Traditional strategic arguments have lost some of their relevance. For example, military assistance is no longer needed to secure base rights, listening stations or other intelligence facilities in support of a global military strategy. However, these arguments might still be applied in new strategic arrangements, for example within the Commonwealth of Independent States (CIS).

At the same time, there are strategic arguments that would support a cautious approach to the spread of military technologies unless and until a clearer strategic picture emerges. Since the end of the cold war Russian armed forces have regularly found themselves deployed in conflict regions or engaged in military operations of various kinds.

At the same time as these important politico-military issues were emerging commercial and industrial factors were also exerting pressure on arms export policy. During the cold war their own armed forces provided by far the most important market for goods produced in the defence industries of the United

<sup>2</sup> Anthony, I. and Stock, T., 'Multilateral military-related export control measures', *SIPRI Yearbook 1996: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1996), pp. 542–45; and Anthony, I., Eckstein, S. and Zanders, J. P., 'Multilateral military-related export control measures', *SIPRI Yearbook 1997: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1997), pp. 345–48.

States and the Soviet Union—although even in this period exports were not unimportant. However, the rapid and deep cuts in military expenditure that followed the end of the cold war—in which spending on equipment was often reduced to a greater extent than other forms of military expenditure—created new pressures on industry to find new markets for its products.

As noted above, in a large number of states arms imports are a central element of arms procurement policy. However, the existence of demand for a product is not the same thing as the existence of a market. For a market to exist demand must be combined with a means of exchange. At the time when the superpowers were prepared to offer large-scale military assistance in pursuit of their political and strategic objectives this means of exchange could be political as well as financial. However, the changed international environment has largely removed the political incentives to subsidize arms exports. Therefore it is likely that in future a much higher proportion of arms transfers will have to be financed by the buyer.

## II. Russia in the new international arms trade system

The new political, economic and strategic features of the international arms market outlined above had an impact on all arms-exporting countries. However, the impact on those newly independent countries that succeeded the former Soviet Union was particularly dramatic.

The disruption to Russia's foreign relations brought about by the changes of the past 10 years has been more fundamental than the effects in most other countries. Changes in Soviet foreign policy initiated by President Mikhail Gorbachev and Foreign Minister Eduard Shevardnadze weakened bilateral relations with countries that were important clients for Soviet arms, for example, Afghanistan, Angola, Cuba, Iraq, North Korea, Libya, Nicaragua, Syria and Viet Nam. The dissolution of the Warsaw Treaty Organization (WTO)<sup>3</sup> and the Council for Mutual Economic Assistance (CMEA)<sup>4</sup> effectively ended the system of military–technical cooperation within the state socialist countries of East–Central Europe.<sup>5</sup> The subsequent dissolution of the Soviet Union itself broke many inter-enterprise ties within what had been an integrated production system.

The reductions in military expenditure have been deeper in Russia than in most other countries. Since 1992 Russia has been following a macroeconomic policy of controlling inflation through a combination of fiscal and monetary

<sup>3</sup> The WTO was formed in 1955 and disbanded in 1991. Its membership in 1991 consisted of Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR.

<sup>4</sup> In 1990 the membership of the CMEA consisted of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the USSR, Cuba, Mongolia and Viet Nam.

<sup>5</sup> In this book East–Central Europe after 1990 is defined as those non-Soviet countries that were members of the WTO—Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia—but excepting Albania.

measures.<sup>6</sup> Fiscal measures have been intended to ensure that money which is in circulation in Russia is primarily directed to the development of the private sector, rather than being channelled through state agencies. Among economists the verdict on this approach to economic reform is mixed. However, there is no doubt that one of its consequences has been reductions in military expenditure. While the available data are difficult to interpret, a survey in 1997 has concluded that the reduction in Russian military expenditure between 1992 and 1995 was between 40 and 50 per cent in real terms.<sup>7</sup>

Industrial dependence on revenues from arms sales (domestic and foreign) was also higher in Russia than in other countries and as a result the impact of the shrinking of the market has been greater. Enterprises have had to develop new strategies to manage the consequences of shrinking markets against the background of the transformation of the domestic legal, political and economic system away from a command economy and towards a market economy.

The combined impact of the domestic and international changes led to a collapse in the volume and value of Russian arms exports. According to SIPRI estimates, in 1987 the Soviet Union accounted for 38 per cent of the worldwide trade in major conventional weapons. By 1992 the Russian share had declined to 12 per cent of the world total and in 1994 (the lowest point of deliveries of major conventional weapons from Russia) to only 3 per cent.<sup>8</sup>

Since 1995 Russia has increased the level of its arms sales, whether measured in value or in volume terms. According to official Russian data from the state trading company Rosvooruzhenie (the State Corporation for Trade in Armaments and Military Technical Cooperation), the value of Russian arms exports rose from \$1.7 billion in 1994 to \$3.1 billion in 1995. According to the preliminary estimate for 1996, the value of Russian arms exports for that year would again be over \$3 billion.<sup>9</sup>

This increase in sales reflects the fact that in 1995–97 Russia has managed to stabilize and consolidate its arms transfer relations with one important Soviet client, India, and to renew or open new bilateral arms transfer relationships with countries such as China, Iran and Malaysia.

Under these conditions Russia will be an important factor in the international arms trade during the coming years. However, the way in which Russia will align itself with the emerging pattern of the international arms trade is not at all clear. It is noteworthy that there was limited consensus among the group of contributors to this volume about the success of recent Russian policies and about what kind of policies would be appropriate for Russia to pursue in the future. Differences of view extend to fundamental issues such the role of arms transfers in Russia's foreign and security policy, whether or not arms transfers represent

<sup>6</sup> Volossov, I. V., 'The Russian economy: stabilization prospects and reform priorities', Paper delivered to the NATO Economic Colloquium 1996 on Economic Developments and Reforms in Cooperation Partner Countries, Brussels, 26–28 June 1996.

<sup>7</sup> Norberg, R., *Rysslands försvarsutgifter under perioden 1992–1997* [Russia's military spending during the period 1992–1997]. Unpublished manuscript, May 1997 (in Swedish).

<sup>8</sup> These shares are based on SIPRI trend-indicator values. For further discussion, see chapter 2.

<sup>9</sup> Tarasova, O., [Rosvooruzhenie calls for unity], *Segodnya*, 1 Nov. 1996 (in Russian).

a viable survival strategy for arms-producing enterprises, and the appropriate relationship between the Russian Government and the arms industry.

The chapters in this volume suggest that no single factor can explain the recent tendencies in Russia's arms export policy. Some analyses have tended to focus almost exclusively on the economic and industrial imperative for Russia to export arms. The balance in decision making between politico-military factors and economic and industrial factors has certainly changed since the Soviet period, with politico-military factors becoming relatively less important. However, a good deal of evidence is presented in this volume which suggests that Russia would still like to use arms transfers as an instrument of its foreign and security policy. Russia seems to derive little economic benefit from using arms transfers to develop its relations with fellow members of the CIS, for example, and Moscow may even be willing to pay an economic premium where the political rewards are considered high enough.

If it is accepted that Russian foreign and security policy will continue to play a role in shaping arms export policy, there are disagreements about how Russia should develop its foreign policy. One approach suggests that Russian national interests would be best served by flexibility and independence of action, after a brief experiment in trying to align its foreign policy closely with those of the group of Western states. However, there is evidence in the chapters in this volume that no firm Russian position has yet been formed on this question. Russia is participating actively in multilateral discussions of arms exports and has made decisions—for example, regarding arms transfers to Iran—that indicate a willingness to listen to the views of other countries.

All are agreed that economic and industrial factors will be a major influence shaping Russian arms export policy. However, there is no consensus about the extent of that influence or about the way in which government relations with industry are and should be managed. Some argue for a state monopoly over arms exports in which the interests of industry are taken into account but where there is no direct industry involvement in the management of arms sales. Others argue for a commercial approach in which large enterprises or industrial groups in particular would manage their own export sales. With this approach state involvement would be primarily through issuing export licences and other documents needed for sales to be made legally.

The authors of the chapters in this book suggest that few if any Russian industrialists expect to be able to depend on orders from the Russian armed forces as the main element in their enterprise strategy. Managers seem to fall into two broad categories: those who believe that their enterprise can benefit from a strategy based on arms exports and those who believe that they must find an alternative strategy based on non-military sales.

The arguments presented by the first group are that export contracts, when they can be won, are extremely profitable. If the Russian arms export system can be developed into an efficient and competitive mechanism, enterprises can expect to derive significant revenues from foreign sales. The current barriers to

this strategy are the failings and inefficiencies of the current Russian authorities.

The second group argues that there are many external barriers to Russian success in winning a large share of the remaining global market for military equipment.

These arguments are not mutually exclusive since different enterprises have different prospects, depending on the nature of the market for their specific products. While arms exports could not support the entire defence industry inherited from the Soviet Union, individual enterprises or industrial groups may survive for a transitional period through foreign sales.<sup>10</sup>

It is true that in many cases external barriers to Russian sales exist and that these are outside the control of Russian authorities. For example, Russia cannot do much to change the fact that most of the countries which import large quantities of arms have close political and military ties with the United States. Equally, Russia has limited possibilities to address the problem that many countries are unable to pay for the equipment that they would like to buy.

The Russian authorities can do certain things to help in cases where opportunities to open new markets arise. For example, a willingness to license exports of production technologies may give competitive advantages in countries where the United States is unwilling to license this type of technology transfer in spite of close political and military ties.

The problem of finding financing in cases where countries cannot make payments using reserves is also being addressed through the growing involvement of Russian banks in the management of credit related to arms exports. Most of the new financial-industrial groups include large banks, some of which have enough capital to lend to foreign governments even in cases where large projects are being considered.

### III. Conducting research on Russian arms transfers

Against this background SIPRI initiated a study of Russian arms transfer policies and practices. In conducting the project it was decided to seek cooperation from Russian researchers and officials. The objective was to create a balanced group that included both official and non-government perspectives and individuals with expertise in military, foreign policy and industrial issues. It was also considered important to include not only Moscow-based analysts but also researchers from other centres of Russian arms production.

During the cold war an approach of this kind would have been impossible. It was impossible for an independent researcher to meet with responsible Soviet officials to discuss the issue of arms transfers. To the extent that any meetings could take place—for example, in the framework of United Nations confer-

<sup>10</sup> Long-term survival through exports alone is difficult to envisage since foreign sales cannot generate enough revenue to support the development of new generations of equipment unless prices are raised to a level that would make the systems offered uncompetitive.

ences—they were not productive. Soviet scholars and academicians themselves could make only a very limited contribution to the international discussion of the issue of arms transfers. Soviet researchers had no access to primary information and they could not publish independent evaluations.<sup>11</sup>

After the end of the cold war the conditions in Russia changed dramatically. It is now possible to get access to primary information from official Russian sources—although it is still prohibited to publish many types of information. Russian scholars are willing to participate in discussions and to offer an independent view of trends and developments. Moreover, it has become possible to cooperate with responsible officials. New sources of information exist. For example, not only government agencies but also industrial enterprises increasingly publish press releases describing their activities and have a press office to assist with outside enquiries. During the Soviet period the existence of these enterprises was often denied and the movements of enterprise employees were strictly monitored and controlled. Russia has produced active and inquisitive print and electronic media. A small cadre of journalists specialized in military matters has emerged. The Russian Parliament has several committees which have taken an active interest in military issues, including arms transfers.

While the level of disclosure remains far behind that in the United States, the level of transparency in Russian arms transfer policies and practices is now comparable with or greater than that in many European countries including, for example, France and the United Kingdom.

#### IV. Unresolved issues in Russian arms exports

Although new research approaches are now possible, a stable domestic Russian environment was not expected or assumed when this volume was prepared. It is clear that it will be some time before a clear and consistent Russian policy towards conventional arms exports can be developed and implemented.

There continues to be uncertainty about basic issues and some very important questions remain unresolved.

##### **Principles guiding Russian arms export policy**

In the late Soviet period the then Foreign Minister, Eduard Shevardnadze, promised that new primary legislation would be passed which would establish the basic principles by which arms export policy would be guided. The process of drafting the legislation was initiated in 1991. This legislation has not yet become law. On 20 June 1997 the State Duma (the lower chamber of the Russian Parliament) passed a draft law on principles of state policy on military–

<sup>11</sup> At a seminar organized by SIPRI with the Carnegie Moscow Center on 2 June 1997 it was confirmed that during the Soviet period officials and scholars rarely if ever met each other, let alone foreigners. Moreover, there was a low level of communication and cooperation between responsible officials within the Soviet Government.

technical cooperation with foreign states.<sup>12</sup> The law was passed by the Federation Council (the upper chamber of the parliament) on 4 July 1997. However, on 22 July 1997 President Yeltsin vetoed the legislation, arguing that it was inconsistent with the constitution.<sup>13</sup> A motion to overturn the veto was supported by only 200 votes in the Duma, which was insufficient for it to be carried. The draft law was then sent for consideration to a conciliation commission which was to consider whether and how it might be modified before being submitted to parliament again.<sup>14</sup>

Primary legislation defines the rights and responsibilities of the state and of legal citizens (which could be companies or citizens).

Secondary legislation (often called regulations) is an instrument for the executive branch to apply primary legislation. In this way the government can implement its own policy within the framework of the law. Typically these regulations will include guidelines for individual licensing decisions, control lists describing which items require export licences and differentiated lists of recipient countries to which special rules apply. These regulations might be proscriptive (for example, specifying countries under embargo) or they might be permissive (for example, specifying countries for which less demanding licensing procedures are applied).

Regulations can be expected to change at fairly regular intervals. For example, when one government succeeds another new licensing guidelines may be introduced in line with the policy of the new government. Control lists may be updated in response to technology change or the differentiated lists of destinations may be revised in response to changing events.

Through executive orders Russia has established secondary regulations which are comparable in their scope and structure with those used in, for example, West European countries. However, it is a more open question whether Russia has established adequate primary legislation.

There is no universal approach to drafting primary arms-export control legislation and the approach adopted by each country reflects its own legal system and definition of national interest. However, there are some general features that can be identified by surveying arms-exporting countries.<sup>15</sup> Only the United States has the relative luxury of allowing foreign policy interests to predominate in shaping its primary legislation.<sup>16</sup> In most countries primary legislation must command a broad base of support, including support among the different constituencies most affected by it. Through primary legislation the relative weights attached to the needs of three broad interests need to be established:

<sup>12</sup> ITAR-TASS, 20 June 1997 (in English) in Foreign Broadcast Information Service, *Daily Report—Central Eurasia* (hereafter FBIS-SOV), FBIS-SOV-97-171, 20 June 1997; and Bogatykh, M., 'Why not sell arms legally?', *Moscow News*, no. 27 (10–16 July 1997), p. 8.

<sup>13</sup> ITAR-TASS, 26 July 1997 (in English) in FBIS-SOV-97-207, 26 July 1997.

<sup>14</sup> Interfax, 5 Sep. 1997 (in English) in FBIS-SOV-97-248, 5 Sep. 1997.

<sup>15</sup> The basic elements of such a survey can be found in Anthony, I. (ed.), SIPRI, *Arms Export Regulations* (Oxford University Press: Oxford, 1991).

<sup>16</sup> The 1976 Arms Export Control Act and the 1961 Foreign Assistance Act together currently form the basis for US primary legislation.



foreign policy interests, strategic interests and economic interests. In addition, primary legislation should determine the rights and responsibilities of the executive and legislative branches of government (for example, the level of oversight, if any, that the legislative branch should exercise and the information, if any, that legislators should be entitled to receive). It is also necessary to decide on the role of the judiciary in arms export questions.

In Russia the executive branch of government has argued that presidential decrees should be considered as primary legislation, carrying greater weight than decisions by the prime minister (who is the chairman of the Council of Ministers). However, many representatives in the Russian Parliament argue that primary legislation should reflect the views of the legislative and executive branch and are not willing to accept that presidential decrees should be treated in the same way as legislation passed by a majority of elected representatives in parliament. Equally, many parliamentarians would like to see constraints placed on the ability of the president to govern by decree. This is partly for reasons of constitutional principle and partly for more practical reasons.

While the Russian Constitution contains some ambiguous provisions regarding the relative rights and responsibilities of different state authorities, it does give the president and the executive branch powerful arguments for saying that they should have a decisive voice in shaping and implementing arms export policy. Article 71 of the constitution states that the jurisdiction of the Russian Federation includes (among other matters) defence production, determining procedures for the sale and purchase of arms, ammunition, military hardware and other equipment. Article 80.3 of the constitution states that the president 'shall define the basic domestic and foreign policy guidelines of the state in accordance with the constitution and federal laws'. Article 115 establishes that the president and the government have the right to issue decrees and executive orders and that these are legally binding. Article 114.1 states that the government shall adopt measures to implement the defence, security and foreign policy of the Russian Federation.

At the same time, article 114.2 of the constitution says that the work of the executive shall be regulated by federal laws, which can be interpreted to mean that the president and the government should have a basic law setting the framework in which decrees and executive orders are issued.

The practical argument in favour of a single legal framework established for a longer period is that the tendency for the president to issue decrees that are not consistent with one another creates a climate of uncertainty for government agencies responsible for implementing policy and for industry.

In recent years the procedures for managing Russian arms transfers and military-technical cooperation have been changed regularly by decree. If there were a law passed by the legislature establishing the rights and responsibilities of different participants in the arms trade then these different actors would be able to adapt their activities in the knowledge that conditions were unlikely to change. To underline this point, since the draft law on principles of state policy

on military and technical cooperation with foreign states was vetoed a new set of decrees has been issued by President Yeltsin.

On 28 July 1997 in decree number 792 'On measures to improve the system of management of military–technical cooperation with foreign countries' the prime minister was charged with supervising military–technical cooperation.<sup>17</sup> Then on 20 August 1997 in decree number 907 'On measures to strengthen state control of foreign trade activity in the field of military–technical cooperation of the Russian Federation with foreign countries', important changes were made to the procedures for coordination and management of arms exports.<sup>18</sup>

As a result of these decrees the central assumptions underpinning the coordination and management of arms exports were changed for the fourth time in the five years since 1992. Initially the assumption was that industry would play the leading role in coordination and management while the government exercised control through export licensing. Later it was assumed that organs of the state would have a full monopoly over coordination and management of arms exports. Later on still a mixed system was introduced in which some enterprises were permitted to choose either to pursue exports through the organs of the state or to act independently (although still subject to export licensing). The most recent change in 1997 appears to alter the status of the responsible state agency. Rosvooruzhenie was disbanded in the form of a state corporation and recreated by decree 910 of 20 August 1997, 'On the Federal State Unitary Enterprise the State Company Rosvooruzhenie', as an entity which, although not privatized, will behave like a company charged with the management of major, complex arms deals with foreign states.<sup>19</sup> At the same time, by decree no. 907, two new federal state unitary enterprises (Promexport and Rossiyskiye Tekhnologii) were created. Promexport will organize supplies of spare parts and components for Russian equipment that is being operated by foreign states as well as managing the disposal of equipment from the Russian armed forces. Rossiyskiye Tekhnologii will manage negotiations and deals involving sales of production licences and technology transfer.<sup>20</sup>

### **The magnitude of Russian arms exports**

Another basic question that has not been answered fully is related to the magnitude of Russian arms exports—whether measured by volume or by value. Rosvooruzhenie now publishes annual official data for the value of Russian arms exports. However, it is not clear what the basis for these data is or what exactly they measure.

<sup>17</sup> Reproduced in appendix 3 of this volume as document 25.

<sup>18</sup> Reproduced in appendix 3 of this volume as document 26.

<sup>19</sup> At the time of writing (Nov. 1997) aspects of the management of Rosvooruzhenie were still unclear. Decree no. 910 is reproduced in appendix 3 of this volume as document 28.

<sup>20</sup> Press Conference with Vice-Premier Yakov Urinson, 25 Aug. 1997, at URL <<http://www.infoseek.com/Content?arn/ix.KMLN72363048&q/federal+news+serv/ice&colIX&K/A&ak/industrynews>>.

Four basic approaches can be taken to measuring the value of arms exports. First, information can be collected by government—either in negotiations with foreign governments or during the process of issuing export licences. Second, information can be obtained from customs authorities. Third, information can be obtained from industry. Fourth, an estimate can be made.

Rosvooruzhenie negotiates contracts on behalf of industry. The published data may represent the value of those contracts and agreements which Rosvooruzhenie has negotiated. This seems to be the most likely source. However, there is one enterprise (MiG-MAPO—the Moscow Aviation Production Organization) which prefers to discuss directly with foreign clients and it is not clear if MiG-MAPO data are included in Rosvooruzhenie data. Also, Rosvooruzhenie does not participate in managing or negotiating small-arms deals. There may therefore be individual transactions of relatively low dollar value that are not included in Rosvooruzhenie data.

Most financial aspects of Russian arms transfers are handled by the Central Bank of Russia. Foreign governments make payments into an account set up for them at the Central Bank, and the Russian state authorities are then responsible for dividing this money among Russian enterprises. The data may be derived from reports from the bank about payments into these accounts.

In the process of licensing arms exports the responsible authorities ask for information about the value of the contract for which a licence is sought and the time during which the contract will be implemented. This information may be the basis for data on the value of arms exports. It would be held within the agency responsible for issuing licences which, in the case of Russia, has changed several times.

These data can provide an official trend indicator but do not reflect the specific arrangements in a contract. The schedule for deliveries may not correspond to the schedule of payments and the contract may also include provisions for special types of financing that affect the overall value (such as long-term credit, interest, currency arrangements, military assistance or counter-purchase). The contract may also be linked to offsets of various kinds.

Data derived from licences therefore probably cannot measure financial flows associated with arms sales.

Some governments task their customs service with collecting the documents that accompany physical shipments and recording the shipment values. The data collected by customs consist of the estimated value of the particular shipment as recorded by the shipper. Most customs services work with a harmonized set of international trade classifications in which one category is arms and ammunition. However, this category includes only armoured vehicles, artillery and lethal items such as ammunition, bombs and torpedoes. Many types of military equipment appear under other classifications. Moreover, some military equipment transfers are not subject to customs inspection. In Russia it is also the case that some points of exit are not manned by customs officers.

Customs data from Russia probably could not measure trends or financial flows accurately even if they were available.

It is possible that data on the value of foreign sales are also obtained by surveying arms manufacturers. Industry can provide data not only on the value of agreements but also on invoices issued and payments received. In many ways industry data provide the best measurement of financial flows associated with the arms trade. However, there are some problems in creating a data set of this kind. The selection of manufacturers is important in that data could reflect conditions in large enterprises responsible for final assembly of equipment or could be requested from a wider group that supply large enterprises with those things they need to manufacture major defence equipment. Surveys could be based on membership of a manufacturing association. In the case of Russia different approaches to the selection of enterprises could have a great impact on the information obtained. For example, enterprises affiliated with the former Ministry of Defence Industry included many that were engaged in both military and non-military production and represented many different levels of the production process. At the same time enterprises manufacturing equipment used in the production of military systems were affiliated with other state agencies—for example, the State Committee for Industry.

In cases where information is not known, official data can be supplemented by estimates. Rosvooruzhenie data may include estimates derived from applying a price index to the number of units supplied to a foreign country. This may be applied to include transfers that have no direct financial value (for example, deliveries offset against existing debts to East–Central European countries).

It seems likely that the basis for Rosvooruzhenie data is the value of contracts which the state trading company has negotiated. However, this may be supplemented by other data.

The magnitude of Russian arms exports can also be measured in terms of the number of items exported. In 1991 the United Nations established a Register of Conventional Arms<sup>21</sup> to which the Secretary-General asked each member state to report on the number of items in seven categories of equipment that were imported and exported in the past calendar year. Russia has submitted returns to the UN Register for each of the four years 1992–95.

The UN Register is a voluntary exercise which contains no procedures for verifying data submitted by member states. The question arises whether or not the Russian submission accurately reflects the quantities of items transferred that are eligible for reporting.

The Russian submission is prepared by the Ministry of Foreign Affairs on the basis of information provided to it by other state authorities, including Rosvooruzhenie and the Ministry of Defence. The Ministry of Foreign Affairs has no independent means of verifying the data provided. During 1997 it has emerged that title to and control over a large number of items which fall under the definition of conventional arms used by the UN may have been transferred from

<sup>21</sup> Wulf, H., 'The United Nations Register of Conventional Arms', *SIPRI Yearbook 1993: World Armaments and Disarmament* (Oxford University Press: Oxford, 1993), pp. 533–44 (appendix 10F); and Anthony, I., Wezeman, P. D. and Wezeman, S. T., 'The trade in major conventional weapons', *SIPRI Yearbook 1997* (note 2), pp. 281–91.

**Table 1.1.** Russian arms reportedly supplied to Armenia as a share of exports reported to the UN Register of Conventional Arms, 1993–96

Category	A	B	A as % of B
	No. of units transferred to Armenia	No. of units reported to UN Register	
Main battle tanks	74	130	57
Armoured combat vehicles	54	998	5
Large-calibre artillery	90	353	25
Missiles and missile launchers	40	436	9

*Source:* Annual reports to the UN Register of Conventional Arms; and ‘Summary of presentation by Lev Rokhlin to the State Duma session on violations in arms deliveries to the Republic of Armenia’, *Sovetskaya Rossiya*, 3 Apr. 1997 (in Russian) in Foreign Broadcast Information Service, *Daily Report—Central Eurasia*, FBIS-SOV-97-067, 3 Apr. 1997, p. 3.

Russia to Armenia between 1993 and 1996 (see table 1.1) without being reported.

If the information (which was released by Lev Rokhlin, Chairman of the Defence Committee of the State Duma) is correct, this could mean that Russia’s returns to the UN Register for the years 1993–95 understated the volume of Russian exports of tanks and large-calibre artillery pieces in particular. However, this need not necessarily be so. First, at least some of the equipment may have been delivered in calendar year 1996 and may be reported to the UN in the return for that year which will be submitted in 1997. Second, most of the equipment appears to have been transferred from the inventory of the Group of Russian Military Forces in the Caucasus rather than being supplied from the territory of Russia itself. The UN Register does not include a detailed definition of an arms transfer and there is national discretion in determining which items qualify to be reported. It may be that Russia decided that these items were not eligible to be reported.

While the level of transparency in Russian arms exports (whether measured in values or volumes) is far higher than it was during the Soviet period, it can be concluded that there are still serious shortcomings in the data collection mechanisms in use in Russia. It also seems that the low level of cooperation and trust between different state authorities is one of the main factors behind the data problems.

### **The distribution of revenues from arms exports**

A third issue which was not resolved by this SIPRI study is the question how the money obtained from foreign sales is distributed between state agencies and manufacturing enterprises.

According to Rosvooruzhenie, 7 per cent of payments from foreign customers are retained to cover its own costs in helping enterprises identify, negotiate and win contracts. The other 93 per cent are paid to enterprises. If it is the case that

the official estimates of the value of arms exports reflect financial flows, this should mean that roughly \$2.8–3 billion was returned to Russian industry in each of the years 1995 and 1996. However, most enterprises insist that they receive very small sums even where they have participated in foreign sales arranged by Rosvooruzhenie.

There are several possible explanations for this discrepancy. One is that the value data published by Rosvooruzhenie do not reflect the financial flows associated with the arms trade for the reasons suggested above. A second possibility is that the money is distributed among many enterprises so that very few receive substantial sums. A third is that payments are structured in such a way that large revenues will not be generated in the early years of a contract. A fourth possibility is that the revenues are received from foreign governments but that the money is kept either by Rosvooruzhenie or by other Russian state agencies (usually named are the Ministry of Defence and the Ministry of Finance) to plug holes in the Russian state budget.

## V. The future for Russia as an actor in the international arms trade

In spite of the continued uncertainties surrounding Russia as an actor in the international arms trade, it is possible to reach some tentative conclusions about likely future patterns.

Predictions frequently made that within a few years the value and volume of arms exports from Russia could reach levels similar to those recorded for the United States are not supported by the available evidence. These predictions are based on a forward extrapolation of statistical trends for 1995–97 using the official data published by the US and Russian governments. According to these data, during these years the value of new agreements by US arms suppliers has declined slightly while the value of new agreements from Russian suppliers has increased. If these trends continue, at some point they will cross. However, on the basis of the evidence presented in this volume there seem to be few additional customers that are likely to turn to Russia as a primary arms supplier. It does not seem likely that the level of demand for Russian equipment from existing customers will increase at the rate needed to sustain the growth levels of the past two or three years.

Nevertheless, it is clear that Russia does not intend to exit the scene as an arms supplier. On the contrary, the main thrust of government policy on this issue in the mid-1990s has been to take steps that can increase the competitiveness of Russian suppliers in world markets. This trend seems likely to continue.

A second and related conclusion is that the level and rate of growth of arms exports from Russia seem to be tied to the procurement behaviour of a small number of countries. Two recipients in particular—China and India—stand out as countries which might acquire significant quantities of Russian arms in

future.<sup>22</sup> However, the defence budget in India is under severe pressure as a result of recent choices in its macroeconomic policy. There is greater uncertainty about the direction of future arms procurement choices by China and under certain scenarios a significant increase could occur in Chinese expenditure on imports of modern armaments.

A third conclusion is that the Russian Government still sees arms transfers as an important instrument in its foreign and security policy. In particular, as far as relations with newly independent states on the territory of the former Soviet Union are concerned, the role of arms transfers in Russian foreign and security policy seems to be growing.

A fourth conclusion is that in many cases Russian manufacturers of arms and military equipment see increased revenues from exports as an important element in their own strategies for transformation. However, it also seems that there is a growing awareness in industry—largely born of recent experience—that revenues from exports are very unlikely to be sufficient to ensure their survival.

A fifth and related conclusion is that Russian manufacturers need state support for export activities but see the Russian Ministry of Defence as a less and less trustworthy and reliable partner. The Russian defence budget does not offer sufficient funding for the research and development needed to provide new products. In addition, equipment procurement by the Russian armed forces and other state agencies is too low to sustain existing production capacities. At the same time, Russian arms exports collapsed in 1993–94—when state support for Russian arms exporters was at its lowest.

Russia has not yet found an effective mechanism for integrating the contributions of various government agencies and committees in a manner which produces a decision by consensus. Instead, these different agencies and committees tend to compete with each other for export-related rights and responsibilities. Under these circumstances the regular changes in Russian arms export policy and practice can be expected to continue for some considerable time.

<sup>22</sup> The arms procurement decision-making processes in these two countries are analysed in detail in Singh, R. P. (ed.), SIPRI, *Arms Procurement Decision Making, Vol. 1: China, India, Israel, Japan, the Republic of Korea and Thailand* (Oxford University Press: Oxford, forthcoming, 1998).