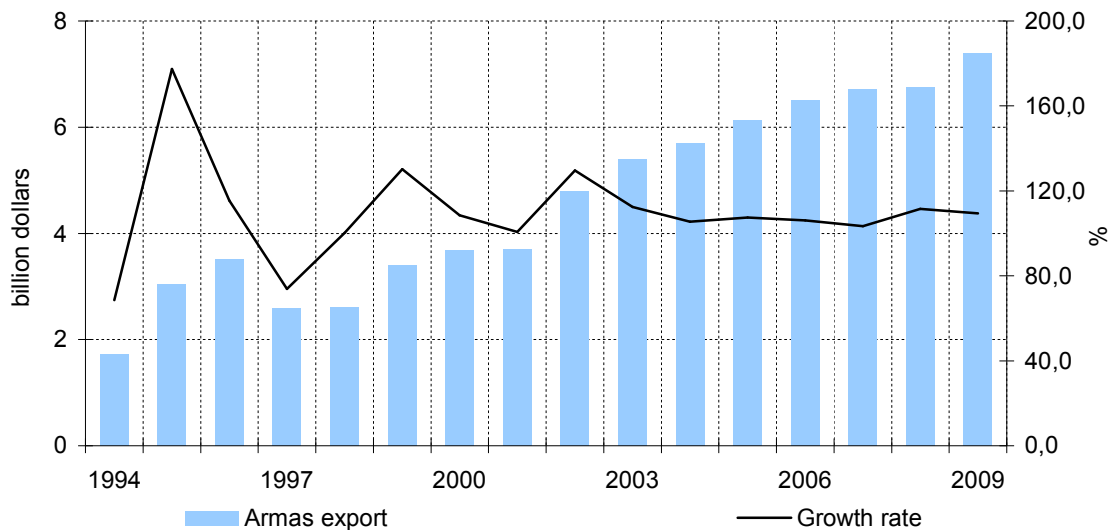


RUSSIAN ARMS EXPORTS TAKING A JUMP IN 2009

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, FEBRUARY 8, 2010

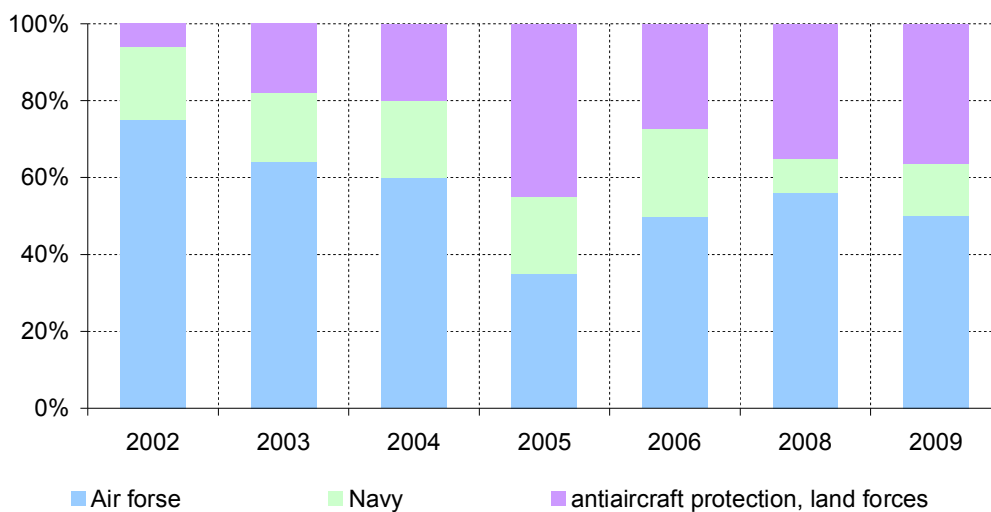
Russia's arms industry has been on the rise from 1998 through present day, and arms exports growth totaled almost 10% in 2009 – to exceed 7.4 billion dollars (see Figure 1).

Figure 1. Russia's arms exports



Weapon systems intended for air forces dominate the export structure: between 2002 and 2009 their share in total exports reached 55.7%. These are followed by land forces and antiaircraft weapons (a 27% share) and navy arms (an 18% share) (see Figure 2).

Figure 2. Arms export structure



China and India were Russia's largest defense customers in early 2000s (accounting for 70% of the country's arms exports), which explains why air forces weapons prevail in the export structure. The importers were especially interested in Russian Sukhoi fighters – along with large contracts for the delivery of fighters, they also entered into licensing

agreements for production of Su-27SK¹ and Su-30MKI² aircraft in China and India, respectively. In the past years, however, the share of these importers has been declining, while the arms demand has been shifting towards navy weapons. The export structure will continue to change with exports of anti-aircraft missile protection systems tending to rise (Middle East and Latin American countries are highly interested in this type of weapons). The success of Russian international military cooperation in 2009 is proven by several facts. Rosoboronexport has signed new contracts worth more than 15 billion dollars – a 65% rise on the year 2008. In 2001 Rosoboronexport's export portfolio totaled 12 billion dollars, in 2006 – 18 billion dollars, in 2009 – more than 34 billion dollars.

A 2 billion dollar contract with Saudi Arabia has a provision for the delivery of 150 helicopters (30 Mi-35 units and 120 various modifications of the Mi-17), more than 150 T-90S tanks, around 250 BMP-3 armored personnel carriers and several dozens of anti-aircraft missile protection systems.

Russia has also signed a 1.3 billion euro (1.82 billion dollar) contract with Libya under which it is expected to deliver various types of helicopters, TOR-M1 and S-300PMU air defense missile systems and new T-90S tanks. Also, Russia is ready to start the modernization of soviet time military equipment that constitutes 90% of armaments used by the Libyan Armed Forces³. Cooperation with Middle Eastern states gives grounds to hope for further positive effects on the Russian defense industry. First, the geography of Russian defense exports will be expanding. Second, the region's excellent geographical and geopolitical conditions encourage diversification of the export structure. Third, large supplies of military equipment will pave the way for Russia to provide modernization and maintenance services – ensuring a closer cooperation between the producer and consumers. Fourth, Middle Eastern countries are respectable customers, and the value of exports might rise significantly, especially if Rosoboronexport manages to oust the US, the regions' traditional weapons exporter, out of the market. The 2009 results show that Russia is becoming an increasingly strong competitor to the US and is making a comeback to regional arms markets which it had been forced to leave after the collapse

¹ Under the license terms and conditions, China has the right to manufacture 200 units of this aircraft type. The power plant incorporating two jet turbine engines AL-31F is imported from Russia.

² Under the license terms and conditions, India has the right to manufacture 140 units of this aircraft type. The power plant incorporating two jet turbine engines AL-31F is imported from Russia.

³ Arms-TASS



INSTITUTE FOR FINANCIAL
STUDIES

of the USSR. Growing exports and large contracts alongside state orders, expected to utilize its capacities to a full extent, will revive the Russian defense industry.