Stepping up relations with Russia has become one of the major trends in Ukrainian military policy. The absence of signaling with the military cooperation agreements between Russia and 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 and think that Ukrainian politics is predestined 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 9.9 per cent compared with 1998, the defense budget has 'slimmed down' by 1.6 factor (from $685m to $440m). At the same time, the share of military spending from GDP has dropped from 2.9 per cent in 1998 to 2.1 per cent in 2000. However, out of $440m assigned to the Ministry of Defense, 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 for Armament 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 modernization along with NIOKR and defense industry conversion, by 2001 this figure was cut down to $32m. Even if (according to Mr Kuzyk [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 turnover. For example, one of the largest MIC enterprises' turnover amounted to $400m. 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 Domanski, member of Verkhovna Rada Committee on national security and defense, domestic NIOKR funding for defense dropped from 72 per cent in 1992 to 0.1 per cent in 1999. At the same time, per capita income of enterprises' staff decreased from 18.3 per cent to 12.1 per cent. MIC reorientation to civil production did not bring the expected results. Earnings from civil production in 2000 amounted to $32m. Even if (according to Mr Kuzmuk [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.

Fourthly, thinking that the supply orders for military equipment will be paid for by Russian defense department on time might be somewhat overoptimistic. Russian internal market is still forming, its military budgetary funds can hardly carry out the necessary 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 distortion of funds for the restructuring of Russian MIC and Russian economic complex, in general. Extra spending is concentrated for the planned 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 MIC funds, one should quickly realize that it cannot be really abundant. 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. Fiscal, 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 Kuzy, director general of Russian 'Novie Programmy / Konseptsi' (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 technical military cooperation.

Ukraine's 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 production of componentry for existing equipment). According to Mr Sviry, press-secretary of Russian Agency for Conventional Armament, Russia and Ukraine can annually receive $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 conditions. Russian military and Russian specialists' conditions in dealing for a tank of new generation - [a sign that] the policy of protecting domestic production is taking Ukraine can remain consistent with this situation only if it has its own long-term policy for military industry's reactivation and development initiative.
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 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, political, military and ecological character.

Some conclusions

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.