The Foreign Policy Preferences of Russian Defense Industrialists: Integration or Isolation

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"The Foreign Policy Preferences of Russian Defense Industrialists: Integration or Isolation?"

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Executive Summary

Defense industrialists are an important political group in Russia today. It is therefore in our interests to be able at least to predict, and if possible to influence, their views on the future direction of Russian foreign policy. Many Western analysts believe that defense industrialists are part of a conservative bloc in Russia, whose primary goals are to renew Russia's military might, to sell arms abroad to any and all takers, and to reestablish themselves as the most powerful actors in a state-controlled economy. However, it is virtually impossible to obtain direct evidence of the real foreign policy beliefs of this group. Managers themselves rarely express broad foreign policy opinions, and it is probably a mistake to treat political figures in Moscow (such as Arkady Vol'skii) as necessarily speaking for managers, since we lack evidence that managers as a whole support all of Vol'skii's views.

This article is therefore an attempt to deduce the foreign policy beliefs of Russian defense industrialists by examining their objective economic interests. I assume that Russian defense industrial managers are interested in maximizing their own individual wealth. I then counterpose three models from the academic literature on international political economy to try to determine which model best captures the true interests of managers. Do managers act as owners of their firm's capital, who can move their investments to other economic sectors? Do they instead act as an industrial bloc, putting the interests of defense industry as a whole first? Or do they act as representatives of their individual firms, and view other defense industrial firms in Russia as their potential competitors?

After reviewing a great deal of evidence about the current activities and foreign ties of Russian defense industrial firms, I conclude that on several basic economic issues, ones where it is easy to achieve agreement--obtaining more loans and credits from the state, and easing firms' access to foreign arms export markets--defense industrialists in Russia are acting as a unified bloc. Labor and management are coordinating their efforts, and many of the old Soviet sectoral ministries are reemerging as political coalition leaders on these issues.

But as questions become more specific, this unity breaks down. Many firms want to achieve their independence from the old state ministerial structures that still try to control their decisionmaking, and different firms are developing differing international connections with different degrees of intensity. Some firms have very successfully managed to find Western investment and trade partners, and are very dependent on those ties. Some of these ties include weapons productions and sales deals, indicating that even the arms
market can tie Russian firms into the liberal democratic world economy. Given that the
United States in 1993 demonstrated its willingness to punish individual Russian firms that
break agreements such as the Missile Technology Control Regime, these ties are a tool
both for limiting the geographical range of the arms sales of individual Russian firms, and
for more general integration of those firms into the web of Western economic interests.

Other firms have Western ties that seem weak; if a better deal comes along, such firms
would probably be willing to break off relations with their Western partners to pursue
profits in ways that the West finds unacceptable. There are also firms who have given up
on Western ties entirely, and are becoming direct domestic competitors against others in
their sector who are better connected to the West (the clearest example of this is in the
sector of military shipbuilding).

These findings have important implications for Western aid. Treating Russian defense
industry as an unsalvageable sector—one where the management should be bulldozed and
where aid is viewed as a sinkhole—would be a grave error. Russian managers have no
rational interest in leaving their firms, since their skills and income now are firm-specific;
and the sector is not now unified against Western interests. Many firms can be drawn into
a web of Western economic integration. However, the sector could in the future be forced
into a unified, anti-Western stance if most Russian firms fail to establish significant
economic relationships with the West. Treating the sector as unsalvageable would thus be
a self-fulfilling prophecy.

One of the best uses of Western aid to further our own security interests is thus to
courage the establishment of joint ventures and trade relationships between Western
firms and any Russian defense firms that can supply Western firms with useful markets or
products. Such targeting should not be limited to nuclear-related enterprises, since the
West is concerned about conventional arms proliferation, nor need it be limited to firms
with zero defense production, since integration of one part of a firm’s production can
actually limit the arms sales that firm undertakes.

Recent steps taken by the U.S. government, including the Defense Department’s
establishment of the defense enterprise fund, are likely to have large payoffs for our future
security, and should be expanded. A political, not merely economic, calculus should be
used. In particular, the U.S. government should expand its willingness to bear the
commercial risks of defense industrial joint ventures, because of the likely security payoffs
of such a move.

We thus need not succumb to pessimistic predictions about the process of reform in
Russia. The West has a powerful tool to use to convince important political actors that
cooperation with the West is in their own economic interests. While the outcome of such
efforts is far from assured, policymakers in the developed world economy may be able to
tip the balance toward the achievement of Western integration.
The Foreign Policy Preferences of Russian Defense Industrialists: Integration or Isolation?

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Russia currently stands poised between two major choices for the direction of its future foreign policy. It can continue to follow (with whatever temporary halts and backtracks) the westward-leaning path first taken by Mikhail Gorbachev, aiming for eventual integration into the developed world economy and Western security system; or it can strike out on its own, seeking power and prestige through Great Power competitiveness and the continuing influence of its military forces. Regardless of which foreign policy question it is considering at the moment, from the activities of its military troops in the "near abroad," to the support of its Slavic kin in Serbia or the sale of advanced weaponry to Iran, the question of how these actions will affect Russia's relationship with the West, and of whether or not the West is important to Russia, is repeatedly raised in political debates in the parliament and the press.¹

Russia has managed to teeter successfully on the brink of these two choices in recent years, seeming from time to time to have chosen one path or the other, but then confounding analysts with yet another policy twist. It seems unlikely that such an inconsistent agenda can continue indefinitely. Eventually one or the other vision will dominate the policy process. Clearly, it is in the interest of the West to be able at least to predict which vision will win, and at best to determine whether there is anything the outside world can do to convince Russia to choose the former path over the latter.

This article is an attempt to contribute to both of those goals by examining the foreign policy preferences of a key set of Russian domestic actors: managers of the remnants of Soviet defense industrial firms. Because of their formerly favored status in terms of both finance and prestige in the Soviet system, Russian defense industrialists are often portrayed by Western analysts as a major brake on current reform efforts.² Defense industrialists are thought to act as part of a conservative bloc, in conjunction with military officers and former Communist party apparatchiks, whose primary goals are to renew Russia's military might and to reestablish themselves as the most powerful political actors in the country. Conversion of defense factories to civilian production is thus thought by many to be an illusory goal, much talked about but little implemented. Rather than joining the competitive world free market, defense industrialists are thought to prefer a protectionist foreign trade policy, with their factories kept open through a combination of

¹For a sophisticated treatment of the question of how the West fits into Russian foreign policy decisions at present, see Aleksei G. Arbatov, "Russia's Foreign Policy Alternatives," International Security 18 (Fall 1993): 5-43.

state subsidies and foreign arms sales to any and all takers. The military-industrial complex is thus often seen as the greatest threat to attempts to make Russia a "normal" country, i.e., a country that is integrated into the Western world economy and security system. Rather than supporting the efforts of liberal Russian foreign policy figures to act in accordance with mandates on sovereignty, sanctions, and cooperative intervention laid down by the United Nations, Russian defense industrialists are thought to favor policies that emphasize Russia's independent great power status, and (in this view) are predicted ultimately to put pressure on the state to supply Russian weapons to pariah countries such as Iraq, Libya, and Serbia, as well as to sell arms to unstable world regions.

It is impossible to either challenge or substantiate the claims of this perspective directly, since defense industrial managers rarely express their opinions publicly about what Russia's future world role should be. Sometimes analysts treat certain political figures, such as Arkady Vol'skii, leader of the Civic Union faction, as representatives of the opinion of defense industrialists. Yet this is probably a mistake. The fact that the Civic Union lost so badly in the recent parliamentary elections\(^3\) indicates that it is unlikely to have received support from defense industry as a bloc, and it is at any rate dangerous to assume that unelected politicians truly speak for the social group they claim as their constituents. Leonid Kosals, who interviewed a variety of Russian defense research institute managers between 1991 and 1993, found diversity in the political candidates and parties that they said they preferred.\(^4\) Thus some other technique is needed to uncover the foreign policy preferences of Russian defense industrialists.

It is a well established tenet in the field of international political economy that one can assess the trade policy preferences of economic actors by examining their structural economic circumstances. In this article I will extend this approach—what Peter Gourevitch has termed the "economic explanation" for state trade policies\(^5\)—to argue that the trade policy preferences of economic actors should be further correlated with their general foreign policy preferences for integration into or isolation from the world economy. In today's world, those preferences in Russia translate into foreign policies that are either cooperative or antagonist toward the West. If we understand what the economic interests of Russian defense industrialists are, we should be able to predict what their foreign policy preferences will be in the foreseeable future, assuming that they act to further their own well-being.

The argument is as follows. If an economic actor has an interest in maintaining an open economy—for example, if the actor's production relies on imported materials, on the availability of an export market, or on integrated activities within a multinational

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\(^3\) Civic Union failed to cross the 5% of the votes threshold necessary for a party to gain seats in the Duma; the general consensus is that this was a result of the faction's association with Aleksandr Rutskoi, leader of the failed attempt to seize control by force in October 1993.


corporation—then the actor also has an interest in maintaining the good will of the foreign states who control the availability of these trade flows. It would not be in this actor's interests for the home state to become involved in any kind of conflict with foreign states that could lead to trade wars or other protectionist policies abroad. Open trade is best assured when conflict is minimized.

Clearly in some cases, such trade might occur merely among a limited number of states that are not integrated into the world economy as a whole. If this is the case, then the economic actor may be indifferent to the general foreign policy line followed by the home state, so long as good relations are maintained between the relevant trading states. For example, a Russian economic actor whose well-being is dependent on only one foreign tie, with Iran, may not care what the United States thinks about that tie. But if the economic actor depends on open markets in states that are well integrated into the dominant world economy, then the actor's interests point in the direction of a generally cooperative and integrationist foreign policy.

Conversely, if an economic actor's interests are threatened by imports from the dominant world economy, or by export competition from the dominant world economy in a market not yet firmly dependent on the rest of the world (a concrete example might be competition between Russian and German exporters for control over a market in China or Iran), it will be in the interests of the actor to have its home state limit its relationship with the dominant world economy. The actor will prefer protectionist policies against the competitor state, and in order to make such policies politically feasible, it will be in the interests of the actor to have the state perceive the competitor as a general threat to the state's well-being. To portray one state in the integrated world economy as a threat risks alienating the trading partners of that integrated state. Protectionist actions by an outside state such as Russia against a member of good standing in the dominant world economy are therefore incompatible with integration into the dominant world economy. Those who prefer protection are likely also to prefer autarky and isolationism.

The task is thus to determine, based on their current economic situations, whether Russian defense industrial managers are likely to prefer free trade with the West, or whether instead they should prefer protectionist measures against the West in either domestic import-competing markets or foreign export-competing markets. The first step in fulfilling this task is to decide how the actors under study should be conceptualized.

Defense industrial managers can be treated as owners of their firm's capital. In Russian firms that have already privatized, the evidence indicates that on average, managers have either bought or finagled ownership of a significant share of their firm's stock, approximately equivalent to the levels owned on average by managers of U.S. firms.6

6For an analysis of the managerial stake in Russian privatization, see Maxim Boycko, Andrei Shleifer, and Robert W. Vishny, "Privatizing Russia," paper prepared for the Brookings Panel on Economic Activity, Sept. 1993, pp. 34-35. They report survey data gathered by Joseph Blasi and Katarina Pistor, under the auspices of the Russian Committee on the Management of State Property, indicating that on average the management team of a privatizing enterprise has acquired 17% of the enterprise stock, with
According to authoritative Russian government sources, 1,550 of Russia's 2,000 defense industrial enterprises will be privatized by the end of 1994; as of March 1, 700 were reported to already be private. (The remaining, not-for-privatization fraction are scheduled to remain under government control for strategic reasons.) The fact that managers usually do not have complete control of the stock may mean that their interests as agents of the stockholders differ somewhat from the interests of the owners as a whole. Nonetheless, since the evidence indicates that most managers of privatized firms do have a meaningful financial stake in the firm's solvency and profits, it is possible to treat them as at least sharing in the interests of the principals, even though as agents they may not run the company with the degree of profitability that they would if they were the sole owners. Recent evidence of managerial behavior in Poland, where a significant number of enterprises are not yet privatized, but where privatization is expected in the near future, indicates that managers of state-owned firms who expect to become managers of privatized firms also act as fairly efficient profit-seekers when faced with hard budgets. Managers in privatized or soon-to-be-privatized firms therefore clearly have the interests of capital owners, even if continuing state subsidies keep them in a non-capitalist economy.

For enterprises that have not yet privatized or that may never privatize (the Russian government maintains a list of strategic enterprises forbidden to leave state control), the assumption is less intuitive. Some might view the state as the capital owner, with managers, like other employees, treated as part of labor. Yet economists who specialize in the study of socialism agree that ownership rights over property (i.e., capital) in state-owned firms are split, between high-level state bureaucrats who set prices, wages, and profit levels, and those managers on the ground in the firm who decide in practice how the property should be utilized. Managers may thus be considered at least partial capital

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7 Alfred Koch, Deputy Chair of the Russian State Property Committee, and the person with chief responsibility for overseeing the privatization of defense industry, as cited by Keith Bush, "Most Defense Enterprises to Be Privatized by End 1994," Radio Free Europe/Radio Liberty (RFE/RL) Daily Report, March 1, 1994. These figures seem consistent with others reported by the Russian government, since it was said that by January 1, 1994, 488 enterprises had already had their privatization plans approved. See "Razreshenie na Privatizatsiiu Poluchili 8% Predpriatii, Proizvodishchikh Boepripasy i Spetskhimiiu [8% of Enterprises Producing Ammunition and Special Chemicals Have Received Permission to Privatize]," Segodnia, February 1, 1994.


9 Eggertsson discusses the costs of partial vs. full management ownership, especially in relation to management franchises, in ibid., pp. 128-38.


11 Janos Kornai, The Socialist System: The Political Economy of Socialism (Princeton: Princeton University Press, 1992), pp. 64-66, divides property rights into three categories: rights to residual income or profit, rights of alienation or sale, and rights of control over utilization. He argues that the first two
owners, since their power over capital utilization exceeds that of run-of-the-mill workers, even though they must bargain with bureaucrats up the line in order to wield that power. Jan Winiecki notes that these utilization property rights are often used for the personal ends of the managers (for example, using company workers on company time to build private dachas). This suggests that the agency interests of managers of state-owned firms may be particularly strong. For state-owned firms, then, managers can be said to have a capital ownership stake without being profit-seekers. Managers still have an interest in the appreciation of their capital investment, but such appreciation might involve resources other than profits for the firm (examples might include increased opportunity for borrowing to expand the manager's stock of cash, or increased barter for scarce goods that the manager can sell for personal enrichment).

Once it is accepted that defense industrial managers can be treated as owners or partial-owners of their firm's capital, the next step is to determine what interests capital ownership entails. The literature on international political economy provides three economic actor categories which could be used to describe those interests: managers could be treated as owners of a factor (capital), as members of a sector (defense industry), or as representatives primarily of their individual firms.

Classical international economists might recommend an analysis based on factor ownership, arguing that in the long run there is no reason why defense industrial managers could not transfer their capital ownership stake from their current firms to some other use. If their current investments in defense industry do not gain from the state's trade policy, they will move their investments to other sectors that are more profitable. At this point the analysis would use the Stolper-Samuelson theorem of comparative factor advantage, as Ronald Rogowski has done, to argue that when a country has a comparative advantage in a particular factor (land, labor, or capital), owners of that factor benefit from free trade and will take political action to ensure it, while owners of internationally disadvantaged factors benefit from protectionism and will oppose free trade policies. Capital is clearly at a quantitative comparative advantage in the Russian economy, if

categories are meaningless when the state controls the economics levers, and that therefore only the third right is meaningful. For a similar scheme, see Gertrude E. Schroeder, "Property Rights Issues in Economic Reforms in Socialist Countries," Studies in Comparative Communism 21 (Summer 1988): 175-88, who borrows her categories from Frederic L. Pryor, Property and Industrial Organization in Communist and Capitalist Nations (Bloomington: Indiana University Press, 1973). Kornai's scheme matches perfectly the set of property rights defined by transaction costs economist Thrainn Eggertsson. See his Economic Behavior and Institutions, pp. 34-35.


13I am following Gourevitch's conceptualization of this task, in "International Trade, Domestic Coalitions, and Liberty," p. 283.

Edward Leamer's definition of quantitative comparative advantage is accepted. As Jeffrey Sachs notes, the Soviet Union was overindustrialized, and thus capital-heavy.

In the current Russian case, however, an economic argument based on factoral analysis does not make sense. Given the absence of developed financial markets, capital ownership in Russian factories primarily means ownership of the physical plant involved in production. While the physical plant of defense industrial factories can be quite diverse, including consumer goods production facilities, farmland, power plants, worker housing, and local social facilities in addition to vertically integrated defense production facilities, each component tends nonetheless to be geographically specific, integrated into the whole, and based on equipment that is narrowly designed for specific purposes. The only way for managers to liquidate their capital would likely be to sell most of it as a bloc to another purchaser. Given that most of this capital is in poor repair and was designed for purposes under the Soviet system that may have lost their meaning (for example, housing workers in a company town whose only employer is a tank plant which now lacks state orders), the adjustment costs involved in such capital movement are likely to be immense. Further, the skills (or human capital) that defense industrial managers own are also likely to be very specific to their firm's production. These managers did not attend business schools; instead, they tend to be engineers who have spent most of their professional lives inside a single factory. It would be extremely risky for them to move to another sector, since there is no reason to believe that their skills would bring them benefit elsewhere. Their interests as agents would also be compromised, since the supply networks and personal loyalties which currently bring them side benefits would be lost with the sale of their factories.

Such sectoral specificity makes the cost of capital movement very high. As Albert O. Hirschman discovered, when economic actors are unhappy about current policy, including the state's foreign trade policy, they face two choices: they may opt for exit (adapting to the current situation by moving their factors to another sector), or voice (engaging in political activity that is designed to change current policy). When the adjustment costs of capital movement are high, the costs of political activity are likely to seem a bargain in comparison. Since defense industrial managers who sell their capital stocks will likely take huge losses, there is therefore reason to expect that they will define their political interests in terms of their industry or firm, rather than as factor owners, and will engage in voice to

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protect those interests rather than in exit. In this case, then, something other than classical long-run factor analysis must be used.

Without further evidence about the economic situations currently facing defense industrial managers and the kind of political action they are taking, there is no a priori reason to choose to concentrate the analysis on either the sectoral or firm level. Either level of analysis may prove useful. Therefore, the explanatory power of the two frameworks will be compared, in an attempt to explain why defense industrial managers should have an interest in policies that either encourage free trade in their product lines or provide them with protection against foreign competitors. As Helen Milner has noted, whether capital owners in a particular sector act in concert with each other or as firms competing against each other depends on the commonality of their interests. The range of their possible interests can be treated as a continuum, with pure sectoral and pure firm action representing the two endpoints. 19

Russian Defense Industry as a Unified Sector

Jeffry A. Frieden uses sectoral, or industry-wide, analysis to describe how political coalitions favoring free trade or protectionism develop in various countries. His arguments rely on the assumption that industries act as units. He has applied this perspective both to the United States, and to less developed economies in Latin America. 20 Rather than adopting a factorial perspective, where labor and capital can appear on opposite sides of an issue within an industry (note, for example, the labor/capital split over adoption of the North American Free Trade Agreement in the United States), Frieden argues that labor and capital often have common interests in defending their particular industry from economic threat. 21 Unless there is evidence of class conflict, he believes that sectoral analysis is a more useful guide than factorial analysis for predicting what sorts of political coalitions will form on trade issues.

Frieden argues that different sectors often have different international interests, and therefore expects some industrial sectors to engage in political battle against other sectors. Different sectors may have different accumulations of overseas assets, and therefore some industries' profitability will be affected differently than others by trade wars or tariff agreements. 22 Furthermore, the assets of some sectors are more liquid than those of

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21 Frieden, Debt, Development, and Democracy, p. 31.
others, allowing some capital owners to move investment away from a threatened industry to one that benefits from current state trade policy.23 Those industries with the highest degree of asset specificity are most likely to take political action to defend their interests in relation to foreign trade, since they have the most to lose if the state adopts policies which hurt their current production profiles.24 Heavy industry sectors, for example, are more likely to have asset-specific capital (assembly lines, intake pipes, smelting pits, etc.) than are financial sectors, such as banks. Sectors with liquid assets can adapt more easily to the vicissitudes of state policy, and thus need to spend fewer resources on political campaigns.

The most concentrated industries (i.e., those with a few large firms rather than a multitude of smaller firms) have the greatest chance of having real political impact.25 By combining small numbers with economic heft, they will have an easier time coordinating and maintaining their government lobbying activities, thereby overcoming the collective action problem. The logical extension of this argument (one that Frieden himself does not suggest, however) is that if industrial sectors wish to act as units, it is to their policy advantage to be as concentrated as possible. The more firms there are, the harder it is to ensure that the industry will act as a unit, and the more difficult it will be to achieve political influence.

Thus sectoral analysts lay out a parsimonious model of political action by capital owners. Those industries with the highest asset specificity and greatest concentration will put the most effort into lobbying politically for their preferred trade policies. Their policy positions will in turn depend on their international interests. There are a wide variety of possible interests for industries to have in regard to free trade and protectionism. Frieden suggests two that could be easily applied to the current situation of Russian defense industry: a reduction of government investment in a particular sector (for example, a decline in state subsidies) can lead that sector to search for new foreign investment and therefore to favor an open economy; and a stagnation of domestic sectoral demand (for example, a decline in state purchases) can lead the sector to search for new foreign markets and again to favor openness.26 One could think of numerous other reasons why some sectors would favor open international trade and/or investment, while others would oppose it, ranging from international advantages or disadvantages in production costs or technological development, to the question of how a state's geographical location affects the feasibility of transporting bulky items abroad.27

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24Frieden, Debt, Development, and Democracy, pp. 19-21.
26Ibid., p. 247.
Despite the parsimony of the sectoral political action model, then, it seems almost impossible to create a simple typology of which industrial sectors are likely to favor free trade over protectionism. In the case of Russian defense industry, the decline in state orders and increasing state threats to cut off easy access to credit might lead managers to search for foreign markets and foreign investment. Such a search may also be undertaken to replace the broken networks of firms located on Russian soil that used to receive imports from East-Central Europe or that used to be engaged in joint production with enterprises elsewhere on Soviet territory. 28 (According to Boris Lapshev, the Deputy Chair of the State Committee on the Defense Branches of Industry, Russia at present can produce only 17% of its military hardware requirements without either retaining or replacing the input previously received from other post-Soviet states, 29 even though roughly 70% of Soviet defense enterprises were located on Russian soil.) At the same time, the fact that many Russian weapons systems and most Russian high technology consumer goods are of relatively poor quality by world standards means that the sector should fear foreign competition. While the Russian state seems unlikely at present to consider buying foreign weapons for its own defense needs, foreign competitors are stealing both the previous domestic consumer goods market of Soviet defense industry (including its former domestic monopoly production of such items as television sets, radios, and washing machines) and its former arms sales markets (particularly in East-Central Europe and the Third World).

One possibility is that the sector as a whole may favor different degrees of protectionism and openness toward different countries or in different markets. 30 If new investment and new input and export markets are needed, the sector as a whole may turn outward in search of opportunity. At the same time, the sector as a whole may favor protectionist measures designed to maintain its advantage in existing arms markets, including Russian state refusal to buy foreign weapons, and export subsidies to assist Russian foreign arms sales. H. Richard Friman notes that empirical studies indicate that export subsidies are the type of protectionist measure least likely to incite retaliation from other states. 31 The sector may thus not perceive any contradiction between open markets in general and arms export subsidies.

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30 Helen V. Milner and David Yoffie argue that sectoral preferences for split, strategic trade policy along these lines are common when a global industry is newly faced with protectionist foreign pressure from particular states. While the situation faced by Russian defense industrial firms does not resemble their scenario, it may nonetheless be applicable here. See their "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Trade Demands," International Organization 43 (Spring 1989): 239-72.
If the sectoral perspective is to apply in this case, then we should find evidence that Russian defense industrial factories (which are saddled with a vast amount of fixed capital, and appear to lack asset liquidity) are trying to take political action as a unit, or at least as sub-industrial sector units. To be particularly effective, they should attempt to concentrate themselves as much as possible. Only through unified action and sectoral concentration can they succeed in marshalling the pressure needed for effective political action.

On domestic economic issues, Russian defense industrial workers and managers do in fact seem to be acting as a unit, rather than in opposition to each other, to voice many of their current political demands. Conflict between capital and labor is not in evidence. For example, in two recent temporary work stoppages to protest government policy toward the defense industrial sector (on July 29 and September 17, 1993), labor and management demands appeared to be coordinated. (Compare this to strike activity in other countries, where labor and management are usually on opposite sides of the bargaining table.) Both sides demanded additional state credits, the immediate redemption of the wage debt owed by the government to enterprises for state orders already completed, the indexing of state orders to inflation to increase worker pay, and the adoption of a clear state military doctrine to direct weapons acquisition. Many economic advisers to the Yeltsin government have reported that management and labor are working in tandem to take control over privatizing large enterprises. (Some of these analysts believe that management will eventually trick labor out of its fair share, while others complain that labor dominance over managers will impede competition. Few seem willing to accept the idea that management and labor can share interests permanently.)

There is further evidence of unity not merely between managers and workers, but across firms within the sector. Russian government leaders, including former Deputy Prime Minister Yegor Gaidar, are said to believe that defense industrial labor unions are, along with coal miners, the only group strong and unified enough to be able currently to wage a successful strike. A sector-wide managerial union is also active. This managerial union, the League for Assistance to Defense Enterprises, sent its own draft privatization policy plan in May 1993 to Chairman of the Russian Committee for State Property Anatoliy Chubais. This plan is based on a complex set of rules focusing on closed stock sales, which would allow managers and employees together to buy out virtually the entire company. The League's president, Aleksei Shulunov, general director of the P. S. Pleshakov Science and Production Association, later threatened to sue the Russian Defense and Finance Ministries for the Russian government's failure to pay for military


33Boycko, Shleifer and Vishny, "Privatizing Russia," p. 35.


orders that were already delivered in 1993. At an industry-wide level, then, both workers and managers seem to have achieved an unusual degree of unity surrounding the questions of their domestic economic interests.

At first glance, it appears that the Russian government may have inadvertently made the defense industry more unified and therefore politically stronger by failing to fulfill contracts it had signed for weapons purchases. State coffers are depleted, and contracts have not been indexed to the high rate of inflation in Russia. As a result, workers have not been paid the wages they expected for work they completed on state-financed defense projects. This situation is largely responsible for the work stoppages which have occurred. Yet this apparent government failure has had an interesting additional consequence: some defense industrial firms are reportedly refusing new state military contracts, since they no longer trust that the state can pay, and at least one manager of a defense industrial firm has resigned "because the Russian Government was no longer committed to military production." In other words, the state's failure to fulfill its contracts may have indirectly aided the conversion process (as well as factor mobility), since at least some firms are turning away from weapons orders and at least some managers are seeking greener pastures. Rather than unifying the industry, as it first would seem, the policy may have succeeded in galvanizing those who can compete on the free market to do so, leaving behind those who remain dependent on the state crutch.

Given this consequence, it is telling that there have been additional efforts to concentrate industrial efforts at a subsectoral level, presumably in order to augment the industry's political weight. This has occurred largely under the aegis of the supposedly defunct defense industrial ministries, many of which have been constituted under new form in the Russian government apparatus, and some of which have turned themselves into private firms. The Directorate for Rocket-Space Technology of the Russian State Committee for the Defense Branches of Industry, for example, has "succeeded in creating a single, all-embracing program for the development of the branch of industry up to 1995." The branch is made up of 72 defense enterprises. Even if the structure in place now is not an exact replica of its Soviet counterpart, many of the same administrative patterns appear to be reemerging.

Similar efforts at joint planning have been reported in other defense sectors. For example, the heads of enterprises manufacturing gas weapons have united into a joint-stock company, the Russian Association of Conversion Enterprises and Manufacturers of Gas Weapons, for the purpose of pressuring the government to ease up on export controls.

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38General Director Viktor Paulo of the Vladivostok Dalpribor production association is said to have taken this action, according to an unsigned, untitled report in Rossiiskaia Gazeta, June 22, 1993, as reported in FBIS-SOV, June 24, 1993, pp. 39-40.
39Russian Television Network, June 16, 1993, as reported in FBIS-SOV, June 18, 1993, pp. 31-32.
restrictions. Their goals include export of "weapons for civilian use"—presumably, cans of mace for sale to individuals, or tear gas for sale to police forces. Centralized organization was also in evidence among Russian exhibitors at a civilian and military air show in the United Arab Emirates in November 1993. An article in the daily newspaper of the Russian Army proudly proclaims that the "Aviaeksport" joint stock company, which has over 35 years' experience of supplying aviation equipment abroad, has assumed all organizational work to form the Russian section and ensure the participation of Russia's aircraft builders in the show. Given that joint stock companies have been legal in Russia for only a few years, the fact that this particular joint stock company has over 35 years' experience is indeed quite a feat.

Those who claim to represent the interests of defense industry have argued for even further amalgamation of effort. Georgii Kostin, Director of the Voronezh Mechanical Plant, who spoke to great applause at a recent conference, is apparently no stranger to theories about the political effectiveness of concentration. Besides arguing that Russia needs a "managed economy," he also decried the regionalization of conversion efforts in Russia as a phenomenon that will fragment well-laid existing plans. Oleg Soskovets, First Deputy Prime Minister with responsibility for defense industry, has in fact proposed that Russian defense industrial factories be united into industrial blocs, so that the strong performers can bail out their weaker comrades. Viktor Glukhikh, Chairman of the Russian State Committee for the Defense Sectors of Industry, has suggested that a "pooling [of] efforts" by producers is needed, citing the People's Republic of China as a successful example of such an experiment. Concentration appears to be the preferred political strategy.

When examining the evidence, however, it is important to keep in mind that government ministers who claim to be speaking for defense industrialists may not actually represent their views. It is difficult to imagine that successful managers of competitive firms would welcome proposals that they bail out failed colleagues. Furthermore, there is evidence that at least some firms very much resent the power of the ministries over their activities. The Sukhoi Design Bureau aviation complex, for example, wrote a letter of complaint to then-Russian Deputy Prime Minister Georgii Khizha in 1992, attempting to circumvent the Russian Department of Aviation Industry. Sukhoi's workers had voiced strong support for a privatization plan that would give them control over 51% of the stock, and President

42Georgii Kostin, "Reforms Yes, but Not the President's Way," Rossiiskaia Gazeta, August 4, 1993, as reported in FBIS-SOV, August 5, 1993, pp. 30-32.
Yeltsin had signed a directive authorizing this plan. Yet the managers believed that the Department of Aviation Industry would not allow the best military factories their freedom, and that the Department's desire for control was what was holding up state approval of their plan.46 (The Russian government maintains a list of firms which are not allowed to privatize because of their key role in state defense, and firms must ask to be removed from this list.) Other firms publicizing similar plights at that time included the "Impuls" satellite and communications equipment factory in St. Petersburg (now making microwave ovens), also prevented from privatizing, and the "Bolshevik" tank factory of the same city, which failed to obtain Moscow's credit approval for joint manufacture of wheelchairs with a Western firm.47 Firms that are beating the odds and creating successful privatization and conversion plans thus seem to resent interference by their old administrative hierarchies. The lobbying efforts of these independent firms appear to be paying off, since (as was noted above) privatization of the defense sector is proceeding rapidly, in spite of reports that some firms are trying to get themselves added to the not-for-privatization list, in order to ensure continued state financing.48

It should also be kept in mind that not all efforts of political unity-building have been directed at maximizing stereotypically rigid economic goals. Andrei Kokoshin, Deputy Minister of Defense with responsibilities for defense industry, has formed a new Council on Military-Technical Policy, linking defense industrial managers, scientists, General Staff officers, the Interior and Security Ministries, and independent analysts to exchange opinions and to reach consensus about current policy issues.49 He is apparently trying to repeat the success he helped achieve in the Gorbachev era, when General Staff officers were convinced to communicate with civilian analysts interested in defensive defense military doctrine, and appeared to be influenced by them.50 His goal this time seems to be to convince defense industrialists to redefine their interests in ways that are more in accord with the Russian government's economic reform policies, while convincing the government to meet the pressing concerns of industrialists (for example, by paying off government debts to firms on state defense orders and encouraging foreign arms sales). One of his aims is to create a Russian National Industrial Policy, which would encourage defense industrial cooperation in dual-use technology manufacture to serve as a mechanism both for economic growth and for international integration.51

48 Gherman Lomanov, "Military-Industrial Complex: Privatization Partially Suspended," Moscow News, October 15, 1993. Also see the comments of enterprise director Kostin, "Thoughts on Conversion."
Such efforts may stand the typical sectoral pressure argument on its head: rather than industries lobbying the state for special treatment, the state may attempt to convince industries of the utility of its existing policy line. Political pressures move in both directions, and economic actors may have to choose between what appear to be equally valid but contradictory views of their interests. Actors may not always be able to recognize where their true interests lie.

There is evidence, too, of disagreements about foreign economic issues among those who supposedly represent the defense industry. Soskovets, the First Deputy Prime Minister who suggested that the strong should bail out the weak, has complained about the growth of foreign investment in Russian defense industry, saying: "Attempts are frequently being made to attract foreign partners and to bring in technology from the West instead of using our own resources." Presumably, he would favor a more autarkic trade policy. Vol'skii, the man who reputedly defends the interests of those managers who want absolute control over the enterprises they headed, has made exactly the opposite complaint. He has argued that Russia needs new laws to encourage more foreign investment, and fears that potential partners may instead turn to Kazakhstan, which apparently has a more liberal legal climate.

Thus while the sectoral approach has a high degree of analytic power in this case, explaining concerted action by defense industrial labor and management to further their joint economic interests, the level of disagreement among firms and among those who supposedly represent their interests suggests that another perspective may also be needed for a complete understanding of the situation. In some ways Russian defense industry is acting as a sectoral bloc; in other ways, competition is growing among Russian defense industrial firms to attract Western investment and markets.

Russian Defense Industrial Firms as Competitors among Themselves

Milner notes that the theoretical literature in international political economy has a well developed precept that export-dependent industries lobby against protectionism. They are the industries whose profits would be most harmed by a trade war, and thus have an interest in maintaining an open trade system through political action. She discovered, nonetheless, that a variety of empirical studies of this phenomenon produced mixed results. Rather than concluding that the argument is wrong, she posits that the original

formulation of the argument incorrectly aggregated firms into sectoral blocs. According to Milner, foreign ties "are usually unevenly distributed among the firms in an industry."57 Thus, how the firm is situated within the sector determines its interests in either free trade or protectionism.58 Sectoral analysis may be useful if the industry is unified, but the sectoral approach often misses the key locus of economic interests.

Milner believes that firms with the highest export dependency levels are likely to be the strongest political opponents of protectionist efforts. Firms that produce primarily for the foreign market cannot recoup lost sales in the event of a trade war, and will therefore prefer that the state not take any policy decisions which risk foreign backlash. She also argues that protectionist policies may hurt the competitive standing of firms with any significant foreign connections, protectionism may drive up the cost of imported supplies, cause foreign competitors to turn their attention to home firms' existing export markets, hurt international trade within a multinational corporation, or differentially benefit domestic competitors who have previously captured the home market.59 Thus, firms within a state are likely to view any change in state trade policy in terms of their own competitive advantage against each other, rather than in terms of the effect on their industry as a whole.

This perspective provides a concrete checklist which can be used to predict the foreign policy preferences of the owners of each firm. Any firm with a significant foreign tie, especially one that cannot be replaced with a domestic tie in the event of a trade war, will favor free trade. Any firm whose market, investors, and suppliers are primarily domestic, while its competitors have foreign ties, will favor protectionism. Each firm will act in a way that maximizes its competitive advantage. This dictum should apply equally well to private, profit-maximizing owners of firms and to agent-managers of state-supported firms. The former's preferences will depend on the firm's source of profit (domestic or foreign), while the latter's preferences will be centered on retaining control over the protectionist resources that give their firms rent, namely state subsidies.60 Rent-seeking managers of uncompetitive firms, who cannot make deals with foreigners, should compete aggressively against other firms for preferential access to cheap state and inter-enterprise credits, money that will allow them to keep their factories open without profitable production.61

At this point, then, a description is needed of the current international interests of Russian defense industrial firms. If there are managers whose firms are dependent on Western supplies or sales, and vulnerable to their cut-off, then they should support integration into

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57 Ibid., p. 20.
58 Ibid., p. 36.
59 Ibid., p. 23. Also see her "Resisting the Protectionist Temptation," p. 641.
60 Rogowski, Commerce and Coalitions, p. 121, makes a similar point about differential preferences of state enterprise managers in Brezhnev's Soviet Union.
61 For an outstanding analysis of the structural incentives that encourage interenterprise borrowing in Russia, see Barry W. Ickes and Randi Ryterman, "The Interenterprise Arrears Crisis in Russia," Post-Soviet Affairs 8 (Oct.-Dec. 1992): 331-61.
the Western world economy. Managers whose firms are primarily domestically oriented, or who have not succeeded in breaking into the Western market (or whose Western relationships are temporary marriages of convenience without long-term potential), should be more eager to exploit any opportunity for potential income, with less regard for the long-term international consequences of their actions. Given the apparent current political power of defense industrialists, the future direction of Russian foreign policy, especially in regard to foreign arms proliferation and the definition of the state as either militaristic or commercial, is likely to depend significantly on the balance of interests within this industry.

Foreign Ties of Russian Defense Industrialists

The development of numerous joint ventures and trade relationships between Russian defense industrial firms and firms from wealthy capitalist countries has been well publicized. Particularly noteworthy in this regard are the successes of Russian aerospace firms. Aviation Week recently published a five-page list of East/West aerospace ventures; of these, 37 were reported to be signed deals for product development or sales (ranging from memoranda of understanding through exclusive licensing agreements) between developed countries and Russian defense industrial firms. The countries on this list include the U.S., Great Britain, Germany, Italy, France, Belgium, Canada, South Korea, and Israel. This list is not complete; Russian aerospace firms have also struck deals with Swiss, Brazilian, and Finnish companies.

Other success stories abound. The Ul'ianovsk Motor Works, a former manufacturer of armored tanks, has now formed an American joint venture to manufacture high-reliability, low-cost, low-frills vehicles for use in mountainous regions of the U.S., Canada, and Latin America. A consignment of 2,000 vehicles has been ordered. The Bal'tiiskii military shipyard in St. Petersburg is building twelve chemical carrier ships for Arenkiel, a German firm, and has an order from an Austrian firm for a horizontal-loading freighter. The Leninets concern in St. Petersburg, formerly primarily producing military aviation electronics, now has joint ventures with countries including Finland, Hungary, Norway, and Tunisia. As of March 1993 it was planning an agreement with an Italian firm for joint production of hotel refrigerator-bars, and was in the process of producing 1.2 million razor blades and shaving kits in association with Gillette for both domestic and export

65 Vadim Chistov, ITAR-TASS, August 16, 1993, as reported in FBIS-SOV, August 18, 1993, p. 12.
sales. The Minneapolis-based discount mail-order catalog, Damark International, offers Russian military-issue night-vision binoculars and scopes alongside its Japanese televisions and German shortwave radios. The "Nitel" defense industrial firm in Nizhnyi Novgorod is producing video recorders in conjunction with the Japanese Sharp Electronics Company. The Russian republic of Tatarstan has signed an agreement with the German state of Saxony to work on joint conversion plans using German and European Community financing.

Recently it was announced that Russian missile firms had successfully broken into the Western-dominated commercial satellite launch market. The joint venture between Lockheed, the Khruunichev Space Center and the Energia NPO beat out the French-based Ariane consortium to win a five-launch deal with a Luxembourg television broadcasting company. Multiple launches for the Space Systems/Loral and Motorola companies had already been arranged by LKEI [Lockheed-Khruunichev-Energia International]. This joint venture's potential to take over a significant market share was so great, because of Russia's low labor costs, that the U.S. and Russian governments signed an agreement to limit Russian firms to no more than eight commercial launches per year, with bids that cannot undercut the lowest Western bid by more than 7.5%.

Perhaps the most remarkable example of success in the Western market is that the British Royal Air Force (RAF) has agreed to buy 25 A-40 Albatross amphibious combat aircraft from the Taganrog Aviation Scientific-Technological Complex. While the RAF reportedly plans to use the jets primarily for search and rescue missions, it is the first time that a NATO country's military organization has ever bought Russian equipment.

It is difficult to determine exactly how dependent the Russian firms are becoming on Western contacts. Some firms, such as the Kamov Helicopter Aviation Factory, publicize their relief at finding Western ties. Kamov managers attribute their ability to maintain their previous markets in East-Central Europe and the Third World to the fact that their "traditionally weak, domestically-made engines and avionics have been replaced with foreign ones thanks to successful contacts with the producers of similar equipment in the USA, France, and Israel." Part of this dependence may be due to the fact that many countries are now significantly tightening their noise pollution standards for aircraft, changing the world helicopter market by forcing manufacturers to pay more attention to

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70Damark International mail-order catalog, January 14, 1994, p. 18.
74Ibid.
75Radio Rossii, September 14, 1993, as reported in FBIS-SOV, September 15, 1993, p. 35.
ecological concerns. Kamov managers appear to see themselves as dependent on healthy Western ties, and are likely to favor economic openness toward the developed world.

Yet other deals with Western firms appear to be somewhat trivial, filling the gap until something better comes along. One example may be the deal that the Coca-Cola Corporation signed with the Research and Production Association "Nauka," a space equipment firm, which is now manufacturing aluminum kiosks for Coke street sales.77 (Coca-Cola kiosks in Moscow are made to look like giant Coke cans.) Another is the service offered by MiGs, Etc., Inc., a joint-venture of the Sukhoi factory and a Sarasota, Florida firm, which for $90,000 offers individuals a two-week training course in aerial combat. Two paying customers engage in a judged mock dog-fight at the end of the course, and "[t]he winner receives a video tape of the dogfight--set to either classical or heavy metal music--along with a silver-plated Russian flight helmet inscribed with the names of the victor and the accompanying Russian pilot."78 Such arrangements do not appear to create dependency relationships. As Moscow News said of a deal by the Automation and Instrument-making Research Institute with Baxter International to manufacture common surgical instruments, "the enterprise is compelled to accept any investment projects, even if they do not correspond to the high intellectual and technological potential of the company [which is] well known in the country's space industry."79 If these firms find a better deal, even if it is one that aggravates Western world opinion, they will be unlikely to be swayed by these existing economic ties.

One clear structural source of potential intra-industry political conflict over trade policy is found in the area of military shipbuilding. The Amur Shipyard, formerly the largest defense enterprise in the Russian Far East, has signed an agreement with McDermott International for joint construction of civilian ships and coastal shelf oil extraction equipment. The U.S. government has, in an unprecedented step, agreed to certify that the new production lines meet international standards, since "[a]ll its output will probably be sold in the foreign market."80 The manager of another shipbuilding company, Sevmash, a huge nuclear submarine plant, lost hope in his ability to form any foreign joint ventures. He therefore formed a domestic joint-stock company with the former Soviet Gas and Oil Ministry, Gazprom, called "Rosshelf," to engage in coastal shelf development. According to an Izvestia correspondent, "Severodvinsk and the enormous 'Sevmash' territory are a kind of ideological reserve where an incredible number of busts of Lenin and other visual agitation has been preserved and Rutskoi's expose articles are pinned to the stands."81 (The correspondent expressed surprise that even a domestic joint-stock deal could have grown out of this environment.) Without foreign cooperation, this firm lacks international

78 Jonathan Broder, "You, Too, Can Fly a MiG Fighter," We/My [a joint publication of Izvestia and the Hearst Corporation], November 1-14, 1993.
certification for its products. Given that the Amur Shipyard has not only formed a foreign joint venture for coastal development but has received a promise from the U.S. government for international sales certification, it would seem that Sevmash's General Director, D. Pashaev, is a good candidate for joining a protectionist coalition, since his firm finds itself unable to keep up with similar firms in Russia in efforts to capture the world market. Recently, Kokoshin announced that Sevmash would receive priority funding from the government for the construction of a new multi-purpose military nuclear submarine.

Even some of the successful foreign joint ventures appear to have their limits. The Krunichev Machinebuilding Plant, which made rocket and space station components, is manufacturing gas cylinders and fittings for private automobiles under license from the Italian firm Poliavto. As of April 1993, however, it was still searching for a foreign investor to share equipment costs. Joint ventures do not always guarantee sufficient investment to allow production. An additional complicating factor is the question of how competitive Russian technology will prove to be on the world market.

Even in the one area, aerospace, where Russian technology is almost universally recognized to be at world standards, international competition is stiff. There have been marked triumphs; for example, the Iliushin Design Bureau has "firm orders" for five of its new 96-M passenger jumbo jets, with Pratt and Whitney engines and Collins Air Transport/Rockwell International avionics, from the Dutch company Partnairs N.V. An additional 20 planes have been ordered by Aeroflot. Yet even though the 96-M will be significantly cheaper than its Airbus, Boeing, and McDonnell Douglas counterparts because of low Russian labor costs, Aeroflot's new Russian airline competitors are not all turning to Iliushin. Air Russia, for example, a new joint venture between Aeroflot and British Airways, is building a new international terminal at the Domodedovo Airport in Moscow which is designed specifically to accommodate its forthcoming purchases of Boeing 767s. As recently as May 1993, the Il-96M was reported to have insufficient funds for large-scale production, and indeed, Iliushin is still relying on the Russian state for 65% of its revenues. World experience indicates that only those firms able to generate orders in the hundreds are likely to break even (much less realize a profit) on a new civilian aircraft design. Similar situations have been reported elsewhere. The General Director of the Tupolev Design Bureau, trying to sell the Aviastar company's Tu-

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82Ibid.
86Ibid.
87Victor Belikov, "Boeing Soars into Russian Sky," We/My, November 1-14, 1993.
89Stevenson, "New Course for Russian Aerospace.
204 jet to the People's Republic of China, recently discovered that he, too, faced
competition from Boeing and Airbus, both trying to capture the Chinese market.91

Even those Russian firms with clear quality and reliability and low prices may therefore
have difficulty finding a niche in the market. They lack the decades-long reputation for
service reliability and the international reach of their Western competitors, and domestic
political instability in Russia makes many Western businesses wary of long-term
commitments. The ambivalence of Western firms about the wisdom of investing in
Russian defense industrial firms may be one of the greatest impediments to these firms'
eventual success in the world market.

The overall picture, as Milner might have predicted, is thus mixed. Some firms are doing
quite well by their foreign ties; others may be disillusioned by the prospects of the world
market. It is probably a hopeful sign for those who want Russia to become integrated into
the Western world economy that so many defense industrial firms have succeeded in
establishing civilian trade and investment relationships with Western firms. It is probably
also cause for hope that so many other firms continue to advertise for Western partners.

Yet the proportion of firms reporting successful Western relationships is low (several
dozens out of a total somewhere around 2,000). This fact should be cause for grave
concern, since industrial managers who resent the international successes of their fellow
firms within the industry may very well turn out to be a powerful lobby in favor of
protectionism and militarism. If intra-industry competition is in fact a key factor in
explaining political action, the fact that a few firms are successful in the world market may
actually be disastrous, since it may convince the rest to act together to defeat them.

Foreign Arms Sales of Russian Defense Industry

There appears to be much fear in the West that in the area of weapons exports, especially
to Third World countries, Russian defense industrial firms may prove competitive and
may thus contribute to weapons proliferation and to the aggravation of existing military
conflicts. In some cases, Russian manufacturers are doing well. Recently, for example,
Malaysia split an order for combat aircraft, buying 18 MiG-19s from Russia and 8
McDonnell Douglas F/A-18s from the U.S.92 Following recent top-level negotiations
between military organizations, the People's Republic of China expressed its interest in
joint production with Russia of a new jet fighter,93 even though Russia had earlier
indicated in consultations with the United States (following the 1992 sale of 24 SU-27
fighter planes to China) that it would limit its sales of "power projection" weapons to

91Vladimir Kulikov and Boris Antsiferov, "Novosti" newscast, Ostankino First Channel Television
Network, June 12, 1993, as reported in FBIS-SOV, June 17, 1993, pp. 41-42.
92William D. Hartung, "Welcome to the U.S. Arms Superstore," Bulletin of the Atomic Scientists,
93Stephen Foye, "Grachev in China," Radio Free Europe/Radio Liberty Daily Report, November 11,
1993.
China in the future. India, even after the debacle of the cryogenic rocket engine sale in Summer 1993, has indicated its continuing interest in buying more military equipment and servicing contracts from Russian firms. Singh Jay, General Secretary of the India-Commonwealth of Independent States Chamber of Trade and Commerce, said in July 1993 that India was especially targeting its military purchases from Russia's Maritime Krai [region], and was planning in return to "fill the Maritime Krai market with Indian consumer goods." At a February 1993 arms exhibition in Abu Dhabi, a Russian representative reported that Syria, Oman, Kuwait, Iran, and the United Arab Emirates (UAE), in addition to Turkey and China, indicated their desire to purchase new Russian weapons. Following a November 1993 follow-up trip by Russian officials to the UAE, Aleksandr Shokhin, then-Deputy Prime Minister for Foreign Economic Relations, announced that contracts were signed for weapons including armored personnel carriers, and stated his expectation that Persian Gulf states would provide "billions of dollars of business" for Russian arms dealers.

It is not clear how much of the Third World market the Russians will be able to capture. As Andrei Kokoshin puts it, "It has to be acknowledged that the traditional arms markets, which we have now lost, were to a considerable extent not real markets." Syria and Algeria still owe huge amounts to Russia from leftovers credit deals on Soviet weapons sales, and Ethiopia, as well as the Warsaw Pact states, received their weapons from the USSR at artificially low prices.

Further, as Ethan Kapstein has noted concerning the Brazilian defense industry, low-cost financing has come to be an expected part of most world arms purchases; firms that need upfront cash to begin the production process are unlikely to be able to compete against the developed capital markets of the U.S. and Western Europe. On the other hand, given Russia's low labor costs, it may become a source for cheap, older-technology weapons, as some Third World countries are, even if firms lack the investment needed to keep up with world research and development standards. Yet Clifford Gaddy and Melanie Allen note that the best workers have already left their Russian defense industrial jobs; to convince these top engineers and scientists to return, managers will have to raise wages.

99 Ibid.
and Russia's cost advantage will be gone. The relative weight of military products in Russian managers' international calculations therefore remains to be determined, since market conditions are murky.

Furthermore, it is not clear what sorts of foreign policy interests might be engendered by arms sales. While arms exports might be seen as commodity deals that favor a militaristic, anti-integrationist view of Russia's foreign policy interests, in fact arms sales to the Third World and civilian product sales to the West may occur simultaneously within the same Russian company. An example of this phenomenon is that of the Smelchak company, manufacturer of highly accurate, laser-guided, smart artillery units. As state orders fell in 1990 and 1991, talented weapons designers left the firm to form their own company, Ametech, which manufacturers small food and agricultural machinery. Ametech is said to have attracted the interest of German and Czech beer companies with its inexpensive, high-quality, computer-monitored breweries. Meanwhile, its combining with 16 other military factories and R&D centers to form an arms export association called Dinamika. According to a Russian news report, "the objective is to increase annual output of equipment for civilian use to 15 billion rubles and resume production of Smelchak and Centimeter [artillery]."

A cynic might look at such an arrangement and deride it as diversification that merely finances arms sales. A political economist might, on the other hand, note the cross-cutting international interests such an arrangement creates within the firm. If Ametech succeeds in developing a significant civilian export market in Western or westward-leaning countries, its managers will have an interest in pursuing integrationist policies in order to keep that market open. While this will not stop Dinamika's arms sales, it may ensure that those sales are limited to countries acceptable in the eyes of the West.

Diversification in arms production companies may therefore be a tool for Western integration. It is not reasonable to expect Russia to disappear from the world arms market. It may nonetheless be possible to keep Russia's weapons markets limited to those that are acceptable to the community of nations.

There is insufficient evidence at present to determine whether or not such divided market arrangements are common within Russian defense industrial firms. Managers whose firms are wholly oriented toward Third World weapons exports, especially toward countries like Iran, are unlikely to have liberal foreign policy preferences. Their interests are not served by integration into Western business norms. In Third World countries where the West also sells weapons, Russian failure to win a significant market share may even push the managers affected further toward protectionist or isolationist beliefs, since they are likely to attribute such failures to nefarious competition by the West, rather than to the inadequacies of their own export offerings.

Thus, as in the case of civilian goods producers, we can expect a variety of foreign policy preferences among Russian arms exporters. Nonetheless, there does seem to be one element of unified, sectoral action in the field of arms exports. Managers in general appear to be highly dissatisfied with the content of current Russian laws regulating arms exports. They have argued that the Russian government has failed to grant them a sufficient number of export licenses quickly enough, and are lobbying for more export opportunities. Gherman Gordymov, director of the Severnyi Zavod factory in St. Petersburg, a manufacturer of components for the S-300 surface-to-air missile, believes that the Russian missile is superior to the American Patriot, and expressed anger in September 1993 that the Russian government's refusal to grant it an export license had impeded his ability to finance the continuing operations of his factory. 104 The Izmash plant wrote to the Ministry of Foreign Economic Relations with a similar complaint, angry that the Ministry had not tried hard enough to find a buyer for its Msta-5 self-propelled artillery mount for firing laser-guided shells. 105 Yuri Belotserkovskii, chief engineer of the Izmash Industrial Association in Udmurtiia (press reports do not make clear whether these are one and the same company), complained in May 1993 that he could not get an export license for the Dragunov sniper rifle, even though the U.S. sells similar weapons in East Asia. 106

This lobbying effort appears to have worked. In June 1993 the Kalashnikov factory in Udmurtiia, manufacturer of the AK-47 automatic rifle, became the first plant to receive an official arms export license under the new rules. 107 In October, the Aviastar joint-stock company received a license for the export of its An-124/100 heavy transport plane, allowing it to sell approximately 50 of the planes for hard currency. 108 On November 29, 1993, Deputy Prime Minister Sergei Shakrai announced that a deal had been signed to send the S-300, Gordymov’s version of the Patriot missile, to Kuwait. 109 (In an interesting twist, the Russian Antei firm is beginning discussions with the French firm Matra for joint production of a new antiballistic missile system based on S-300 technology.) 110 Finally, in February 1994, a new umbrella organization was created to streamline the arms export process, taking over from the three previous bureaucracies which were charged with

106"Large Circle" program, Russian Television Network, May 5, 1993, as reported in FBIS-SOV, May 6, 1993, pp. 43-45.
108V. Prunov and V. Myznikov, "Vesti" newscast, Russian Television Network, October 16, 1993, as reported in FBIS-SOV, October 21, 1993, pp. 43-44.
"excesssively complex procedures, overpricing, and failing to involve the producing enterprises in the negotiations."111

As in the case of its more general economic concerns, then, it appears that the Russian defense industry is able to act as a unified sectoral group when it has clear and common arms export interests. As in the case of general economic policy, however, firms want more input and more independence from their former controllers in the state ministries.

It is not clear whether this will encourage Russian arms manufacturers to lobby for entrance into closed or controversial markets, or whether instead it will merely encourage them to compete harder in markets traditionally dominated by the United States. If the loosening of controls should lead to sales not approved by the government, or if the government begins to approve sales violating such agreements as the Missile Control Technology Regime, a "sales to all takers" mentality could suffuse Russian defense industrial managers, encouraging them to turn away from civilian international contracts toward a resumption of old product line development. There have already been rumors that Russian firms may be negotiating with Serbia for weapons exports that flout the U.N. embargo.112 Looser arms export restrictions could therefore increase the sales and strengthen the hand of those with realist, anti-Western foreign policy preferences.

This is not the only possible consequence of increased foreign arms sales, however. One recent counter example was a statement by Mikhail Simonov, general designer at the Sukhoi Design Bureau, that he has approached Yeltsin directly and has lobbied other officials in the Russian government with his idea for joint U.S.-Russian production of a new, heavier fighter bomber based on the SU-27.113 When this example is added to the possible Russian/French deal on developing the S-300 missile, noted above (a possibility which was undoubtedly strengthened by the February 1994 arms industry cooperation agreement signed between the Russian and French defense ministers114), it appears that international ties in armaments production may sometimes actually work in the same direction as civilian sales from defense industry, connecting individual firms to the Western-oriented world economy.

Conclusions and Policy Recommendations

While Westerners might prefer that Russia not sell any arms abroad at all, such a scenario is unrealistic. What the above analysis suggests, however, is that some firms may become well enough enmeshed in productive deals with the developed world economy that they

111The charges are laid out by Gaddy and Allen, "Dreams of a Salesman," p. 38; announcement of the new organization was noted by Keith Bush, "Controls Tightened on Arms Exports," RFE/RL Daily Report, February 21, 1994.
can become convinced not to pursue arms deals with pariah states. There is probably no way to stop weapons leaks from happening; illegal arms transfers occur between Western firms and pariah states, and there is no reason to expect that the Russian experience will be any better. However, this study indicates that it is a mistake to believe that a unified Russian defense industrial sector will necessarily lobby for arms sales that dismay the rest of the world community, and for a foreign policy based on militarism rather than integration. Significant firms may be convinced that risking Western sanctions is a bad idea, and a web of ties between individual Russian and Western firms may thus ease Russia's transition into the world economy.  

While defense industrialists have been taking some concerted lobbying action, particularly on the issues of state payment of back wages, continuing state loan credits, and the loosening of the state arms export bureaucracy, the economic situations and experiences of individual firms vary drastically from each other. Some firms have international economic interests that are clearly at odds with those of other firms, and therefore competition within Russian defense industry is likely to have important political consequences. Acting as if the Russian defense industry is a unified bloc will deprive the outside world of the opportunity to encourage liberal foreign policy preferences among a key set of political players. Russian defense industrial managers should be treated as representatives of their firms, rather than primarily as sectoral actors.

Whether integrationist liberalism or militaristic realism becomes the predominant belief system within Russian defense industry depends on a multitude of factors: the relative number of firms with opportunities for integration into the world economy, the relative wealth which those firms accrue from their dealings, and the relative power of individual managers, whose political connections may not depend on their economic performance. It should be remembered, for example, that Boris Yeltsin used to be Communist Party boss of the Sverdlovsk (now Yekaterinburg) region, an area where the vast majority of the population is employed by defense industry. If Yeltsin remains in power, this may give Yekaterinburg managers a political advantage over those from other regions.

It is too early to know with certainty which direction events will take. If a significant number of powerful firms become dependent on Western investments, supplies, or purchases, a strong integrationist movement could develop within the sector as a whole. If most firms fail to attract Western partners, the sector as a whole could organize against the few firms that are successful. If the overall tendency remains mixed, the most important political battles over integration versus isolation could occur within the industry before spilling over into the Russian polity as a whole.

What is clear, however, is that the West might now have the opportunity to influence the direction of that debate through its targeting of foreign aid. If foreign policy preferences depend on international economic interests, and if international economic interests vary by

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115 For an analysis supporting the notion that webs of connections between firms can contribute to the building of open markets regardless of how states behave, see Susan Strange, "Protectionism and World Politics," International Organization 39 (Spring 1985): 233-59.
firm, then it is in the interests of the developed world economy to target economic assistance toward any Russian defense industrial firms that seem to have an ability to produce something which a Western firm would find useful or profitable. This is especially true for large Russian firms whose managers appear to have a lot of domestic political clout.\textsuperscript{116} Rather than concentrating their aid packages on official government agencies, whether at the Russian state or local level, countries with developed economies should focus on assisting joint ventures and import and export arrangements between Russian defense industrial firms and their own companies.

Such aid policies are favored by the member of the Russian Foreign Ministry who oversees defense industry, Sergei Kortunov. He has argued that the U.S. government should establish information offices in Russia to give American firms technical assistance on legal and economic issues, and has urged the U.S. to grant American firms insurance against the possibility of Russian political upheaval, as well as low-interest loans for defense industry joint ventures.\textsuperscript{117} With the appointment of William Perry as U.S. Defense Secretary, significant progress in this direction has been achieved. On March 18, 1994, it was announced that the U.S. Defense Department will invest $60 million into a "defense enterprise fund," designed to provide seed money for a select number of U.S./Russian civilian joint ventures between defense industrial companies.\textsuperscript{118}

Western states will not be able to have much influence on the course of the Russian transition unless important political actors are integrated into the Western world economy. Integration is built primarily by intertwining individual firms with the economic institutions of the world community. Since the ambivalence of Western firms about the wisdom of investment in Russia seems to be a major area of concern at present, government-insured loans for partnership expansion may be the most effective foreign aid tool available.

The outside world thus need not resign itself to the pessimistic predictions about Russia's future which now seem so prevalent. Russia may in fact be drawn into the developed world economy, if powerful managers at individual firms can be courted through international links. Rather than dismissing defense industry as a whole as a behemoth of the past, policymakers should continue to work with businesses in the outside world to identify promising investment opportunities. If free trade interests can become established within the sector, the conservative power of Russia's "military-industrial complex" will be broken. While such an outcome is far from assured, policymakers in the developed world economy may be able to tip the balance toward its achievement.

\textsuperscript{116}Milner notes that large firms can often win political battles over trade policy against smaller firms within their industry. See her "Resisting the Protectionist Temptation," pp. 649-50 for some examples.
