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# RSIS COMMENTARIES

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## **RUSSIAN ARMS SALES: The Other Story behind Somalia's Piracy**

Collin Koh and Ron Matthews

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*The piracy problem in Somali waters highlights the challenges and dilemmas facing Russia's arms exporters despite phenomenal sales growth since 2000. A combination of factors, including fierce competition in the global defence market, may compel Russia to sell to less-demanding clients, shunned by Western defence contractors. This could potentially result in intensified geopolitical clashes between Russia and the West.*

THE RECENT capture by Somali pirates of a Ukrainian ship laden with Russian armaments highlights yet again the global reach of Russian arms exports. These arms, allegedly destined for Sudan, represent a microcosm of Russia's recent billion dollar deals to nations as far-flung as Indonesia and Venezuela. In the latter case, Russia raised the *ante* by also sending warships and long-range bombers to conduct joint military manoeuvres. Russia's expanded military and diplomatic influence, through the cultivation of arms sales, signals not only the rising competitiveness of Russian military kit but also perhaps the growth of global anti-US sentiment.

### **Russian Arms Exports: Choppy Waters Ahead?**

Yet, but for substantial arms sales to China and India in the 1990s Russia's military-industrial complex would not have survived. Vladimir Putin's succession as the president of Russia marked an end to the chaos then afflicting Russia's defence economy. Increased military appropriations afforded by huge energy revenues allowed new capital infusions into defence-related research and development. Also, a state decree which designated *Rosoboronexport* as the single arms trading authority helped reposition Russia in the global defence market.

Since then, Russia has become the world's second largest arms exporter after the United States, with earnings growth from US\$3 billion at the close of the 20<sup>th</sup> century to around US\$7 billion in 2007. This is a remarkable growth trend, given the competitive challenges Russia faces. However, whilst *Rosoboronexport*, as Russia's arms exporting agency, aims to sell US\$6.1-billion worth of military equipment in 2008, Moscow's future arms exporting prospects look less than certain.

## Russia's New Arms Export Reality

Russia's arms export successes since the late 1990s can be attributed mainly to sales of higher-end weapons. Having inherited substantial Cold War-era military hardware and industrial capacities within their territories, some of the former Soviet republics have become arms exporters in their own right, filling lower-end arms niches. Ukraine, for example, is ranked as the world's tenth largest arms supplier, marketing weapons equivalent to, yet cheaper than, Russian kit.

Poland and Ukraine have also been actively promoting indigenous derivatives of the Soviet-era *T-72* main battle tank – 33 of which are embroiled in the piracy of the Ukrainian vessel *MV Faina* and its Africa-bound lethal cargo. Yet, whilst the arms on the *MV Faina* are definitely of Russian design, mystery continues to surround the origins of this vessel's cargo and also its ultimate destination. Rumours have now surfaced that the shipment was handled by the Ukrainian arms exporter, *Ukrspetsexport*, and its destination was not Sudan, but another, as yet, unknown African country.

Due to the increased competition that Russia increasingly faces in the global arms market, *Rosoboronexport* has become obliged to market the more sophisticated hardware in its stable, including advanced *Sukhoi Su-27/30*-series fighters, submarines, *T-90* tanks and missile systems. Even in this high-end arena, Russia faces stiff competition from an emerging network of lower-order arms exporters. For instance, using original Russian technology, obtained through huge arms deals, China has been able to reverse-engineer hardware such as the *J-11* fighter – widely seen as a cheaper carbon copy of the high-tech *Su-27* – with huge potential sales to the developing world's militaries.

Similarly, the new Chinese *PHL03* artillery rocket system bears striking resemblance to the Russian *9K58 'Smerch'*. While most Chinese makes are essentially duplicates of Cold War Soviet weapons, such as the *F-7 (MiG-21)* fighter or the *Type-59/69* tank (*T-55*), emerging Chinese copies of high-end Russian hardware can increasingly compete with the 'originals' in terms of price competitiveness. These newer models thus challenge Russia's primacy in quality-price ratios, especially in the developing world's arms markets.

### More attractive terms

To effectively compete in the international arms bazaar, Russia not only has to churn out newer and more sophisticated military technologies but also has to offer more attractive terms, such as lower costs, and deal sweeteners, including credits and technology transfers. Sales of high-end equipment like *Su-30* fighters and 'Kilo'-class submarines have therefore created an export boom for Russia's defence contractors, positioning them amongst the top echelon of global arms suppliers. Yet, surprisingly, Russian defence contractors are presently under enormous financial pressure. Notwithstanding the availability of funding underpinning state defence procurement, Russia's generals have complained about slow delivery and low quality of supposedly sophisticated hardware.

Foreign complaints have also surfaced. For instance, in May 2008 Algeria pointedly rejected further deliveries of the *MiG-29* fighter – another high-end Russian export – because of its inferior build quality. These woes are caused by an aging military-industrial infrastructure, high overhead and raw material costs, and declining quality of manpower. In January this year, a senior Russian military-industrial official stated that 25% of the countries' defence companies are on the brink of bankruptcy. Deterioration in product quality has begun to affect even the high-end hardware that Russia aggressively markets abroad. Previous restructuring, such as the 'strategic' amalgamation of aerospace and maritime firms into separate and consolidated unitary corporations, have failed to ease these problems; rather they have engendered opportunities for corruption and mismanagement of state funds.

As the Stockholm International Peace Research Institute (SIPRI) noted in March 2008, Russia's

defence-industrial decay combined with Moscow's paranoia over potential technology leakage, is beginning to have an impact on established markets. China, for instance, has reduced imports of Russian arms by a gargantuan 62%, albeit over the limited period, 2006-2007. In the face of potentially shrinking import orders from traditional major markets and a threatened reduction in its share of the global arms trade, Russia has sought to peddle arms to new, and some times less demanding, clients.

Such sales may be at the expense of contravening international norms and clashing with Western interests. Despite having ruled out unauthorized arms exports to conflict areas, Moscow can be tempted. An example of this is the alleged sale of *MiG-29s* – allegedly through Belarus – to Sudan; this carried with it the further unwanted controversy surrounding the reported death of a Russian *MiG-29* pilot during last May's Darfur fighting.

### **Emerging Dilemma for Russia's Arms Exports**

Russia's arms export prospects will be shaped by an emerging dilemma. On the one hand, Russia aspires to become the world's top arms supplier, expanding its share of the market while retaining traditional large buyers such as China and India. On the other hand, in order to sell more arms in the highly competitive global defence market, Russia needs to push incentive deals, such as technology transfer, but with the caveat, of course, that such transfers may act to undermine national security.

To circumvent this, and to cope with the real, or potential, threat of new-entry high-end arms sellers offering competitive contractual packages, Russia will be obliged to expand the geographical scope of its arms sales, as evident in Russia's recent forays into Southeast Asia and Latin America. Yet, Moscow's arms trade with such countries, especially those shunned by Western states, will likely be mired in controversy. Notwithstanding its record-breaking sales over recent years, the prospects for Russia's arms exports are shrouded in uncertainty.

*Collin Koh is a Research Analyst at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University. Ron Matthews is a Professor and British-trained defence economist and the Deputy Director of the Institute of Defence and Strategic Studies at RSIS.*