

# **Analyzing the Economic Influences on the Evolution of the Russian Military Since 1991**

Philip J. Klafta

University of Illinois-Urbana Champaign

## **Abstract**

In this paper, I will discuss the development of the Russian military from its weakened state of the early 1990's to its current role as an international actor in the Middle East, specifically Syria, and will examine the economic conditions, policies, and developments that have influenced its growth and evolution. I will begin by discussing how the political and economic conditions of the early 1990's contributed to a weak and unorganized military in immediate post-Soviet Russia and will continue to talk about how specific policies and world oil prices contributed to an economic revival. I will conclude by examining how the Russian military industrial complex has influenced its current involvement in Syria and will argue that there is a strong and clear correlation between the economic success in Russia and its military strength.

### **The 1990's: Weak and Incapable**

Beginning in 1991 with the collapse of the Soviet Union and throughout the rest of the 1990's, Russia maintained a weak and largely incapable military that resulted from a deficient inheritance from the USSR, economic catastrophe, and lack of political support for reform. First, the military forces that Russia received from the former Soviet Union were fractured and outdated. The former Soviet Union strategically placed its most updated and best equipped units and bases on the southern and western borders. However, with the break-up of the USSR, these bases, equipment, and sometimes even soldiers became aligned with their newly independent national governments (Odom, 1998). Further, after losing a valuable portion of their armed forces to the surrounding states, Russia was still averse to revamp their military due to Boris Yeltsin's fear of a political overthrow. As a result, he purposefully fragmented the Russian Army in an effort to weaken the possibility of a threat to his administration and further reinforced specific aspects of the armed forces that he found particularly dedicated to his cause (Renz, 2018).

Second, there was a lack of political incentive to revamp the military. This is because the government believed that the existing army was capable of dealing with the small ethnic conflicts it was currently engaged in and that there was no significant threat from the West due to the resolution of the Cold War (Renz, 2018). Further, the government believed that Russia's sheer size and nuclear stockpile would be enough to deter an invasion by any other country. The combination of these two factors contributed to a sense of contentment with their existing forces and provided the government little to no reason to update the military.

Lastly, the poor economic status of the country throughout the 1990's left the administration incapable of any type of military reform because it was focused entirely on attempting to prevent the nation's economy from collapsing. From 1991-1998, Russian Real GDP decreased by nearly 30%, \$150 billion worth of assets left the country, and foreign direct investments decreased dramatically (Cooper, 2009). While some scholars argue that this economic catastrophe was the product of political change and the adjustment to a capitalist style market, the World Bank claims that the economic success of a country in transition is largely dependent on the policies enacted by the government and economic stability is very possible post transition (Bar et al., 1996). Thus, with the government focusing on trying to save the economy, there was no room left for military reform.

### **The 2000's: Economic Revival**

Russia's economic revival of the early 2000's can largely be credited to Putin's economic policy changes and Russia's reintegration into the world trading market. This economic reform allowed the military to make its necessary developments in 2008.

First, in 1998, after years of failed economic reform, Russia was forced to devalue its currency, the ruble, and default on its debts. The same year, according to the Levada Center, the government received its lowest score in the last twenty years where 82% of Russians believed that Russia was headed down the wrong track and could be headed towards a "dead end". While this is something that Russia undoubtedly wanted to avoid, the devaluation of the ruble forced Russia to focus on the domestic production of many goods. This led to an increase in exports relative to imports and helped balance out the trade deficit. Further, in 1999 consumer prices increased at a quarter of the rate than the year before, and for the first time, a sign of economic optimism emerged (Chiodo & Owyang, 2002).

Second, a series of economic policies put in place by President Putin increased tax revenue, created a more business friendly economy, and created a reserve that was used to finance the countries deficits. When Putin took over as acting president in 2000, the largest and most daunting task he faced was trying to rebuild the Russian economy. One of the steps he took was consolidating the taxing system. Before Putin, many local and state taxes overlapped and were trying to generate revenue from the same sources. This caused many Russians to avoid paying taxes and risk getting caught or underreporting economic activity and not pay the full amount they should have (Cooper, 2009). Businesses also faced similarly conflicting regulations and inspections which decreased profitability and incentives to new business development. According to Cooper, Putin responded to this by eliminating the majority of these laws in an effort to create a more business friendly economy (2009). Regarding important economic policy changes, in 2004 the Russian government created a reserve system that saved revenue from oil sales every time the price per barrel reached over \$20 USD. This policy was put in place to have a cushion in case the price ever dipped below \$20/barrel. However, in 2008 the fund had over \$225B which the government used to pay off its budget deficits and international debt. This created financial freedom the country hadn't seen in decades and was crucial for upcoming military reform.

Finally, and perhaps most significantly, was the increase in the international price of oil and natural resources. Russia is one of the largest exporters of oil and natural gas in the world and the health and stability of their economy is often reflected in the changing world price of oil. Cooper found that by 2007, oil, natural gas, and coal made up 65% of the country's exports. Further, the high cost of oil, in addition to the taxes Russia placed on its sale, contributed greatly to Russia's ability to have a fiscal surplus equivalent to 4.6% of GDP. More so, Russia's exports increased 525% from 1999 to 2008 and imports increased 640% over the same time frame and this drastic growth gave Russia a trade surplus that was roughly equal to \$180B USD (2009).

The economic revival that Russia underwent during the first decade of the twenty-first century laid the groundwork that allowed for military reform in 2008 and played a significant role in the development of Russia as an international player.

### **Georgian War: The Effects**

As stated earlier, the program reform that was announced in 2008 would not have been possible without the economic revival of the 2000s. In 2008, Russia engaged in a conflict with Georgia that lasted only five days and resulted in a quick victory. However, despite the brief and successful conflict, this war highlighted the need for military reform and sparked armed forces policy change from the Russian government. As a result, the war with Georgia in 2008 led to personnel, structural, and technological changes within the Russian armed forces.

First, the war in 2008 highlighted the army's cumbersomeness and led to reforms that increased efficiency and professionalism of all its soldiers. In attempts to increase the efficiency, the army decreased the number of officers and soldiers it retained and attempted to restructure its army toward a permanent readiness status (Lavrov, 2018). Further, Lavrov found that "Russia aimed to abandon a Soviet-style army with a large number of understaffed "skeleton" military units for a smaller but more mobile army which theoretically remains at a high level of permanent readiness" (2018 ,p. 2). The "skeleton system" Lavrov mentions was a strategy that Russia embraced where units placed in strategic areas only consisted of officers but was ready to be filled by conscripts or reserves. This method proved inefficient and expensive and was one of the top priorities of the 2008 reform.

Second, the Georgian war highlighted the need for updated technology and modernization of equipment. The reform of the late 2000's consequently and successfully modernized the vehicles, tactics and weaponry in almost every branch of the armed forces. Most notably, the Russian air force received the largest share of the funding and received 500 new combat aircraft and 500 new helicopters (Lavrov, 2018). Further, the navy, which was already large in size, was able to develop new, non-nuclear missiles and long-range weapons. Finally, the army created a program to create a more functional UAV drone, or unmanned aerial vehicle, but when this program ultimately proved to be unsuccessful they began purchasing drones from foreign governments. However, the success of this modernization has to be taken with a grain of salt. According to Renz,

“In absolute terms, Russian Military hardware today is incomparably more modern and technologically advanced than it was during the 1990s and 2000s. In relative terms however, the Russian armed forces are still a long way off achieving parity with the technologically advanced militaries in the west and the United States in particular.” (p.79)

This is largely because when the air force and army received “new” vehicles, they were updated versions of older models and not the development of new technologies. Nonetheless, the Russian armed forces became more efficient, better equipped, and more prepared for a role as an international actor.

### **Military Industrial Complex**

The Russian defense industry has become vital to the Russian economy because of the jobs it provides and the contributions it makes to national exports through arms sales. The military industrial complex, or MIC, is the mutually beneficial relationship between the defense sector and the country's military, with a focus on the economic benefit a country can receive from the production of military goods. The defense sector in Russia since the late 2000's has become more and more integrated into the success of the economy and much like the size of the army in the early 1990's, has become too large.

The Russian MIC currently employs around 2 million people (around 1.4% of the population) and accounts for 25% of mechanical engineering production. Regarding the final product, 33% of the goods produced are used domestically, 45% are used militarily, and the remaining 22% are sold internationally (Balashov & Martianova, 2016). As a result, the employment that the MIC provides and the goods that it produces, promotes consumption and stimulates short term economic growth. Further, compared to the rest of the world, according to The Stockholm International Peace Research Institute, Russia ranks second in global arms sales by revenue at \$6.4B which accounted for 21% of total global arms sales in 2016 and since 2008, they have sold weapons or military goods to seventy-three different countries.

Balashov and Martianova (2016) argue that the military industrial complex, in Russia specifically, becomes problematic to economic success because the Russian government has allocated funds to many different firms who are assigned to similar contracts. This leads to unnecessary costs and high levels of inefficiency. Further, much of the money spent on the production of weapons for exports is spent on updating Soviet era technologies instead of developing new technological advancements which only spurs short term economic growth and hinders long term growth due to the lack of investments. Similar to the military reform of 2008, the defense industry in Russia needs to undergo reform to consolidate and become more efficient. Finally, the MIC is problematic because a country's economic stability can become

fundamentally based around the need to finance conflict, which becomes apparent when analyzing the Russia-Syria relationship.

### **Russian Economic Interests in Syria**

After the 2008 revival of the Russian economy and modernization of their armed forces Russia was again able to reenter the Middle East as a global actor after decades of sitting on the sidelines. By undoubtedly saving Bashar Al-Assad's regime from overthrow, Russia was able to secure its role in the Middle East as a major player both financially and politically. While there are many contributing factors to Russia's decision to intervene in the Syrian civil war, including geopolitics and an attempt to capitalize on the United States' declining interest in the Middle East, Russia had a vested economic interest in both Syria and the rest of the region.

First, Russia's intervention in the Syrian civil war was an attempt to protect a political and financial asset in Syria. The Soviet Union has been selling Syria weapons since the 1970's but since 2000, there has been a significant increase in Russian military sales to Syria. From 2000-2010, Russia has sold a cumulative \$1.5 billion worth of weapons, tanks, aircrafts, naval vehicles, and ammunition to Syria which at the time made up for 10% of Russia's total arms sales (Gaplin, 2012). As a result, the Syrian government would have been a costly importer to lose if the United States-backed rebel groups were successful in toppling the Assad regime.

However, more than protecting an arms importer, Russia was able to secure a role as a major actor in the Middle East again. Dating as far back as the Russo-Turkish wars, but especially since the end of WWII, the Middle East has been a major part of Soviet foreign policy and as a result, Russia's lack of engagement in the region after the collapse of the USSR marked a break in involvement that the region hadn't seen in decades. In 2015 when US interest in the region was waning, Russia stepped into Syria, changed the tide of the civil war, and subsequently embedded itself financially and politically in the region. According to Reumer (2019) of the Carnegie Endowment, through the victory in Syria, Russia was able to prove to other Middle Eastern countries (and the West) that they were a valuable ally in an unstable region. In this new political landscape, Russia was able to calm years of disagreements with Saudi Arabia and Turkey. In the case of Saudi Arabia, the two were able to conceive a mutually beneficial relationship in which both countries coordinated their oil policies. This was both a major financial and political success for Russia because it created an ally with the second largest oil producer and also because it allowed for an opportunity to increase its representation in an increasingly Middle East without the US. Additionally, now as one of the most secure economies in the region, Russia has been able to financially expand themselves through increases in arms trades and investments into gas and oil with the surrounding countries. According to the SIPRI, Russia has increased its arms exports into the Middle East by 19% since 2009-2013 including a 750% increase to Iraq and 150% to Egypt.

### **Conclusion**

Since its formation at the beginning of the 1990's there has been a clear correlation between the strength of the Russian economy and its global military presence. Starting with the collapse of the Soviet Union both the Russian military and economy were shells of its Soviet counterpart during the height of the Cold War. However, under Putin's administration a dramatic shift in the economic strength combined with an updated and revamped military set the stage perfectly for Russia to regain its status as a major global power in the Middle East. Russia's

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vested interest and economic dependence on the global oil market and defense sector production clearly lends itself to the involvement in military operations.

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