UACES 47th Annual Conference

Krakow, 4-6 September 2017

www.uaces.org

The Assessing Status & Outlook of Russian Arms Sales: What Lessons should be drawn from the EU's Restrictive Measures

Peiran Wang

The Faculty of Law and Criminology, Vrije Universiteit Brussel
Address: Ave. Paul Hymans 111, 1200, Brussels, Belgium
Email: peiran.wang@vub.be peiranwang@gmail.com
GSM: + 32 486 551 989
+86 13761107224

Draft, No Citing without permission.

Abstract: According to Stockholm International Peace Research Institute (SIPRI), Russia has maintained its powerful status in the international arms transfer, the second largest exporter, from the end of Cold War to 2016. Since the crisis in Ukraine crisis caused by the illegal annexation of the Crimea Peninsula and the onset of armed conflict in eastern Ukraine, although the EU's progressively restrictive measures imposed on Russian defense companies, arm and dual-use trade will be extended to mid-2017. There is a question whether the EU's restrictive measures has not made practical effectiveness against Russian defense industries. As two pillars of the increasingly gloomy Russian economy, arms sales and oil & gas export will be more important than ever. To deter Russian jeopardized escalation, how to prompt the effectiveness of restrictive measures upon Russian defense industries is a serious, practical issue. In this paper, the author suggests the method to improve the effectiveness of sanctions against target's defense industries should be a systemic regime following the life-cycle of arms and weapon range R&D to transfer procedure. The life-cycle of arms and weapon is constituted by R&D, test, manufacture, maintaining and out of services. The sanctions against defense capability should focus on the key issues in different segments. For example, at the initial R&D phase, stopping the external funding flow to the related projects.

Through the empirical investigations, the survival of Russian defense economy heavily depends on its international arms transfers to India and China in the past two decades. With the prominent development of defense industries, China's import from Russia has progressively decreased. India will be the most significant market. Hence, to promote the effectiveness of restrictive measures against Russian defence industries, the EU should review the restrictive measures apply to Indian entities with the connections of Russian defence industries, according to the principle of the secondary and tertiary sanction.

This paper is constituted by the following sections:

1. Introduction
2. Theoretically framework:
   The effectiveness of economic sanctions and its evaluation;
   The role of arms transfers in defense industries development;
3. The empirical investigations
   The overview of EU's restrictive measures against Russian since 2014;
   Russian defense R&D institution and the balance of arms export;
4. Conclusion and policy suggestions

Keywords: Restrictive measures; Sanctions; International arms transfer; European Security; Russia defense economy

Introduction

Defense industries are the main target in which the ongoing EU sanctions against Russian for Ukrainian Crisis in 2014. However, Russian is the second largest armaments exporter, whether the volume of weaponry or financial value of transactions.[1] Arms export has been increasingly significant role in the deteriorated Russian economy. If the traditional criterion of target's behavioral change is adopted, the present sanctions against Russia seemly has not gained the expecting effectiveness.

This policy-oriented paper is aiming at how to evaluate and improve the effectiveness of sanctions through the analysis of the relations between the specific industrial sector and its external economic action in target state. The effectiveness of sanctions is determined by the asymmetric interdependence of sender and target. In the other word, the sender is certain of take the restrictive measures against the vulnerabilities of specific in target states. As far the defense industry, the high-profitable economic returns of export is strong incentive of national strategic policy-making community. When the domestic demand is shortage, the incentive of export will be stronger. Economic returns can be invested into maintaining and developing the health of defense industry. In this mean, to retard or stop arm exports of target states is the significant way to punish the target.

[1] Aude Fleurant, Pieter D. Wezeman, Siemon T. Wezeman and Man Tian, "Trends in International Arms Transfers, 2016", *SIPRI Fact Sheet*, Feb. 2017, https://www.sipri.org/sites/default/files/Trends-in-international-arms-transfers-2016.pdf.

In this paper, based on the empirical examination towards defense industries in Russia, the author centralizes the questions is whether the EU's sanctions against Russian defense industry is effective since 2014, if it is not, what are internal, negative agendas? At the same time, if the sanctions will be lasted, what are the possible scenario in the international arms transfer market.

Theoretical Framework

Since the mid of 1999s, the legitimacy of comprehensive sanctions had been questioned, i.e., whether the suffering inflicted on vulnerable groups was a legitimate means of exerting pressure on political leaders. Thereafter, targeted sanctions (smart sanctions) have been the subject of an international diplomatic and academic process, which was initiated by Switzerland focusing on financial sanctions, the Interlaken Process. This was followed by the initiative of Germany, the Bonn-Berlin Process, dealing with arms embargoes, aviation sanctions and travel bans. Two volumes with practical suggestions were presented to the UN Security Council in October 2001. At this occasion, Sweden announced the start of a similar, third process, the Stockholm Process, concentrating on the implementation of targeted sanctions. To present, there are six types of targeted sanction, individual/entity sanctions, diplomatic sanctions, sectoral sanctions, commodity sanctions and financial sector sanctions.

According to the traditional perspective, the aim of sanctions is change the behavior of targets. Hence, there is a dichotomic view towards the assessment of sanctions, if target do or do not do what has been demanded. As one policy instrument of foreign policy toolbox, if sanctions achieve the objectives of foreign policy, even partially, which are successful. In the 1970s, Barber thought about the primacy, secondary and tertiary objectives of sanctions, and held the list of possible objectives: the primacy is relating to the protection of the weak against the strong, the reduction of the influence of ruling elites, societal support for the imposition of the measures, the symbolic value of fighting against certain ideologies and the deterrence of similar actions by other actors; the secondary are relating to the sender's status, behavior and expectations; the tertiary are 'concerned with broader international considerations, relating either to the structure and operation of the international system as a whole to those parts of it which are regarded as important by the imposing states'. [1]

[1] Barber 1979: 270

Changing the behavior of targets is just one of objectives of sanctions. According to how to measure sanctions successfully or not, there are five categories of objectives: compliance, subversion, deterrence, international symbolism and domestic symbolism. [1] There are three kinds of logic embeds in sanctions: coercing, constraining and signaling:

- Coerce a change in behavior,
- Constrain proscribed activities (or access to essential resources such as funds, arms, sensitive goods, thereby raising costs and forcing changes in strategy), and/or
- Signal and / or stigmatize targets about International norms. [2]

Given that the goals of sanctions are multiple, their effectiveness in achieving those goals should be evaluated in analytically separate terms.

The existing research has identified a number of variables that may contribution to sanctions, as such the cost to the target's behavior, more "smart" design focus on the right people in the target state, unilaterally or a multilateral coalition. Within the political and economic clusters, divided by HSE, the variables affecting the outcome of sanctions include international organization, the international assistance to the target, the cost imposed on the target, commercial relations between sender and target, the relative ratio of GNP between sender and target, the economic and political status of target, the type of sanctions, and the cost of sender. [3] The above-mentioned variables demonstrate the asymmetric interdependence relations between the send and target. According to the interdependence theory of international political economics, there includes two dimensions: sensitivity and vulnerability. Sensitivity the degree to which states are sensitive to changes taking place in another state. Vulnerability refers to the distribution of costs incurred as states react to such changes. Successful sanctions should concentrate the sensitivity and vulnerability within of target economy. Under globalization circumstance, the economic connections are imbalance among the stakeholders. If the weak economic linking between sender and target, the imposed cost is limited, meanwhile, there is the intensified economic linking between the target and third party, the sender should apply extraterritorial juridiction to the

[1] Lindsay, 1986
[2] Francesco Giumelli, Coercing, *Constraining and Signalling: Explaining and Understanding International Sanctions after the End of the Cold War,* Colchester: ECPR Press, 2011
[3]

third party. In addition, within sanctions, the target autonomously seeks the measures to decrease the dependence, for example, looking for the substation for external supply, enhancing the industrial capabilities. The failed EU arms embargoes against China resulted from Russian arms sales to China. Hence, the evaluation on effectiveness of sanctions will be changed according to the changing capabilities of target in time dimension.

In Francesco Giumelli, through sanction, the increased cost of target behavior can contribute to the behavioral change. Hence, the evaluation of sanctions can be carried out in four-step:

- place sanctions within the larger foreign policy;
- define the logic of sanctions;
- elaborate on the impacts, effects and effectiveness of sanctions;
- take into consideration the comparative utility of sanctions. [1]

Defense industry is the basis of national security capability. Under the globalization, world-wide markets, large transnational corporations, intense competition, together with the globalization of finance and investment and the emergence of global labor markets. defense companies are seeking markets throughout the world and suppliers from overseas countries able to provide skills and components at least-cost. Transnational defense companies can achieve economies of scale and scope from supplying world markets rather than a small national market and they locate their various research and production activities in nations where costs are lowest. Arms industries have the economic characteristics of global industries, but traditionally, they have relied on their home market and sales to their national armed forces.

Since the end of Cold War, there are two trends in the international defense industry: the first, increasing costly R&D makes it important to spread such high fixed costs over a large output. Meanwhile, the falling defense budget means nation cannot support large-scale procurement. Under the double pressures constituted by increasing R&D and falling national procurement, export is stronger economic incentive for defense industry and nation. Arms exports help achieve national security and foreign policy goals, which provide significant

[1] Francesco Giumelli, *The Success of Sanctions: Lessons Learned from the EU experience*, Farnham and Burlington: Ashgate 2013, pp. 7~10.

economic benefits as well, particularly for the workers and communities where production is located. Any state, is difficult/impossible to be a sole supplier of all technologies. it is easier for the demand side to find alternative of supplier. Therefore, globalizing defense industries are increasingly facilitating of defense technology transfers in practice. By the way, arms export is effective method of power projection abroad, for example, Russian arms transfers to Syria. Within the supply-demand of international defense market, the variables contribute to demand side are expectant military threat, military planning, national income, foreign exchange supply (import), substitutes for supply, power and creditability of alliance.

As classical imperfect-market economy, the globalizing trends in international arms market, have been in favor of demander. Focusing on the export-oriented character of defense industry in target, limiting the arms exports is an effective measure to enhance its cost of behavior. The author assumes the following measures should be adopted,

- The external dependence of defense industrial capabilities in the target, including the customers distribution;
- The evaluation of substitution in industrial capabilities;
- The external market of target's defense industry.

All of the above-mentioned measures are involved the third party of sanctions, if there is absence of extraterritorial jurisdiction within the sanctions regimes, the effectiveness of sanctions will not be pillared.

The ongoing EU Restrictive Measures against Russia since 2014

There are several legal instruments which enable the EU to implement autonomous sanctions – Common Positions and Joint Actions at the Union level, and Regulations at the Community level. Common Positions are adopted under ex Article 15 of the TEU (now Article 29 TEU), requiring unanimity from EU member states in the Council. If a Common Position provides for a reduction or interruption of economic relations with a third country, i.e. introduces economic and/or financial sanctions, implementation at the Community level is governed by ex Article 301 (now Article 215 of the Treaty on the Functioning of the European Union; TFEU) and, where financial restrictions are concerned, ex Article 60 of the Treaty Establishing the European Community (TEC; now Article 75 TFEU) applies. In these

cases, the Commission is required to make a proposal for a Council Regulation which the Council can adopt by qualified majority.

The EU has begun imposing sanctions since March 2014, comprise five areas: individual, political, diplomatic, sectoral and Crimea & Donbas - related, implementation of the Minsk agreements. In this paper, the author focuses on the sectoral area. The institutional framework of EU sanctions regime against Russian defense industry includes Council Decision 2014/512/CFSP, 2014/659/CFSP, 2014/872/CFSP, Council Decision (CFSP) 2015/1764, Council Decision (CFSP) 2016/1071, Council Regulation (EU) No. 833/2014, Council Regulation (EU) No 960/2014, Council Regulation (EU) No 1290/2014, Council Regulation (EU) 2015/1797, which are covering the following content:

- embargo on arms and related materiel;
- embargo on dual-use goods and technology, if intended for military use or for a military end-user - ban on imports of arms and related materiel;
- (arms and related materiel related) ban on provision of certain services
- (dual-use goods and technology related) ban on provision of certain services;
- controls on provision of certain related services;
- prohibition of procurement from Russia of arms and related materiel;
- ban on the supply of dual-use goods and technology to certain persons, entities and bodies[1]

On Dec. 15, 2016, the European Council, assessed the implementation of the Minsk agreements and paved the way for a Council decision to extend the sanctions for the next 6 months, until 31 July 2017. These restrictive measures:

- limit access to EU primary and secondary capital markets three major Russian energy and three defense companies;

[1] European Union: Restrictive Measures (Sanctions) in force, updated July 7, 2016, http://eeas.europa.eu/archives/docs/cfsp/sanctions/docs/measures_en.pdf.

- impose an export and import ban on trade in arms;

- establish an export ban for dual-use goods for military use or military end users in Russia;

According to the above-mentioned, the EU shows a clear signal in response to Russian fundamentally unacceptable behavior. The constraining means above all that economic losses registered by Russia are expected to constrain the escalating military action, possibly stopping Russia from using force more intensively or in broader areas. The coercive is certain of fail to large extend. "The theme of returning Crimea will not be discussed ... Russia does not discuss its territorial integrity with foreign partners," Kremlin spokesman Dmitry Peskov told a conference call with reporters. [1] In the predictable future, the EU's restrictive measures should attach more importance on the restraining function of sanctions against Moscow, refraining from the possible further aggression against its neighbors.

Russian Arms Sales and Its Implications on Defense Industrial Transformation

The reviews on arms sales should examine what are exports, who are the customers and competitors and what are mode of sales. Missiles and aircraft continue to provide a significant portion of Russia's arms exports, less so naval systems. [2] Since 2000, Russia's customers have diversified, expanding from China and India to north Africa, Latin America and middle east, as such Algeria, Venezuela and Saudi Arab. On the modes of sales, Russia adopts the transfer of major weapons systems and defense technology, counter-trade, offsets, debt-swapping as well as licensing agreements.

Russia has been the second largest producer and exporter of arms after the United States. According to the data of SIPRI, "Russia's arms exports were 14 per cent higher in 2004–2008 than in 1999–2003. Around 71 per cent of Russian arms were exported to the Asia–Pacific region for 2004–2008, with deliveries of advanced combat aircraft and naval vessels to China and India accounting for a considerable share. At the same time, deliveries to Africa and Latin America have

[1] Andrew Osborn, "Russia tells White House it will not return Crimea to Ukraine", Reuters, Feb. 15, 2017, http://www.reuters.com/article/us-usa-trump-russia-ukraine-idUSKBN15U0U0

[2] Catherine A. Theohary, "Conventional Arms Transfers to Developing Nations, 2008-2015", D.C.: Congressional Research Service: December 19, 2016, p. 8, https://fas.org/sgp/crs/weapons/R44716.pdf.

increased by around 200 per cent and 900 per cent, respectively. The majority of these transfers went to Algeria and Venezuela. Russian exports of major weapons increased by 4.7 per cent between 2007–11 and 2012–16. While deliveries in 2016 were higher than in 2014 and 2015, the volume remained substantially below the peak years 2011–13 and were more in line with the levels seen in 2007–10." [1] Since late 2014, the sharp fall in oil prices and the persistent price slump have had a significant impact on spending in several oil-exporting countries, some of them are the customers of Russian defense industry, Algeria and Venezuela.

The combined sales of the 11 Russian companies ranked in the Top 100 reached $30.1 billion in 2015, an increase of 6.2 per cent compared to 2014. However, all of the Russian companies in the SIPRI Top 100 for 2015 are ranked lower than they were in 2014—even when 10 out of 11 saw an increase in sales. The lower rankings are mostly attributable to the fall of the Russian ruble during 2015.

Russian arms sales to China, including the transfer of major weapons systems and defense technology as well as licensing agreements, from 1992 to 2006, Chinese military equipment

[1] Aude Fleurant, Pieter. D. Wezeman, Siemon T. Wezeman and Nan Tian, "Trends in International Arms Transfers, 2016", Feb. 2017, https://www.sipri.org/sites/default/files/Trends-in-international-arms-transfers-2016.pdf; Aude Fleurant, Pieter. D. Wezeman, Siemon T. Wezeman, "Trends in International Arms Transfers, 2015", Feb. 2016, http://books.sipri.org/files/FS/SIPRIFS1602.pdf, Mark Bromley, Paul Holtom, Pieter D. Wezeman, and Siemon T. Wezeman, SIPRI Arms Transfers DATA, 2008, April 2009, https://www.sipri.org/sites/default/files/files/FS/SIPRIFS0904.pdf.

procured from Russia totaled approximately $26 billion, according to some estimates. [1] The sudden decline in Russian arms exports delivered to China in 2006–2007 began a new phase, characterized by diminished Chinese imports of complete Russian platforms and more modest levels of engagement. Chinese counterpart has been focused on absorbing and integrating into its force structure the significant weapon systems previously obtained from Russia, and there has been tension between Russia and China over China's apparent practice of reverse engineering and copying major combat systems obtained from Russia, in violation of their licensed production agreements. In the late of 2015, Russia's sale of 24 Su-35 fighters and four to six battalions of S-400 SAM systems to China, however, the trend in Russia arms exports to China has not been changed.

To present, China continued to depend on Russia defense technology, as aircraft components. China's arms imports from Russia have become more selective, which may reflect the PLA's ability to absorb more sophisticated capabilities. In 2008, Russia signed an intellectual property protection agreement with China at their annual Intergovernmental Joint Commission on Military Technology Cooperation meeting. This document would not lead to cheaper Chinese versions of Russian systems appearing in the global arms market. HQ-9 SAM, Chinese version of S-300 SAM systems, competed for Turkey's air-defense bid. [2]

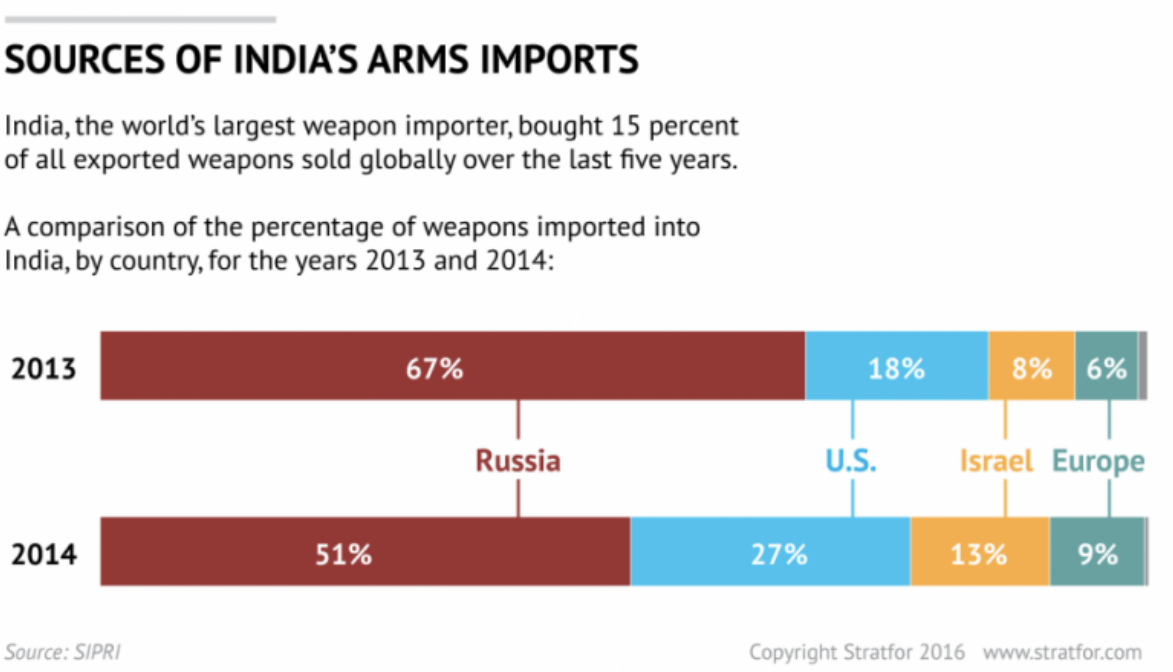
India is the world's largest defense importer, accounting for 15 percent of all global imports over the past five years. India has been the traditional customers for Russian arms exports that began in the 1960s; in the first decade of the 21st century, India needed new equipment from Russia to modernize its armed forces in view of ongoing arms imports by traditional enemy Pakistan and persistent suspicion of neighbor China. For Moscow, the arms deal with India is more important than ever, for its economy is struggling under the weight of foreign sanctions and the global drop in oil price. In the 2014, there is a turning point that the dominance of Russian defense manufacturers in the Indian arms has been broken. European and US counterparts expanded their presences in Indian defense market.

At the Goa summit of BRICS, Russia and India signed a major arms deal about S-400 SAM, Admiral Grigorovich Class frigate, Yasen-class submarine, a joint venture of helicopters, and lease agreement of inactive Akula-class nuclear submarine, which show that although India has sought to diversify its suppliers for military equipment, it will continue to have a strong relationship with Russia in this field, particularly when it comes to hardware that it cannot receive from other suppliers.

[1] Ethan Meick, China-Russia Military-to-Military Relations: Moving Toward a Higher Level of Cooperation, Washington D.C.: U.S.-China Economic and Security Review Commission, March 20, 2017, https://www.uscc.gov/sites/default/files/Research/China-Russia%20Mil-Mil%20Relations%20Moving%20Toward%20Higher%20Level%20of%20Cooperation.pdf.

[2]

Moscow and New Delhi have agreed to co-develop a fifth-generation fighter (FGFA) based on the Russian PAK FA programme, which in turn is based on the Sukhoi T-50 prototype. Under the terms of this joint venture, HAL will work with Sukhoi to develop a two-seater version of the T-50, including R&D and the procurement of 250 aircraft. Russia and India would also set up a joint marketing company to export this fighter.



The similarities happen in the other Russian customers. Russian lost the assault rifle bid from Vietnam People's Army in 2011. Israel Weapon Industries (IWI) has begun to produce Galil assault rifles to "gradually replace" the AK-47s currently used by the VPA.[1] Vietnam's relations with the United States have witnessed dramatic improvements in the recent past. Washington lifted the embargo on the sale of lethal military equipment to Vietnam during President Barack Obama's visit to Hanoi this year. Vietnam will be looking to purchase high-end defense equipment from the United States in near future. Similarly, with the U.S. completely lifting sanctions, Myanmar will be looking for diversified military relationships with Western countries.

Russia inherited the largest and most productive share of the former Soviet military-industrial complex. To present, defense industry is significant to social stability and economic transformation in Russia. Defense industry accounts for a significant share of employment, which is responsible for over 3 per cent of total employment, and around one-third of employment in manufacturing, with defense-industrial research and development (R&D) and production occupying a dominant place in

[1] Zachary Abuza and Nguyen Nhat Anh, "Vietnam's Military Modernization", *The Diplomat*, Oct. 28, 2016, http://thediplomat.com/2016/10/vietnams-military-modernization.

many cities and regions.[1] Russia's economy has been in a downward spiral for years because of falling oil prices and Western sanctions. Defense industry has been regarded as the driver of national economy transformation by the policy-making communities in Moscow. In June 2016, Deputy Prime Minister Dmitri Rogozin, responsible for the development of Russia's defense industry, announced that by 2020, the country's military-industrial complex would become the driver of the Russian economy.[2] As of the end of 2013, the high-technology industry generated around 4% of the GVA of the total GDP of Russia, according to the preliminary forecast estimates, in 2014-2016, Russian high-tech sector will grow to 9-10% per year, in which government defense order, was a determining factor on the development of the high-technology production sector and in particular of the military industrial complex.[3]

Moscow is stepping up its own military modernization efforts, as one of strategic options to reverse the negative changes to Russia's export market. "The domestic market will be the main priority for Russian defense industry" at least through 2019. [4] According to Defense Minister Army General Sergei Shoigu, "Over the past six months, more than 750 new weapon systems and military equipment have arrived for the troops while 380 pieces of military hardware have been repaired and about 7,000 military hardware items have undergone maintenance," The share of modern armament and military hardware in constant alert units and formations has reached 58% since the beginning of 2017. [5] In fact, the domestic demand for new and better equipment is straining its supply capacity, which is also affecting foreign sales.

---

[1] Richard Connolly and Cecilie Sendstad, Russia's Role as an Arms Exporter the Strategic and Economic Importance of Arms Exports for Russia, Chatham House: Russia and Eurasia Program Research Paper, March 2017, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-03-20-russia-arms-exporter-connolly-sendstad.pdf.

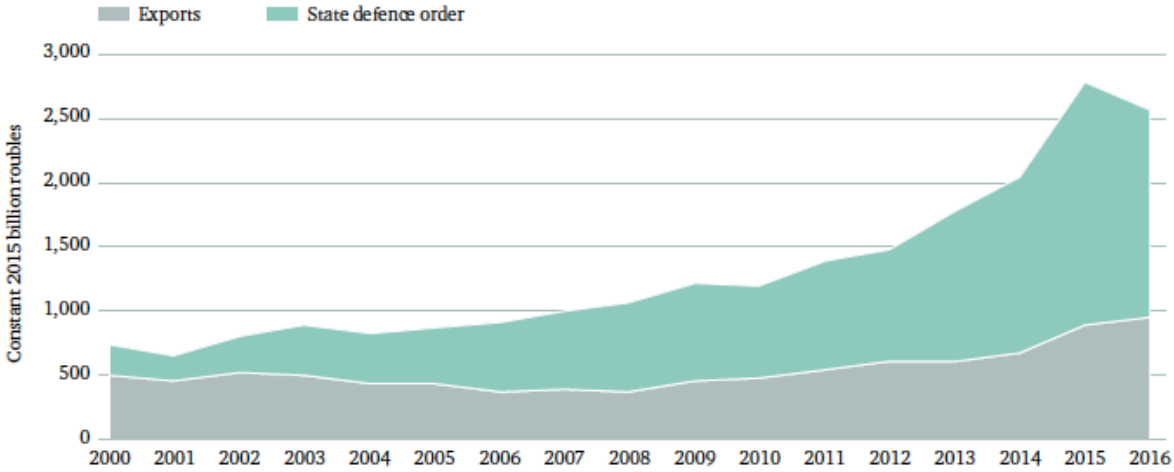
[2] Sputnik News: Russia Expects to Reach $13-Bln Goal on Military Equipment Sales Abroad, June 13, 2016, https://sputniknews.com/military/201606131041240012-russia-military-equipment-export.

[3] Olga B. Koshovets, "Financial Performance and Technological Modernization of Russian Hi-technology Complex and their Role to Boost Economic Growth", Journal of International Scientific Publications, Vol. 8, 2014, https://www.scientific-publications.net/get/1000007/1409340758352379.pdf.

[4] John Grady, "As Russian Arms Sales Slow, Moscow Focus Now on Domestic Weapons Modernization", April 17, 2017, https://news.usni.org/2017/04/17/russia-arms-slow-moscow-focus-now-domestic-modernization.

[5] Russian News Agency, "Russian Troops to receive over 750 new weapon systems", June 09, 2017, http://tass.com/defense/950715.

Figure 15: Value of Russia's arms exports and the state defence order, 2000–16, constant 2015 billion roubles



Note: Annual average dollar/rouble exchange rates used for each year to convert dollar export prices reported by CAST into domestic currency. Rouble prices deflated using consumer price index.
Sources: CAST (2017); authors' calculations.

Russia's military expenditure became increasingly noteworthy as it rose in the 2000s. The new state armament program (gosudarsvennaya programma vooruzhenii, GPV) 2011 ~ 2020 was the main impetus of the rise in the defense budget for 2012 ~ 2014, which doubled the yearly procurement budget of the Ministry of Defense 2011 ~ 2013, and planned high levels for subsequent years resulting in arms procurement at 2 percent of GDP by 2014. The military objective behind this cost increase is that by 2020, 70 percent of the Armed Forces' arms were to be modern. In 2013, Russia was the third largest country in terms of military spending in the world, with annual expenditure of USD 88 billion and a sizable share of GDP – of 4.4 percentage.[1] With the intrinsic systemic problems of Russian economy, characterized with the hybrid of the inefficient state-owned industrial complex and overt state intervention, "anti-market, anti-entrepreneurial" with high business and personal taxes to "maintain state control over every" sector of society, Russia's economy has been in a downward spiral for years—not just because of falling oil prices and Western sanctions. The declining national economy could not support the military expenditures.

Russia's military spending in 2015 was $66.4 billion, up 7.5 per cent from 2014, and up 91 per cent compared with 2006. In reaction to further falls in the price of oil, the planned defense budget for 2016 is about 9 per cent lower in real terms than spending in 2015. Russia's military spending in 2016 was $69.2 billion, an increase of 5.9 per cent over 2015 and 87 per cent compared with 2007. Spending in 2016 was 5.3 per cent of GDP—the highest proportion. However, late in 2016 actual spending was pushed substantially higher by a decision to make a one-off payment of roughly $11.8 billion in government debt to Russian arms producers. Without this debt repayment, Russia's military

[1] Suanne Oxenstierna, "Russia's defense spending and the economic decline", Journal of Eurasian Studies, Vol. 7, No. 1, 2016, pp. 60~70.

spending would have decreased by 12 per cent. Russia will reduce defense spending in the next three years to 2.7-2.8 percent of GDP, President Vladimir Putin said.[1] Hence, it is a conclusion will be reached that Russia has higher-possibilities to maintain its status in the international arms sales.

Since the collapse of Soviet Union, there has been an intrinsic system-integration challenge and problems of coordination between Russia defense industries and their many subcontractors in the former Soviet republics also continue to hamper production. Ukraine was left with about 30 percent of the Soviet defense industry on its territory, including about 750 factories and 140 scientific and technical institutions when Soviet Union dissolution in 1991. Russia's military depends on Motor Sich in the southeastern Ukrainian city of Zaporizhia for helicopter engines and on the Russian company Antonov's plant in Kyiv for transport planes. Most importantly, the Russian army relies on the Southern Machine Building Plant Association, known as Yuzhmash, in the southeastern Ukrainian city of Dnipropetrovsk, which designs, manufactures, and services rockets and missiles. More than half of the components of Russia's ground-based intercontinental ballistic missiles come from Ukraine. Ukrainian specialists carry out regular inspections of Russia's strategic missiles to certify them for service as well as supplying essential missile components including targeting and control systems for the RS-20 Voyevoda missile. The ban of military cooperation with Russia issued by Ukrainian President Petro Poroshenko, would affect 79 Ukrainian and 859 Russian defense firms, however, the cooperation in the production of dual-purpose goods has been excluded, such as helicopter engines. [2] More than half of the components of Russia's ground-based intercontinental ballistic missiles come from Ukraine. Ukrainian specialists carry out regular inspections of Russia's strategic missiles to certify them for service as well as supplying essential missile components including targeting and control systems for the RS-20 Voyevoda missile.

Import substitution in Russia's defense economy has been a key policy since mid-2014. Putin has said previously that replacing the components used in the defense industry would require funding and that it would take up to 2-1/2 years to switch to entirely domestic manufacturing.[3] The development of substitution is controversial. Vladimir Kozhin, President Putin's aide for cooperation in defense-related technologies said The Russian defense manufacturing sector has virtually fully ridded itself of dependence on the component parts made in Ukraine.[4] The western observer

[1] Sputnik: Russia to Cut Defense Spending to 2.7-2.8% of GDP, June 15, 2017, https://sputniknews.com/military/201706151054644820-russia-cut-defence-spending.
[2] Russian News Agency: Ukraine's Porposhenko stops military cooperation with Russia, June 17, 2014, http://tass.com/world/736363.
[3] Reuters: Putin wants Russian defense industry to be self-sufficient, May 14, 2014, http://www.reuters.com/article/us-ukraine-russia-putin-defence-idUSBREA4D0BR20140514.
[4] Russian News Agency: Russian defense industry rids itself of dependence on Ukrainian components, March 24, 2017, http://tass.com/defense/937195.

concludes “it is currently planning to produce approximately 50 a year, while it is going to need approximately 3,000 engines for its helicopters in a matter of two or three years”, Igor Sutyagin, a research fellow for Russian studies at Royal United Services Institute in London, as far as the engine for combat aircraft and are concerned. [1]However, in 2014 ~ 2016, Ukraine had implemented the signed contracts with Russian in 2006~2010 (see annex 1). The engines for Russian Yak-130 light attack and trainer aircraft. In other words, Ukraine factories are helping Russia to maintain and develop its combat pilots.

Conclusion

Through the analysis of Russian arms sales and its defense industry, these restrictions have halted not only Western military exports (which help fill critical gaps in Russia’s defense capabilities) but also commercial high-tech transactions that could have dual-use military applications. The transfers between Russia and the third/fourth parties’ defense industries have not influenced by the EU restrictive measures, for example, the establishing Russia-India joint defense enterprises. Even Ukraine, it is out of the EU jurisdiction, still supply the key parts to Russian defense industry.

From the traditional legal-making perspective, the imposition of secondary sanctions by States deprives the peoples of targeted State of basic human rights and affects their right to development. The right to self-determination puts upon States not just the duty to respect and promote the right, but also the obligation to refrain from any forcible action which deprives peoples of the enjoyment of such a right. However, focusing on the specific industry, the effect of collateral damage will be limited than the unilateral sanctions.

In practice, although the adoption of extra-territorial economic sanctions has had a normative impact on the international legal system insofar as they represent formal rejections by specially affected states of extra-territorial sanctions, in most areas of extra-territorial regulation, the EU authorities have taken a softer approach, but still exert diplomatic pressure against the businesses of third party to cease doing business with EU-targeted states. Moreover, the direct conflict of laws in this area necessitates an effective multilateral approach for resolving the unilateral sanctions problem.

[1] Charles Recknagel, “Complex Ties: Russia’s Armed Forces Depend on Ukraine’s Military Industry”, March 28, 2014, https://www.rferl.org/a/russia-ukraine-military-equipment/25312911.html.