

Arms Sales and Russia's Future as an Asian Power

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The study of a country's arms sales opens up pathways for investigating its domestic and foreign policies. Arms sales are also a phenomenon that is greatly affected by globalization. This is certainly the case for Russia, especially as regards its arms sales to Asia. This article analyzes Russian arms sales to Asia and finds that despite Moscow's professed optimism that it can continue to maintain a competitive edge and its standing as a key Asian military power, there are many reasons for serious concern. These concerns relate to the quality of Russian weapons, to the domestic struggle for resources within a thoroughly corrupt defense industrial sector, and to external forces such as Chinese and South Korean producers who now compete with Russia in the global and Asian arms markets. Such trends may lead not only to a decline in Russia's overall standing and capabilities in Asia, but also to a transformation of Asia's strategic landscape.

Key words: arms sales, China, defense industry, India, Russia

A recent controversy generated by Turkey's awarding of a defense tender to China shows that Chinese weapon systems are becoming more competitive. Not only does this attest to the rise of Chinese power and capability, but it also contains potentially ominous implications for rival arms sellers like Russia. This article investigates Russian arms sales to Asia in this context of the rising capability of China as well as other Asian countries to produce and sell weapons. Though there are many problems affecting Russian defense production and arms sales, Russia is aggressively selling arms abroad. Indeed, according to one recent report,

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Russian arms sales to Latin America have overtaken those of the United States (“Russian Arms Sales Overtake US in Latin America,” Moscow Top News, October 27, 2013, <http://www.moscowtopnews.com/?area=postView&id=1939>). A 2012 estimate observed that Russia had doubled its arms exports in the last four years (Maxim Shemetov, “Russian Arms Sales Double as Sales to Syria Continue,” <http://www.themoscowtimes.com/business/article/russian-arms-sales-double-as-sales-to-syria-continue/475530.html>). Likewise, Rosoboroneksport (ROE), Russia’s arms sales company, recently reported that its order portfolio had topped \$38 billion and that it expects to deliver over \$13 billion worth of equipment to foreign buyers in 2013. Obviously, some governments still find Russian weapons to be worth their money (Moscow, *Interfax*, in English, November 1, 2013, *Open Source Center, Foreign Broadcast Information Service, Central Eurasia*, henceforth (FBIS SOV) November 1, 2013).

Arms sales are a major component of globalization and link governments with both internal and external interest groups. The extent to which a state exports and/or imports arms serves to indicate its global standing (Childs, 2012, p. 345). As one recent analysis observes,

Each time a transfer relationship is fostered, it implies political and military links between the exporter and the recipient with the increased number of import links held by a state reflective of its overall participation within the global security system. To this end increased export links are reflective of the *political* effects of globalization as much as, if not more than, the economic effects. (Childs, 2012, p. 345; italics in the original)

Similarly Thomas Ohlsson wrote in 1988 that,

Arms transfers are essentially a systemic phenomenon—[that] result(s) from national political, military, and economic motivations and considerations in both supplier and recipient countries—Arms transfers can neither be understood or judged without insight into the dynamics of this complex web of system interaction between and within interest groups and states. (Ohlsson, 1988, p. 11 quoted in Childs, 2012, p. 345)

These insights remind us that Russian arms sales, not least to Asia, are an integral part of this network of relationships, and that trends among both buyers and sellers involving Moscow and its customers carry important implications for Russian and Asian security. Furthermore, the extent of Russia’s arms sales and its relationships to customers helps measure (in its own eyes as well as in others’ eyes) its international standing.

Despite well-known problems afflicting Russian defense production, Russian spokesmen profess considerable pride and optimism in the volume of Russian arms sales today and in the future, and thus pride and optimism about their country’s standing in Asia. Deputy Prime Minister Dmitry Rogozin, head of Russia’s defense industrial sector, claims that their defense industry competes seriously with foreign counterparts. Although this is by no means true if compared with the West, the statement reflects an important element in Russia’s self-image both abroad and at home.

This pride not only reflects genuine progress in the global arms market; it also relates to a major priority of President Vladimir Putin. Putin and his leadership team have long adopted the Soviet belief that the defense industrial sector is a

locomotive for general economic recovery and technological breakthrough. They have argued that the defense industry incarnates the most technologically advanced branches of Russia's economy and draws upon the most qualified personnel. Therefore, the state should grant it privileges to help it realize its destiny as the locomotive of that recovery (Blank, 1993; Kennaway, 1999, 2000; Zisk, 1997). Moreover, Putin advocated a leap forward to accomplish "several cycles of modernization" commensurate with that supposedly attained by the Soviet Union during the 1930s (*Interfax-AVN Online*, in English, August 31, 2012). Therefore, the progress of the defense industry and of arms sales generated by it confirms the importance of arms sales as an indicator of Russia's international standing.

Trends in arms sales and defense industry are deemed crucial to achieving a great power position in Asia, if not globally. Since 2008, Asia has become an ever greater Russian priority. To the extent that Russia fails to compete with its rivals in arms sales to Asia, it will lose ground regionally and globally.

Russian arms sales to Asia have become a more important consideration since Russia joined sanctions against Iran and started losing its arms markets in Syria and Libya due to the civil war there. In particular, arms sales to major Asian players like India and China have become a key component of its ability to conduct a sovereign independent foreign policy both in Asia and globally. Should it lose ground in this field, and by implication in its ability to be a militarily competitive and independent actor, it will come under increasing pressure to align itself with either East (China) or West (Europe and the United States) and yield some if not most of that independence. And if it loses that independence, it will not be able to exploit all the rivalries that its ability to sell arms to East and South Asian states now allows it. Instead Russia may have to actually take sides in regional rivalries (Katz, 2005). Thus, it may be argued that its capacity for autarchic and independent action will increase or diminish commensurate to the extent of those sales and the defense industry's competitiveness.

Arms sales are moreover a surrogate for Russia's inability to compete economically with its rivals abroad. Therefore it must use this means of gaining access and influence in third party countries. If arms sales as a means of gaining influence weakens, the entire scaffolding of Russian policy in Asia, if not in other parts of the world, comes under great strain.

As Thomas Gomart (2009, 132) noted,

the lack of interest in the operational dimension of events in Chechnya is often accompanied by a reading of Russian arms sales that is often incomplete. Russia has three main clients, which cannot but be of interest to the (NATO) Alliance: India, China, and Iran, with which it officially maintains civilian nuclear cooperation. Furthermore, Russia also sells weapons systems to Syria, Venezuela, and Algeria. With these sales Russia is looking for foreign earnings and to keep its defense industry afloat, while at the same time exercising a global influence. Russia is thus cultivating an intermediate international position between the Western powers and those countries that are overtly seeking to challenge the established order. Moscow considers that its diplomatic room for maneuver lies in a continuous alternation between inclusion and exclusion with respect to Western standards, while at the same time being fundamentally wary of any excessively rapid rise to power by countries like China, India, or Iran. The result is a paradoxical situation in which short-term interests (earnings from arms sales and immediate

political influence) run up against long-term ones (military balance and demographical balance) with respect to rising future powers. This raises the issue of whether Russians and Westerners intend to meet the rise of these nations by neutralizing each other or by working together. This in turn raises the question of whether their main security interests lie inside or outside the U.S./European/Russian triangle.

Grounds for Optimism

According to Russian officials, Russian arms sales and defense exports in 2011 grew 26% from 2010 and hit a record \$13.2 billion. Russia also had a record year of arms sales in 2012, selling \$14 billion of arms abroad, while sealing contracts worth another \$15 billion (Lobina, 2012). Although its Middle East exports fell due to the civil wars in Libya and Syria, Moscow is clearly working hard to export elsewhere, for example, other Middle Eastern states Southeast Asia, Latin America, the Commonwealth of Independent States, Africa, and India (Konstantin, 2012). Meanwhile Russia's arms export order book has allegedly topped \$40 billion (*Interfax*, in English, February 22, 2012). Both the Stockholm International Peace Research Institute and the U.S. Congressional Research Service report, respectively, that global arms transfers increased by 24% in 2007–2011 compared with 2002–2006, and that the value of all agreements (not actual deliveries) in 2011 more than doubled the figure for 2010; so there should be reason for more optimism, rather than concern (Gill, 2012).

Such optimism apparently continued into 2012. President Putin told Russia's Commission for Military Technology Cooperation in June 2012 that arms sales abroad are a strategic sector, and that "military-technical cooperation" is "an effective instrument for advancing our national interests, both political and economic." Putin added that Russia, as the second largest seller of arms abroad has a "time-tested reputation" as a top-flight producer of sophisticated weapons and technologies ("Meeting of the Commission for Military Technology Cooperation With Foreign States," July 2, 2012).

Most sales occur in the aviation sector, and India remains the primary customer, accounting for 25–35% of Russian arms sales (Lobina, 2012). Much of this India business involved refurbishing Soviet-era technology and hardware India had earlier purchased (*Reuters*, December 17, 2012). On December 24, 2012, Putin announced new deals to sell India 71 Mi-17 helicopters and 42 Sukhoi Su-30 Fighters for a total of \$3 billion, with a tank ammunition deal expected to be close behind (*RIA Novosti*, December 24, 2012).

But is this optimism justified? While Russia's relations with major Asian customers may superficially look like they are improving, a deeper analysis suggests that there are major trends and transformations under way that could negatively affect Russia while exercising significant impact upon Asian states. The analysis also strongly suggests that Moscow has cause for concern about its arms sales, not just to Asia. Since Asia in general, and particularly India, is the largest market for those sales, what would such negative trends portend for Russia and how would they affect Asian states?

Furthermore, in relation to arms sales abroad, globalization is by no means a wholly positive force, as it also is an engine for the "amplification" of insecurity and conflict (Sarcinschi, 2006).

Concerns Arising from the State of Russia's Defense Sector

Russia has real grounds for concern. First, the losses in the Middle East, Syria, Libya, and before them, Iran, seem to be irretrievable. Russian officials and analysts have long suspected that where Russian weapons lose out, American and Western sellers come in or at least try to prevent Russia from coming back. And should Iran reach agreement with the West it is conceivable that Russian arms might lose out to superior Western models. This may explain Russia's haste in trying to restore arms sales to Iran even if it cannot sell Iran the S-300 air defense missile (Atul Aneja, "Russia Steps in to Improve Military Ties With Iran," *The Hindu*, October 23, 2013, <http://www.thehindu.com/news/international/world/russia-steps-in-to-improve-military-ties-with-iran/article5263017.ece>). When Iraq's government promptly rescinded a recent deal to buy \$4.2 billion of Russian arms on grounds of corruption, Russian analysts, if not officials, thought that U.S. pressure on Iraq forced it to retract the deal (*BBC News Middle East*, November 10, 2012). Though those sales came back on track and resumed in 2013, these obstacles still remain ("For Russia, \$4.3 Billion Arms Deal with Iraq is Vital," <http://www.upi.com>, July 16, 2013). Russian analysts also believe the same holds true for Iran (Parker, 2009). Meanwhile Israel regularly seeks to block Russian or any other arms sales to hostile Arab states (*Interfax*, in English, September 5, 2010). Nevertheless Russia is trying to return to Arab markets such as Iraq and Libya (*Interfax-AVN Online*, August 22, 2012).

Russia's search for lost markets and desire to establish permanent bases of influence also lead it to Egypt where ties with America have eroded due to American dithering about the lack of democracy once Egyptian generals seized power in mid-2013. In this case it appears that Russia will sell Egypt \$4 billion of arms if Saudi financing becomes available (Nasr Al-Majali, "Dadi Arabia Finances the Russian Arms Deal With Egypt," London, *Ilaf*, in Arabic, November 12, 2013, *FBIS SOV*, November 12, 2013).

Russia must accordingly compete harder for markets elsewhere. And here the problems begin. Russia's defense sector cannot produce the weapons Moscow and the Russian military themselves want. Its weapons are often of poor quality and the sector is enmeshed in pervasive and long-standing corruption, kickbacks, slush funds to high officials, and even outright criminality (Shlykov, 2004a, p. 160, 2004b). The scale of this corruption is admitted by Russian observers to be "immense." Sergei Ivanov, Chief of the Presidential Staff, confessed that in 2013 alone corruption had cost the government \$312 million, and there is reason to suspect that this was an understatement ("Kremlin: Corruption Damage 'Immense' in Russia," <http://www.upi.com>, October 31, 2013). In regard to arms sales the lust for corrupt profits in an area where it is easy to engage in dubious business practices is very great and widespread as these figures suggest. Indeed, State control gives the government access to large amounts of unreported and unreportable cash that can be used, as Boris Yeltsin and Putin have done, for domestic political "slush funds." Those funds are then used for domestic political corruption and unaccountable election activities that essentially constitute fraud. As an Indian analyst observed, by designating ROE in 2007–2009 as the state corporation with unlimited control over arms exports Moscow created an organization that habitually employs unscrupulous business practices in order to make

a profit for the shipyard or original manufacturer, the Russian government and itself through kickbacks, corruption, etc. Instead, he argued India should try to persuade Moscow to remove ROE so that India can negotiate directly with producers as is done in the West (Retired Vice Admiral Arun Kumar Singh, "Waiting for Gorshkov," New Delhi, *The Asian Age Internet Version*, in English, January 25, 2008, *FBIS SOV*, January 25, 2008). So the lust for profit also drives Russian arms sales, both licit and illicit.

"The financial cost of corruption uncovered in the Russian Armed Forces in 2013 soared 450% from 2012 to over 4.4 billion rubles (\$130 million)," the Prosecutor General's Office reported. "Every third corruption offense is committed by civil servants and civilian personnel" (James Miller, "Growing Corruption in the Russian Military," <http://www.interpretermag.com/growing-corruption-in-the-russian-military/>, July 15, 2013).

At the same time, the defense sector is also increasingly vulnerable to tides of globalization in the global arms sales process. Indeed, like its customers abroad, Russia now must obtain licenses from foreign suppliers to indigenize their models and build them at home, for example, the Italian-designed Centauro wheeled trucks (Simonov, 2012) are a case in point. Yet this was only the latest indignity in a string of failures described below.

In 2007–2008 Russia had to take back 15 MiG-29 Fighters that were part of a larger \$8 billion deal from Algeria who refused them on the grounds of poor quality as they had been made from old parts. Algeria then asked Russia to replace them with 14–16 Su-30KA Fighters. Subsequently, Algeria stopped making payments on the MiG-29s and apparently opted instead for the French Rafale Fighter, and Russia reacted by stopping the shipment of Su-30s to Algeria (*RIA Novosti*, May 15, 2008). Although the shipments of Su-30s have now been completed, Moscow—in a sign of contempt for its own soldiers—remanded the returned planes to its own Air Force! (*RIA Novosti*, January 13, 2009). This frustrated a major Russian initiative to enmesh Algeria in a web of energy and arms deals with Russia, with Russian entry into its gas business giving it more leverage upon Europe and influence over Algeria's capability to produce liquefied natural gas (Katz, 2007). Moscow, to date, continues to deny that it sold substandard parts in the original delivery of MiG-29SMT Fighters (*Interfax-AVN Online*, in English, August 19, 2009).

But this is not all. Russia's own armed forces have refused to accept weapons produced for them, for example, the Pantsir air defense system that Moscow also exports (*Izvestiya Online*, in Russian, September 14, 2012). Russia's military also has problems with the new Ilyushin IL-476 whose specifications do not meet the required characteristics for combat conditions (*Nezavisimoye Voyennoye Obozreniye*, in Russian, October 3, 2012). Although the Navy is now building an aircraft carrier to be deployed in 2018 as both a powerful strike platform and command control center, the Russian Navy already denigrates the design. It claims the designers, hoping to make a huge profit, offered the Navy a replica of the old Soviet aircraft cruiser Ulyanovsk that was not built due to the Soviet collapse and which is now obsolete (*Izvestiya Online*, November 26, 2012). Prime Minister Dmitry Medvedev similarly chastised defense plants for trying to sell old Soviet weapons in new wrapping in order to make big profits, and for failing to align prices, amounts, and deadlines for production. These plants were "not

always prepared to work the way required by current circumstances and the market" (*Interfax*, November 7, 2012). In 2011 there were complaints from clients about poor quality of items worth a total of 24 billion rubles (\$779 million) (Litovkin, 2012). By November 2012, another series of complaints involving 20 billion rubles had surfaced (*Vzglyad Online*, in Russian, November 29, 2012). Rogozin then announced that there would be a major purge due to corruption (*RIA Novosti*, November 20, 2012). Thus, despite continued high defense spending, the record of defective arms production spreading into foreign arms sales is extensive. Consequently, nobody can vouch for the reliability of either domestically deployed or exported systems.

Indian complaints about the poor quality of Russian weapons also go back many years (*The Indian Express, Internet Version*, in English, April 24, 2002). Due to Russian incompetence in retrofitting the former Russian carrier, the *Gorshkov*, for India for \$800 million and returning it by 2008, it now costs \$2.3 billion and was only repatriated to India in late 2013 (*Press Trust of India*, October 2, 2012). This has greatly frustrated India's navy, and India was considering imposing damages on Russia for this fiasco. No agreement on this carrier issue was reached with Putin during his December 2012 visit to India (*The Times of India Online*, in English, December 13, 2012). But finally in 2013 the carrier left Russia for sea trials and India. Likewise, India wanted a jointly produced fifth generation Fighter to be ready by 2017. Instead it will only become available in 2019 (*The Times of India Online*, in English, October 16, 2009). All these facts must inevitably rebound back onto future Russian arms sales abroad.

In another case, Russia is still trying to sell to Belarus Su-30 Fighters that India had earlier operated and rejected (*Interfax-AVN Online*, in English, May 16, 2012). Belarus' dictator, Alesandr Lukashenka has likewise complained about problems with the Russian defense industry (*FBIS SOV*, October 24, 2012), including procurement delays that remain widespread.

The travails of the *Bulava* SSBN, Russia's future submarine-based naval deterrent and the 12 tests it underwent before approval, were also widely reported. The delivery of the Russian Navy's new missile gunnery system, the *Pantsir-M* is expected to be delayed by at least three years (*FBIS SOV*, November 6, 2012). Meanwhile, the reform of Moscow's automated tactical command and control system has been mired in delays, showing the state's inability to oversee the defense sector properly, and the sector's inability to meet state requirements. Army General Aleksandr Starovoytov investigated this fiasco (McDermott, 2012; Mukhin, 2012). This failure jeopardizes Russia's effort to digitize the army and make it capable of network or netcentric warfare. Some of the officials who departed from the Ministry of Defense in the wake of Defense Minister Serdyukov's ouster in November 2012 may have been "purged" in connection with this particular failure (*Nezavisimaya Gazeta Online*, in Russian, November 12, 2012).

Indeed, Russia's main arms sales agency, ROE, has come under pressure because Russia, despite Putin's latest achievements, has lost several tenders, including purchase of heavy lift-helicopters and aerial tankers offered by India to other rivals apparently on considerations of cost and after-sales service (*RIA Novosti*, November 28, 2012). After Russia lost the Indian tender for Fighters with the MiG-35 losing to France's Rafale, the arms sales expert Konstantin Makiyenko, Deputy Director of the Center for Analysis of Strategies and Tech-

nologies (CAST), advocated that Russia should retaliate by offering the MiG-35 to Pakistan and jettisoning Russia's past restraint toward Pakistan (*Interfax-AVN Online*, in Russian, April 28, 2011).

Despite vociferous opposition from the defense sector, it appears that the Putin government remains committed to continue buying foreign models, prototypes or small batches of advanced weapons systems, or actual weapons but only if it cannot duplicate them domestically (Moscow, *Interfax*, in English, December 26, 2013, *FBIS SOV*, December 26, 2013). Russian print media published articles ahead of the presidential election, where Putin explained that Russia wished to purchase small quantities of foreign equipment in order to acquire the underlying technology, as buying "single examples of systems, units, materials and technologies . . . will allow us swiftly to resolve urgent tasks in the defense sector and—serve as the basis for acquiring technologies and knowledge" (*Rossiyskaya Gazeta*, 17 February 2012; Giles, Forthcoming).

This marks a retreat from Russian policy during 2008–2009 when Russia bought French, Italian, German, Israeli, and Finnish weapons and technologies (Nichol, 2011). Throughout 2012, Serdyukov waged an intense struggle with Rogozin representing the defense industrial sector, Sergei Chemezov as head of Rostekhnologii and overseer of Russia's arms sales abroad, and Putin's Chief of Staff and former Defense Minister, Sergei Ivanov (Arutunyan, 2012; Baev, 2012; Golts, 2012). Those men regularly argued against buying foreign systems. In May 2012, Rogozin argued that the domestic defense industry must be supported, that is, protected, for if Russia does not buy its own products which are supposedly good enough to meet standards even if they are not the world's best, then these enterprises will eventually go bankrupt (*Interfax-AVN Online*, in English, May 14, 2012). This is a very strange logic, especially with regard to arms sales, namely, that the Russian military must continue patronizing uncompetitive defense producers lest they go bankrupt. On this basis, it must be difficult to persuade foreign buyers to buy second-rate products and services merely to keep inefficient producers afloat.

Yet evidently those forces have gained ground. Russian defense officials claimed that Russian defense industry had displayed products at the Farnborough international air show that will help it overcome dependence on foreign providers, although this remains dubious (*Interfax-AVN Online*, in English, July 13, 2012). Serdyukov's fall in November 2012 marked this sector's victory over those espousing reform and buying foreign high-quality products for the Russian armed forces (Arutunyan, 2012; Baev, 2012; Golts, 2012). In a buyers' market, these developments do not inspire confidence in Russian weapons or in Russia's ability to overcome structural problems in its defense sector and enhance global competitiveness.

Neither are these the only challenges facing Russia in regard to arms sales. The rise of Asian powers and their role in the arms trade, themselves major consequences of globalization, are fueling competition for Russia and may help aggravate insecurity throughout Asia. Russia now risks losing its market share in India and elsewhere; if it fails to meet its own needs by producing competitive weapons for itself (let alone its customers abroad), it must then import systems from the West, leading to a decline in its status. Indeed, a recent meeting of experts at the Oriental Studies Institute of the Russian Academy of Sciences noted

that Russia is losing out in the competition for Indian contracts in high technology, a very disturbing indicator given India's importance in Russian arms sales and foreign policy (*Nezavisimaya Gazeta*, in Russian, May 25, 2012).

Concerns Arising From a Global Buyers Market

Global trends, particularly in Asia, may be another source of concern for Russia's arms sellers. One of the prime indicators of globalization is the rise of Asian economies—including the defense industry sector—as the main source of global economic dynamism. Thus, the defense industrial sector is as much a register of globalization as are civilian sectors. The first sign of this transformation was the overall transition of the global arms market into a buyers' market once the Cold War ended. While that trend reflected political developments such as the fall of the Soviet Union and Russia's dropping out of competition during the 1990s, it also reflects economic conditions, in particular the first stages of rising Asian economic and industrial capability.

In and of itself, this buyers market is a cause for Russian concern. As major powers like the United States, UK, and France have to cut defense spending, their defense industries will necessarily fight to become even more competitive globally to stay in business, including pursuing an enhanced presence in markets that Russia seeks to enter. The many problems occurring in cases of Russian weapons' production is a major handicap here. But the impact of globalization presents a second challenge as well.

Today customers can compel all suppliers, including Russia, to provide not only high-level post-sales service but also huge technology and know-how transfers so that they can indigenize their own defense capability and become major producers and even exporters in their own right. This process is called offsets and has become ubiquitous in the global and Asian defense market with regard to weapons and even technologies incorporated into them.

In Russian arms sales, offsets are most common in sales to India and China. But Russian arms sellers have long understood the need for offsets to these and other markets. Already by 2001 Moscow offered offsets through technology transfer of production skills and know-how to India. At that time, despite India's quest to diversify its sources of foreign procurement,

... Russian exporters are still optimistic that they will be able to retain their positions in the Indian market. To do so, they have had to develop a fundamentally new approach to cooperation with India. While Russia used to offer ready-made weapons systems, now the emphasis is on joint design and production. This new approach was reinforced during Vladimir Putin's [October, 2000-author] visit to India, during which the two countries signed an agreement in which they pledged to protect the confidentiality of classified information transferred to or developed in the course of their joint activity. As a result, Russian and Indian researchers can now conduct joint research and development. Moreover the leading participants on the Russian side will no longer be the Rosoboronexport (Russian Defense Export) State Company, but our actual research and development organizations. The work will focus primarily on the development of reconnaissance satellites and surface-sea-and air launched cruise missiles, as well as nuclear submarine design. (*Interfax-AVN Online*, in English, November 15, 2010)

Since then, this format has become ever more necessary in Russian sales to both China and India. Richard Grimmett reported in 2009 that,

Russian leaders have made significant efforts to provide more creative financing and payment options for prospective arms clients. They have agreed to engage in counter-trade, offsets, debt swapping, and, in key cases, to make significant licensed production agreements in order to sell Russia's weapons. The willingness to license production has been a central element in several cases involving Russia's major arms clients, India and China. (Grimmet, 2009, p. 8)

Offsets from Russia to India have become a critical factor in maintaining India's longstanding ties to Russia and its defense industry, since India is Russia's largest customer. India collaborates with Russia on joint production of a fifth-generation Fighter and the Brahmos missile. More broadly, India is the only state with whom Russia is collaborating on joint production of sophisticated and futuristic weapons systems (Rajamony, 2003, p. 75).

Equally significantly, however, China has persistently sought offsets and shown a remarkable capacity to indigenize Russian systems, copy them, and then sell them under Chinese brand names abroad. This piracy, to call it by its real name, has generated considerable tension in Russo-Chinese arms sales since 2007.

Concerns Over China as a Competitor

China no longer needs weapons as much as it seeks the technologies associated with them and the right to joint development and production of Russian state of the art weapons (*Interfax-AVN Website*, June 27, 2007). China's main focus is evidently upon indigenizing foreign, not just Russian, technologies and systems, in order to master the means to make its own weapons and where necessary export them in competition with Russia (Blank, 2010).

China's propensity to reverse engineer, copy, or steal technology from Russia makes it a formidable military player and a redoubtable competitor with Russia in emerging defense markets. The Turkish example cited in this article's introduction provides further example of China's growing capacity for challenging Russia, if not other producers.

Russian experts have professed surprise at how quickly China could copy the Su-27 UBK (*The Times of London*, September 9, 2009). China will not stop this policy despite the anger it provokes abroad. For instance, the Indian Air Force in 2009 intercepted a United Arab Emirates plane that was heading to China with Western weapons that were reported as probably obtained illicitly (*Bloomberg*, September 7, 2009).

But this piracy is only a symptom of the larger cause for concern, namely, China's growing economic and military capability. Moscow's spokespersons profess no alarm at these trends. Anatoly Isaikin, director of ROE, claims that technology transfer does not lead to loss of market share unless Russia does not develop new technologies, since such transfer is often a condition for the contract (*RIA Novosti*, in Russian, October 24, 2012). Isaikin acknowledged that despite agreements on preserving the intellectual property of Russian weapons, China continued to copy them. The root cause of this is the two sides' different definition of the term "imitation" and how to prove that something is an imitation. Supposedly Russia is not worried that these weapons will have an impact upon the market because imitation processes take 10 years and during that interval

Russia can introduce more advanced weapons. Moreover, Russian weapons are qualitatively far superior to Chinese weapons and Russia has its own traditional markets, for example, in Southeast Asia (*Kanwa Asian Defense Review online*, in English, no. 87, January 1, 2012).

However, this is essentially whistling past the graveyard. China's state aerospace sector has acquired over \$2.5 billion in U.S. assets alone since 2008 and this clear policy decision is unlikely to be confined to the United States or the aviation sector (Balzer, 2011; *Jane's Defence Weekly*, 2012a, 2012b). Moreover, China's indigenous science and technology capability is rising quickly. China's defense industry is annually securing 35% more military-related patents than in the preceding year. Meanwhile, Russian science and technology languishes and remains wholly uncompetitive globally. Foreign writers like Tai Ming Cheung (2009) argue that China, unlike Russia, has developed an innovation society and will continue to make great strides in developing its defense technology.

Since 2006, China has been selling Russian weapons and technology to African and Asian countries at cheaper prices than Russia could offer, thereby cutting into Russia's once promising African arms market. China in 2006 began selling the JF-17 Fighter with a Russian engine to Pakistan, causing Russia acute embarrassment with India, its other major customer. Russia ultimately had no contractual means of making China desist from selling the JF-17 and its engine, and ultimately had to join the sale and antagonize its ally India (*Khabrain*, May 10, 2007, Lexis-Nexis, May 14, 2007). Even worse is that China is vigorously hawking the JF-17 across Asia and Africa (*Jane's Defence Industry*, July 8, 2008).

It later became clear that China reverse engineered the Soviet RPG-7P anti-tank rockets, 122 mm D30 howitzer ammunition, and the PK10 assault gun exhibited at the annual MAKS international Defense Exhibition in Istanbul in 2009 (*Kanwa Asian Defense*, in English, August 31, 2009). China is also suspected of copying anti-ship missiles and aircraft engines, the Su-27 UBK Fighter, and numerous air to air and air to ground weapons, and then trying to compete with Moscow in Asian and African markets (*Sankei Shimbun Online*, in Japanese, February 2, 2009). Its development of the J-11 Fighter and its trainer the J-11B has caused considerable heartburn to Russia. At the same time, indigenizing the Su-33 has been a major Chinese priority (*Kanwa Asian Defense*, in English, September 30, 2009).

China's imitation of so many Russian systems is apparently accelerating in speed of completion not only due to the acquisition of Russian systems but also because China has systematically imported top military industrial talent from the entire former Soviet Union, for example, with respect to the S-300 air defense missile, naval radar systems, and what has now become the J-11 Fighter. China not only recruited people from design bureaus in the former Soviet Union, it sent thousands of students to study at Russian and other institutes to learn the technologies involved in these programs (*Kanwa Asian Defense*, in English, July 31, 2009).

By 2009, China was competing with Russia and the United States for entry into Turkey's Surface-to-Air Missile market. And ROE began investigating whether or not China is producing counterfeit Su-27 Fighter aircraft like the J-11B Fighter (*Ekho Moskvy*, in Russian, August 19, 2009). A Japanese report claimed that China

was “frantically” trying to sell Su-27 Fighters in the guise of China’s J-11 Fighters to African states. Egypt, a former Russian client who, like others, became frustrated with the poor quality of Russian weapons, also switched to China. Coupled with the defective MiG-29s that Algeria returned and the Gorshkov fiasco, such stories spell serious reversals for Russia in the global arms market, unless it can improve its performance. This Chinese competition is certainly not welcome to Russia (*Foresight*, in Japanese, February 28, 2009).

There have been more recent reports of Chinese competition indicating that Chinese weapons are flooding Africa (*Washington Post*, August 26, 2012) while successfully competing with Russia in some countries in Southeast Asia, for example, in Thailand (*Jane’s Defence Weekly*, September 7, 2012). Ruslan Pukhov, the Director of CAST, observed that Russia and China compete in the same markets but China has major advantages because its economy is both larger than that of Russia and complements the economies of would-be customers more than Russia’s economy does. China is also a major buyer of raw materials from Africa, Latin America, and the Middle East, even as it is constantly seeking to invest in these countries. On the other hand, China’s strident policies in South and Southeast Asia are giving Russia opportunities in markets like Vietnam and Myanmar (*RIA Novosti*, in Russian, May 3, 2011).

Pukhov further argued that,

The strengthening in military-technical cooperation between China and Pakistan is leading to an increase in the volume of the Indian market which is important to the Russian Federation. . . . Moreover, in the near future, China’s military exports will be tied to the global priorities of Chinese foreign policy, which is what is currently happening with the US and happened in the past with the USSR, which will reduce the room for manoeuvre of the Chinese system of military-technical cooperation and help Russian arms supporters. (*RIA Novosti*, in Russian, May 3, 2011)

Such balanced assessments notwithstanding, China is clearly competing vigorously with Russia and advancing on several fronts. Neither are all indicators favorable to Russia. Makiyenko (2012) observed that not only is China buying fewer Russian arms, India’s market is now increasingly receptive to major arms sellers such as the United States, Israel, France, and the UK, making it harder for Russia to compete as noted above. This comes on top of the loss of key Middle East markets and the acceptance of sanctions that prohibit arms sales to Iran (Makiyenko, 2012, pp. 11–12).

Makiyenko (2012) also expressed concern that supposedly promising new systems will not be available for at least three years. These include the Su-35 Fighter which should replace what he calls the already outdated Su-30MK2 Fighter, the Il-476 transporter, the S-400 air defense system and the Amur 1650 submarine project (Makiyenko, 2012, p. 12). He also claims that ground weaponry is the only area where the defense sector has a new product ready for sale, namely, the T-90MS main battle tank (Makiyenko, 2012, p. 12).

But even here there are problems. The independent Kanwa Asian Defense Review evaluated Russian and Chinese land attack weapons, multiple launch rocket systems, main battle tanks, armoured vehicles, towed artillery, and all types of guided projectiles and found that a majority of those markets will be lost to rising powers in this field: China, South Korea, and Turkey. This is with the

exception of India and Southeast Asia who—because of their disputes with China—will obviously not become Chinese markets (*Kanwa Asian Defense Review Online*, in English, December 1, 2012). Moreover a book by the CAST Institute, assessing China's armed forces and their weaponry, makes clear that China is making steady progress, is increasingly less dependent on Russian imports, and will challenge Russia as a regional arms seller in many markets. The authors pull no punches in their conclusion. Although China lags behind Russia and therefore seeks Russian help in the fields of naval propulsion, shipborne weapons—especially shipborne air defenses, jet engines, and electronics—China is making substantial strides. Even worse for Russia is that,

All the preconditions are now in place for China to transition from a large arms importer into one of the world's leading exporters. The party that will suffer the most from such a transformation is Russia. It's bad enough that it is losing (or may have already lost) its biggest defense customer. Worse, it is also gaining a powerful and dangerous competitor on the global defense market. Both countries work in the same geographic and product segments of that market, namely, developing countries with multi-directional—or anti-Western foreign policies. And both offer moderately advanced weaponry in the medium price range.

Sooner or later, we are going to see the emergence of a group of developing countries whose economic and political course will follow China's lead. When that happens Russian arms exporters will find themselves in an even trickier situation, regardless of the quality of their wares. (Barabanov, Kashin, & Makiyenko, 2012)

The authors, like other Western experts, note the growth of the Chinese shipbuilding industry to a position of global eminence and China's increasing efforts to buy European firms or technologies to overcome its deficiencies in jet engines or naval platforms. They also note that China's ambitious aerospace program has forced Beijing to consider once again obtaining advanced jet engines from Russia. These considerations, particularly China's quest for indigenous advanced jet engines, as well as the abiding need of Russian producers for new markets, may be driving the widely reported discussions between China and Russia for the Russian Su-35 multirole Fighter Aircraft as well as Mi-171E multirole transport helicopters, jet engines, and the S-400 air defense system, which will only be sold after 2017 (Hong Kong, *Wen Wei Po Online*, in Chinese, February 27, 2012). But both Russian and foreign observers fear that China, which only wants to buy four of these Su-35 Fighters, will revert to its old tactics and indigenize the technology and then compete with Russia while overcoming its problems with making jet engines. If these deals push through, as suggested by press reports, they will show China's ability to induce Russia to reverse its previous decision to refrain from selling advanced air and other systems to China, due to its piracy and competition with Russian producers (*Kanwa News St. Petersburg, Military Policy News*, November 1, 2011).

Such a decision would mark a significant sign of China's growing power to affect Russian policy decisions, and the success of China's modernization program relative to Russia's. These sales might be necessary for Russia to regain some leverage over Chinese military trends but that leverage cuts both ways, since the sales also suggest that in an age of enhanced competition in Asia, Russia is losing out and may again have to depend upon China as a customer.

Concern Over China's Rising Military Power and Its Consequences for Asian Powers

Beyond China's rising competitive profile in arms sales, the fourth source of concern for Russia is China's growing military capability to threaten all the other major Asian powers, not least Russia. There is no question that the Russian military and political leadership—though they will never admit it publicly, recognize that an increasingly aggressive China could use Russian designs and weapons to threaten Russian national interests. To cite only one example of several instances where Russian actions clearly—though without saying so—responded to the perception of a Chinese threat: when the Chinese navy circumnavigated the Sea of Japan, hitherto a Russo-Japanese lake, in mid-2013 Russia promptly launched a snap exercise involving the airlifting of thousands of Russian troops to the Asian-Pacific or Eastern Strategic Direction and intensified its rapprochement with Japan (Blank, 2013a, 2013b).

On the one hand, Russian (and Asian) perceptions of China's military threat restrain arms sales and technology transfer to China (Blank, 2012). On the other hand, it encourages smaller Southeast Asian states to become major arms buyers from Russia. We see this happening especially but not exclusively with Vietnam. Beyond this, growing perception of a China threat multiplies other threat scenarios, for example, North Korea and Pakistan have led other major Asian states like South Korea, India, and potentially Indonesia to develop as far as possible their own robust indigenous defense industrial sector and global arms export markets.

This trend is global in nature. Israel and other middle powers, apart from China, are also supplanting Russia and competing successfully with Moscow and other sellers. Israel's main thrust is in India (Blank, 2005).

South Korea

South Korea doubled arms exports from \$1 billion in 2010 to \$2 billion in 2011; it aims to double that figure for 2012 (Blank, 2005). South Korea also aims to triple its defense exports particularly in regard to jets and submarines and is already successfully competing with Russia in promising markets. Indonesia will buy three submarines from Daewoo for \$1.1 billion and South Korea is finalizing major defense deals with Azerbaijan and Peru (*Bloomberg.com*, October 17, 2011).

Apart from the obvious but ever evolving North Korean threat, China's buildup and the possible scenarios of Chinese involvement in any future Korean contingency are a major driver of South Korea's defense buildup, especially its maritime, submarine, air, and air defense capabilities (Hughes, 2012). The Republic of Korea (ROK) discerns a changing regional strategic and security environment and also aims at a self-reliant security and defense posture (Korkmaz & Rydqvist, 2012, pp. 42–44). Its comprehensive reform across all the services also aims at producing a modernized military capable of conducting multiple missions, stimulating higher domestic demand for defense material and advanced weapons (Korkmaz & Rydqvist, pp. 58–69).

This quest for economic-military advance led South Korea, like China and India, to seek offsets, including technology transfer, aggressively. These offsets have proven instrumental in allowing South Korea to become a major defense

producer of many domestic defense requirements (Korkmaz & Rydqvist, p. 93). Its export drive often takes the form of joint defense industrial cooperation with countries other than the United States. This denotes both a striving for greater defense independence and a search for profitability, because observers believe these joint endeavors enhance the ROK's globally competitive position in increasing the demand for and thus the export of its defense production (Korkmaz & Rydqvist, pp. 75–76). South Korea is seen as seeking to expand its arms sales into Russian and Chinese markets in Southeast Asia, Africa, and Latin America (*Jane's Defence Weekly*, August 8, 2012).

This export drive apparently was part of the conception of the reform process from the start. Although Seoul's motives for this export drive do not differ significantly from those of other exporters like Russia, it is clear that the ROK, undoubtedly due to a more liberalized political and economic system as well as American help, has been much more successful in providing the kinds of technology that have strengthened its commercial and political standing in Europe and Asia.

The growing emphasis on becoming an arms supplier to foreign states and industries is not only prompted by the need to sustain the individual contractor's production capacity; another key driver is the political ambition to transform the defense sector into a more export-oriented industry. The defense industry has been identified as a new strategic industrial sector in South Korea and consequently designated as a potential contributor to national economic growth. The essential implication is that the defense industries are identified increasingly as an economic asset in addition to its core function as a tool for national security. (Korkmaz & Rydqvist, 2012, pp. 75–76)

India

Indo-Russian defense relations merit at least an essay in itself. But the trends we have discerned above, the problems with Russian exports and the impulse toward self-sufficiency and possession of a robust indigenous defense sector in an environment of mounting threat from China, Pakistan (or the two together), and terrorism has forced India to follow Japan, China, and South Korea and build a truly competitive indigenous defense industry relying heavily on offsets from all producers, not just Russia.

While this drive may at first allow Russia to stay in the game by selling India the weapons, technology, and know-how it seeks, ultimately to the degree that India, like China, can achieve its goals it will rely less on Russia and eventually become self-sufficient. India's recent contract with Rafale for 126 Fighters, noticeably not with U.S., UK, or Russian companies, highlights this quest's potentially negative impact upon Russian arms sellers. But Russia's bad track record with regard to quality, after sales service, repairs, and maintenance, and the combination of poor quality and corrupt, often incompetent business practices leading to major delays as shown above, undermine Russia's competitive standing (*The Hindu Online*, in English, August 20, 2009). Indeed, Putin was aiming at \$7.5 billion in arms sales on his visit and did not succeed in coming near that figure (*Reuters*, December 19, 2012). Given the persistent corruption of this sector and inability to meet Moscow's own needs, the growing competitiveness of major producers and the demands of ever more powerful buyers could well push

Moscow's arms sales into something of a ghetto. Indeed in India, which intends to procure over \$100 billion worth of material over the next decade, Russia faces major and intensifying competition from the UK, the United States, France, and Israel (*Times of India*, July 24, 2012). An examination of Indian buys indicates that when it comes to cutting edge technologies, Russia is not nearly as competitive as it should be or once was. Meanwhile India has concurrently launched a major program of opening up its aviation industry to foreign investors and a huge program to acquire offsets, attempting to reorganize its major domestic defense producers. While even this may not be enough, given heavy domestic criticism of India's failures in defense procurement, these programs certainly evince India's determination to overcome those problems and become a major domestic producer having access to the highest quality weapons and technologies. While none of this means the end of a 60-year relationship with Russia in arms deals, it does betoken a serious reduction of Moscow's standing in the Indian market and thus politically with India as well.

Conclusions

Despite promising global conditions, Russia's official complacency concerning arms sales is clearly unwarranted. Indeed, the government has relentlessly criticized the defense sector for its failings. But there is a larger story here. Russia not only failed to break out of Soviet patterns and become a competitive defense producer; it is no longer a self-sufficient defense producer, rhetoric to the contrary notwithstanding. Likewise, as its experts well know, its standing as the second largest military exporter is becoming a myth and is under serious challenge from the United States, UK, France, and even Israel; it will face growing challenges from Asian producers as well. Second, due to Asia's dynamism Asian countries are both major consumers and becoming major producers of high-quality weapons and technologies. Moreover, China is already a threat to Russia as expressed in Russian doctrine, exercises, and procurements while India can no longer be counted as a reliable buyer of Russian arms and may yet become a competitor with Moscow in third party markets.

Here again Russia has failed to compete and risks losing its previous competitive gains. But it faces more grievous dilemmas as the evidence can be construed as showing that China can now induce Moscow to modify previous policies, and that Russia continues to depend on the Chinese market even as China steals its systems, competes with it abroad, and poses an implicit threat to its territory and interests. Neither is China the only competitor it faces in the Asian arms market. South Korea is clearly entering into markets where Russia had previously been very successful and Israel's successes in the Indian arms market are already an established fact. Moreover, the United States rebalancing to Asia and heightened defense presence and cooperation in East and Southeast Asia will probably lead to enhanced U.S. arms sales here that will cut into Russia's hopes for the Southeast Asian market.

Russia may hope to exploit Sino-U.S. rivalry geopolitically but to do so through economic means, including arms sales, it will have to be able to offer a better product than it does now when it is clear that defense industry cannot adequately supply Russia's armed forces with competitive systems and that Russia has to

buy weapons from the same countries with whom it is competing abroad. Just as Russia cannot sit on bayonets, neither can it retain Soviet designs and practices and compete in the global arms market or perhaps even more crucially in the global technological competition. Ultimately current trends suggest that for Russia, not only arms sales are at risk but also its overall defense capacity. If that is the case, then Russia's quest for regional significance in Asia and for an independent great power status globally are open to serious questioning. Other powers will step up to occupy the space created by the steady recession of Russia's power, influence, and status in Asia. Then, the Asian security environment seen from Moscow will not offer much ground for pride or complacency.

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