



RUSSIAN FACTOR IN UKRAINIAN MILITARY-TECHNICAL POLICY

Stepping up relations with Russia has become one of the major trends in Ukrainian policy Military sphere is no exception. Signing of the military cooperation agreements between Ukraine and Russian Federation [RF] January this year, ratification of intergovernmental Anti-Missile Warning Systems and Space Control agreement and, of course, results of the February meeting in Dnipropetrovsk between Ukrainian and Russian presidents are all there to support this statement.

There are a number of opponents of such trend, both domestic and foreign. Some see inconsistency in Ukraine's policy, its deviation from the direction towards European integration. Others think that Ukrainian politics is not predisposed for constructive dialog yielding economic benefits, thus condemning the next stage of mutually beneficial cooperation with the Eastern neighbour to fall short of expectations.

One has to acknowledge that there exists a significant gap between political targets, particularly those in the military sphere, and the amount of budgetary financing in Ukraine. On one hand, there are big plans for professional army, equipping it technically, resolving military personnel social problems, expansion of international military cooperation. On the other, if GDP valued in US dollars reduced by 0.9 per cent compared with 1998, the defense budget has 'slimmed down' by 1.6 factor (from \$685m to \$440m). At the same time, the planned expenditure on military-technical needs of the Army was cut from \$69.5m to \$28.7m. Moreover, out of \$440m mentioned the Army has to earn 25-30 per cent itself. Around 70 per cent (approximately, UAH 52m) of the UAH 72m assigned for international [military] cooperation in 2001 come from United Nations funds.

Altogether, Ukraine's defense budget is almost twice as small as Ministry of Defense's minimal needs; six times as small compared to maximal requirements. There is a strange trend in military-technical policy - despite growing demand for armament modernization (\$2-3bn needed annually on average, according to some estimates) the continuous reduction of such spending is taking place instead - starting with 1997, the rate of reduction is over \$26m a year. If in 1997 \$164m were assigned in the budget for military equipment purchasing and modernization along with NIOKR and defense industry conversion, by 2001 this figure was cut down to \$32m. Even if (according to Mr Kuzmuk [Ukraine's Minister for Defense]) 70 per cent of reform expenditure in 2001 (UAH 350m) is spent on arms purchasing, the sum will not be enough to change the situation radically - general 'technical' expenditure then will be \$72m (which constitutes 4 per cent of the amount needed). The state has turned out to be insolvent when it came to funding the declared defense necessities in full. If things remain the way they are now, the hard times will shortly fall on the Army as well as on the State Programme for Army Reform and Development for 2001-2005, the domestic Military-Industrial Complex [MIC] and any future plans for military-technical cooperation.

Further, defense budget articles are not protected since the country's defense is not listed among state priorities set in Verkhovna Rada's budget resolution for 2001. Under the circumstances, the military has to rely on itself only. Let us remind the reader that last year the Army had to earn itself UAH 845m out of UAH 2.4bn pledged in the budget. Earnings on this article amounted to UAH 601m on January 1, 2001 (72 per cent of what was scheduled). This year, the planned amount of earnings was reduced to a more realistic sum of UAH 623m. The funds are to come from privatization (UAH 15m) and arms sale (over UAH 607m).

Enterprises of MIC find themselves in a complicated situation. Their products' low profitability stands in the way of technological modernization in spite of growing arms export trade. During 1994-1997, the rate of growth stood at \$52m a year. In the last four years export turnover amounted to \$400-500m. It was achieved, however, mainly due to the improvements of arms trade system. The share of equipment modernization services is growing in export structures - 3.5 times last year. However, the very basis of defense industry, i.e. new products' development and production, has not only stopped expanding but actually started losing ground. According to Mr Domanskii, member of Verkhovna Rada Committee on national security and defense, fundamental NIOKR funding for defense dropped from 72 per cent in 1992 to 0.01 per cent in 1999. At the same time, profitability of conversion produce fell from 18.3 per cent to 12.1 per cent. MIC reorientation to civil production did not bring the expected results. Incoming funds constitute 20-30 per cent of the amount scheduled and are spent on wages and preservation of the existing jobs.

Among factors obstructing increase of profitability for military production are: underdeveloped management; lack of reform strategy coordinated with other departments; tax system limiting production development; high levels of energy and [natural] resource consumption; lack of [financial] resources for recovery of primary reserves etc. For any dollar of gross domestic product Ukraine spends 5-6 times as much energy as Central and Eastern European countries, 12 times as much as countries of the Economic Cooperation and Development Organization. Primary reserves wear approaches 50-60 per cent level, i.e. the level after which the process of deterioration becomes uncontrollable. Significant funds are needed in order to overcome these obstacles. Without state investments, such funds may only be available from arms sale.

Lacking its own budget funds, Ukraine has to rely on technical-military cooperation with foreign partners. In this direction Ukraine is torn between the declared course towards integration with Europe and the existing links with Russian MIC. Domestic policy in this sphere is mainly directed towards utilization of the already existing opportunities, which leads to reserves' depletion with little hope of their recovery. Structural changes in Ukrainian MIC apply only to some (export oriented) enterprises, at best. Market economy and functioning of Ukrainian MIC seem to be incompatible at the moment.

MIC development and market competitiveness of its produce depend on the level of manufacturability, ability to run large-scale production, availability of commercial demand (it was these factors that made tank-building one of the priorities for Ukrainian economy). Ukrainian production is not competitive on western markets. Cooperation with any western companies is highly unlikely due to incompatibility of the technical-military standards. As to Asian and African markets, there is certain demand for armored equipment and out-of-date (cheap) armament as well as for services for their modernization.

Owing to the said factors, Ukrainian politics turns in the Russian direction. Because it had not been so until recently, the number of Ukrainian enterprises conducting export-import operations with Russian MIC has dropped from 250 to 40-50 in the last five years. One can only hope that the agreements signed February this year in Dnipropetrovsk might change such trend. Under certain conditions, it might even positively influence the development prospects for Ukrainian MIC, results of cooperation with Russia as well as degree of Ukraine's strategic partnership with NATO. Yet, how realistic are such hopes?

Firstly, Ukrainian-Russian joint projects for armament production and modernization are indeed likely to have good prospects. However, it is only possible provided there are sources of funding and certain demand for the production. In particular, Ukraine's participation in Russian 'Air Launch' project using An-124 planes for launching space satellites might look quite effective. However, US companies 'Kelly Space and Technologies' and 'Vote Aircraft Industries' signed February this year an agreement on joint participation in a similar NASA programme using Boeing-747. [Final] results of the competition and orders allocation between those projects will be determined by financial opulence of the sides, so it's safe to say that advantage is not on our side. There are no reasons to doubt that other directions of Ukrainian-Russian technical-military cooperation will be confronted with similar counter projects.

Secondly, cooperation between Ukrainian and Russian MICs can be productive if following conditions are met: funds from sale of military production being transferred directly to the producer and favourable conditions are created for modernization of the equipment. This is possible in the presence of financial payment mechanisms and maximal reduction of the number of intermediaries. Exchange schemes that have been used up till now, intermediary participation in the military trade given the present level of shadow economy of the post-Soviet countries lead not to accumulation but depletion of the resources needed for renovation of enterprises' primary reserves. As an example of negative consequences one might take Ukraine's Ministry of Defense and 'Ukrspetsexport' joint decision to allow uncontrolled use of budgetary funds raised by arms sale. According to Chamber of Accounting in 1999 it led to UAH 148.9m revenue shortage for the state budget along with 151.7m expenditure shortage.

Thirdly, Ukrainian Russian technical-military cooperation under the conditions of a more active Russian policy (along with some changes regarding structural reorganization of MIC, e.g. setting up of concerns in aviation and radio-electric fields) can locally promote positive changes in Ukraine's MIC. There's no point in hoping for significant and fast changes, and this is due to the following considerations: a) Ukrainian MIC's half destroyed potential requires financing long before the start of the production cycle; b) the end elements of military production are situated mainly in Russia, so projects' supervision will be made from there; c) Russia's official mediator will be the main 'seller' of the end produce in this case will be with Ukrainian subcontractors getting 50-50 per cent of the predicted level at best.

Fourthly, thinking that supply orders for military equipment will be paid for by Russian defense department on time might be somewhat overoptimistic. Russian analysts have serious doubts over Russian Federation budget's ability to carry out its military reforms. There are quite a few reasons: significant spending on social security for retired military personnel, serious problems with capital and communal development, and the Army's technical equipment as well as predicted increase in spending for the Chechen campaign etc.

One also cannot dismiss a significant distraction of funds for the restructuring of Russian MIC and Russian economic complex, in general. Extra spending is planned for the peak physical deterioration of enterprises' primary resources predicted for 2003, natural and man-caused calamities and external debt settlement. All this is coupled with oil price (i.e. chief contribution to Russian budget) fluctuations. In other words, there is little hope of Russian budget 'investing' in Ukraine's MIC. If private Russian capital is to be considered as a source of investment, one has to realize that it means eventual absorption of Ukrainian enterprises by Russian companies. From the point of view of economics, there is nothing wrong with this. Yet, given Ukraine's orientation towards Europe, any future steps concerning cooperation between Ukrainian and Russian gunmakers have to be well considered.

Fifthly, it would be a mistake to think that Ukraine's MIC will play a significant role in the long-term technical military plans of Russian Federation. According to Mr Zyzyk, director general of Russian 'Novie Programy / Kontseptsi' (New Programs and Concepts) holding company, Germany, France and Great Britain might become chief strategic partners of Russia in the sphere of technological military cooperation. Contacts with China, India, Iran, Egypt, Algeria and Syria will constitute a base (that is source of arms sale revenue) for technological and military development.

Ukrainian MIC (or its essential part, to be precise) is viewed by Russia as a means to reduce prime cost of Russian military products (due to the reduction of prices of cooperated supply of componentry for the existing equipment). According to Mr Svirin, press-secretary of Russian Agency for Conventional Armament, Russia and Ukraine can annually receive \$5.5bn (interestingly, there was no mention of proportions) up till 2007-2010 for modernization and repair of tank fleet (let us stress, obsolete tank fleet) in such countries as Algeria, Egypt, Libya, Syria, Yemen, Vietnam, Romania and India. After 2010 the source of income will run dry owing to rearmament of the countries' military. With all this, there was no mention of possible prospects of Ukrainian and Russian specialists' cooperation in designing a tank of new generation - [a sign that] the policy of protecting domestic production is taking over. Ukraine can gain something out of this situation only if it has its own long term policy for military industry's reconstruction and development as proposed

...kov Centre  
 production is ...g over. Ukraine can gain something out of this situation only if it has its own long-term policy for military industry's reconstruction and development ...  
 ...g Russian MIC.  
 ... at the ... stage Ukrainian-Russian cooperation can only partially compensate for Ukraine's lack of budget funds, at the same time raising the demand for concrete ...  
 ...s' defense and military-industrial budget articles as well as raising the issue of large domestic investments. There is no serious alternative of/such as help from ...  
 ... even though State Programme of Ukraine's cooperation with NATO for 2001-2004 contains an official mention [of it]. Incidentally, reading this document and comparing it ...  
 ... with the agreements signed in Dnipropetrovsk, one cannot help noticing a few contradictions. In particular, the implementation of the regulations on technical-military, economic ...  
 ... and scientific parts of the programme that concern cooperation and standards harmonization with NATO countries becomes possible only under condition of similar aspirations on ...  
 ... part of Russia. The gap in armament standards has always been an obstacle for Ukraine's technical-military cooperation with western partners, now it might widen even further.

Some conclusions

Ukraine as well as Russia sees a decrease in economic and political romanticism - when one not only wants it all and right now, but also thinks that 'all' can be accomplished with half-empty pockets. Both countries build their military-technical policy around tough reality of MIC survival with new rules of economic competitiveness, in a 'softer' yet more undetermined geopolitical world situation. Ukraine sees the shortage of its capabilities for domestic MIC reconstruction. Given the degree and the depth of cooperation between Ukrainian and Russian military industries, Ukraine's course towards military technical cooperation with Russia appears to have no alternative.

One should not forget that development of Ukrainian-Russian military cooperation might on one hand seriously complicate the relations with NATO, while on the other hand, bringing about activation of western partners interaction in order to prevent Ukraine from sinking into Russian Federation's sphere of interests.

If correlation in Ukrainian politics between short term benefits and the strategy of development stays unchanged (not to the advantage of the latter, of course), most probably the results of new found 'love' for RF in the technical military sphere will look as follows: using the current tension in Ukraine along with market economy's means of pressure, the Russian side gets access to Ukraine's scientific and industrial potential and [consequently] solves the problems of its MIC; the Ukrainian side gets some local benefits (on the level of specific plants and factories, at best) as well as an opportunity for carrying out domestic MIC restructuring - stimulating (possibly temporarily) the enterprises demanded by Russian side and forgetting about the rest.

Even with good will on both sides, Ukrainian-Russian relations in the technical military sphere are hardly going to be cloudless. There remain relations with third parties influencing them, debts and domestic lobbying, tariff policy and restrictive budget financing, copyright issues and social-economic situation at defense plants and factories and much more. Solving this issues brushes against not only national but corporate interests on both sides. And the weight of those interests is well known both in Russia and Ukraine. Discarding such factors in any way can lead to their hindering the effective military-technical cooperation with Russia and bringing the domestic MIC to full decline.

The balance will have to be found between Ukraine's aspirations for finding its place in European security system, bringing its defense complex up to European standards, keeping the military-political stability in the Russian direction, increasing the effectiveness of cooperation links with Russia and the its own capabilities, which strongly depend on internal and external political and economic conditions. Ukraine has to pursue a more active, purpose-oriented, economically grounded military-technical policy. Under such conditions coupled with concrete definition of Ukraine's partnership plans with NATO, Ukrainian-Russian cooperation in development and international markets' advance of high technology military products can bring about positive results. In order for it to happen it is necessary to: a) define specific projects in the interests of and provided for by financial capabilities of both countries, projects in demand for on foreign markets; b) transfer all payments as part of military-technical cooperation with Russia to cash base [as opposed to barter exchange], develop effective mechanisms of their realization; c) develop domestic MIC strategy for restructuring, also taking into account formation of joint Ukrainian-Russian enterprises; d) comprehensively examine and take into account negative factors, possible results and consequences of economic, social, politic, military and ecological character.

Other materials:

[Publication source](#) [Contact the expert](#) [Contact the web-site editor](#)

*If you notice a mistake, you may notify us by highlighting it and hitting Ctrl-Enter.*