

Russia's Arms Market Thrives on Putin's Swagger

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Russia was once again the world's second-largest arms exporter in 2013 according to Sweden's SIPRI, the most authoritative international institution studying the global arms trade.

On July 7, President Vladimir Putin reported that Russia exported \$5.6 billion in arms in the first half of 2014, at least as much as the same period last year. Considering that most arms sales take place in the second half of the year, primarily in December, this year's exports are almost certain to reach between \$15 billion and \$16 billion.

This means that a country that is isolated both militarily and politically from much of the international community, thereby lacking the access it needs to the markets of its military allies, consistently ranks second only to the U.S. among the world's arms exporters.

Arms exports are, without exaggeration, a sector in which Russia continues to demonstrate a level of success far surpassing its civilian industrial and technological achievements. That

gives cause for, if not pride, then at least satisfaction.

But it is difficult to explain the phenomenon of Russia's success.

Russia, of course, has always been unique among nations when it comes to the arms trade, or "military and technical cooperation," as government officials like to call it. The arms trade has almost sacred significance in Russia, evidenced both in its militaristic political culture and in the focused attention the country's leadership has given to modernizing the military over the past five or six years.

But there are many more reasons, in fact, for Russia to be far behind China, France and numerous other industrialized countries when it comes to military arms and technology.

First, the main drivers behind the growth in the weapons sales in the 2000s are now either mostly or fully exhausted. The market cycle for the bestselling equipment of the past two decades is coming to an end, and Russia has yet to present new market-ready offers. It has become increasingly difficult to even to modernize — and therefore sell — aircraft, submarines and tanks that were originally designed in the 1970s and 1980s.

Second, Russia no longer sells its military hardware at bargain prices, making its goods less competitive. Russia has exhausted its stores of airplane fuselages and ship hulls from the 1990s with which it fulfilled previous export contracts and now sells only equipment utilizing new and more expensive materials.

Third, high levels of industrial inflation, especially in 2005 to 2008, and the nationalization of the defense industry with the creation of the Rostec state conglomerate have also had a strong influence on the price of Russian arms. Although Russian arms remain less expensive than those from the West, the price difference is now minimal.

Fourth, Russia only reluctantly extends credit to its customers. Contrary to popular opinion, Moscow is extremely cautious about selling military equipment on credit.

Finance Ministry officials still remember the psychological shock they received from having to write off the debts accumulated from deliveries of Soviet weapons. Now Moscow employs methods used by the International Monetary Fund and World Bank to thoroughly analyze the creditworthiness of potential debtors before extending credit.

Nor can Russia rely on more creative financing schemes to increase their export sales. Although Moscow used to offer arms sales as a way for other countries to pay off old Soviet-era debt, that debt has now been paid off. Such sales at times accounted for up to 22 percent of the total value of all arms exports and made it possible for Moscow to penetrate such politically challenging markets as South Korea and Central European states that had joined NATO, such as Hungary.

And finally, the large-scale weapons purchases that Russia's own Defense Ministry has made in the last four or five years do not necessarily have a positive impact on exports. Although it is generally thought that selling weapons systems abroad is easier if they are in heavy demand at home, the Russian military now purchases the entire production output of specific weapons systems several years in advance, leaving nothing to export to other countries.

As a result, Rosoboronexport has informed buyers that it can only fill their orders for such systems in three or four years' time. This is especially true of several air defense systems.

Thus, the basic factors that normally strengthen a country's position in the arms market are not in effect for Russia. And yet Russia's arms exports continue growing in nominal terms, with real output at the very least remaining stable.

So what is driving these sales?

There seems to be only one logical explanation: Russia's military exports remain strong thanks to the country's independent and tough, if not downright belligerent, foreign policy. Weapons are a very specific or, as they say in Russia, "political" product — whatever that means. The seller's foreign policy image can have a greater influence on the buyer than the quality and price of the product itself.

And so it turns out that, in the eyes of arms importers all over the world, Putin's decisions to grant political asylum to NSA intelligence leaker Edward Snowden, support the regime of Syrian President Bashar Assad and annex Crimea compensate for Russia's inability to compete directly with the more technologically advanced Europe and the industrial and financial titan China.

Meanwhile, France has had difficulty finding buyers for its splendid Rafale combat aircraft because politicians in Washington can "shoot down" those deals. Washington, in tandem with its EU allies, can even force powerful people like French President Francois Hollande, a leader of an independent state, to snivel and plead in order to save a deal to deliver a helicopter carrier ship to Russia.

People and countries buy weapons from those whom they respect, meaning those who respect themselves and act assertively to defend their perceived interests.

It seems like a dream come true for Russia's leadership, especially at the current moment: Russia's foreign policy is, finally and no doubt unexpectedly, beginning to add value to its economy.

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