



Sacrificing Beans for Bullets

OE Watch Commentary: From the Kremlin's perspective, Russia is well on its way to regaining its status as a superpower. A key component of this status is a modern, well-equipped, and combat-ready military to defend perceived Russian interests, whether in Ukraine, Syria, or the Arctic. However, given the size and structural weaknesses of the Russian economy, combined with continued Western sanctions, there are increasing doubts regarding the Kremlin's future ability to produce both "beans and bullets." The accompanying excerpt from the semi-independent news site, *Nezavisimaya Gazeta*, examines the "new National Arms Program for 2018-2027 (GPV-2027)" and suggests that this plan "will be attended by certain problems," which "will not best impact Russia's socioeconomic indicators."

The author begins by describing the projected defense outlays ("approximately R20 trillion" [or \$360bn]) over the next ten years, which roughly amounts to \$36bn per year "on arms and military equipment," asserting that this level of funding indicates "that there is no question of any sequester of military spending." He goes on to list the various promises of the president and senior defense officials regarding providing the military with the latest equipment, concluding that "Russia thus not only aspires not to trail the modern armies of the world but also aims to possess one of the world's highest military potentials." The author questions, however, whether today's Russia possesses the economic base to support such aspirations.

The author goes on to examine the related Kremlin directive which mandated that the enterprises of the defense industrial complex be required to "raise by 2025 the share of commercial output to 30 percent of total defense industrial complex output, and to 50 percent by 2030." Theoretically, the revenues generated by state defense firms producing commercial goods could be reinvested for research and development for both military and civilian goods. Unfortunately, for these defense firms to compete successfully in the civilian market will require significant capital investment, and as the author points out, "the state does not have the money for this." The author ends the article with a brief examination of this year's military budget compared to major expenses, concluding that to pay for more "bullets," the Kremlin will likely cut back on civilian "beans." **End OE Watch Commentary (Finch)**

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Source: Vladimir Mukhin, "Москва не выходит из гонки вооружений: Диверсификацию в ОПК решили стимулировать директивными методами," [Moscow will not Leave the Arms Race: It Has Been Decided to Stimulate Defense Industry Diversification by Directive Methods] *Nezavisimaya Gazeta Online*, 26 January 2018. http://www.ng.ru/politics/2018-01-26/1_7159_moscow.html

Russia has adopted the new National Arms Program for 2018-2027 (GPV-2027). This was announced by President Vladimir Putin in Ufa during exchanges with the engine builders. He allayed the misgivings that the state would be reducing spending on arms manufacturing. And he assured them that all enterprises of the defense industrial complex would in the coming years be provided "steadily, rhythmically" with a government contract.

...Whereas experts put the cost of GPV-2010 at approximately R20.7 trillion (R19.4 trillion of which for the needs of the Defense Ministry), Tatyana Shevtsova, deputy head of the Russian Federation Defense Ministry, says that approximately R20 trillion are planned for supplies of arms and military equipment and plant of the military infrastructure. That is, it is planned to spend R2 trillion annually on average, as in previous years, on arms and military equipment. This means that there is no question of any sequester of military spending.

Second, the Kremlin, government, and Defense Ministry have already identified ambitious tasks for the re-equipment of the Russian army. Vladimir Putin said at the final meeting of the Defense Ministry Board at the end of the last year that special emphasis in GPV-2027 would be put on provision of the troops with air-, ground-, and sea-launched precision weapons and unmanned strike systems and also with the servicemen's personal gear and equipment and the latest intelligence, communications, and electronic-warfare systems. Deputy Premier Dmitriy Rogozin said recently that the priorities of the new National Arms Program include the attainment by 2020 of provision of the army and navy with modern arms and equipment to the level of 70 percent and development of the nuclear deterrence forces and aerospace defense resources.... Russia thus not only aspires not to trail the modern armies of the world but also aims to possess one of the world's highest military potentials. This cannot be called anything other than an arms race.

Third, the RF leadership evidently understands that an arms race cannot last forever. And following the program of saturation of the army and navy with new types of arms and military equipment, enterprises of the defense industrial complex will sooner or later, evidently, have to switch to the manufacture of peaceful products.... Putin set a specific task: "Raise by 2025 the share of commercial output to 30 percent of total defense industrial complex output, and to 50 percent by 2030." Since there are directive instructions, centralized funds for their execution have to be allocated also, consequently, since almost all military industry in the country is state-owned....

...He tasked their resolution, for a search for "mechanisms of special investment contracts" included, but said nothing material about plans for state investments in the diversification of enterprises of the defense industrial complex.... But no one in industry is as yet in any hurry to finance these projects. And the reason is plain – the state does not have the money for this.

The 2018 Budget Act has already set the spending on national defense for the coming three years. And it will amount on average to R2.8 trillion.... It may thus be expected that execution of GPV-2027 will be attended by certain problems. And these problems will not best impact Russia's socioeconomic indicators.