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Russia's War Economy

An Assessment of Russia's Military Industrial Complex – A Long-Term Plan

Daivis Petraitis

- › In contrast to a majority of Western militaries, Russian military culture pertains to a „Prussian-German“ type military, following the so-called „Great German General Staff“ – entailing the dominance of the military.
- › In 1992, the idea to allow the Military Industrial Complex (MIC) to produce both military and civilian goods was introduced in Russia through a special federal law „The Law on Military Conversion“.
- › From 2000-2003, by presidential decrees, MIC factories were transformed into holdings, the state obtaining a majority of shares.
- › The “Ivanov Doctrine” of 2003 became the guideline for military modernization. It sets two tasks for the Russian military: The first one is the readiness of the armed forces to fight two major conflicts (regional wars) simultaneously plus the capability to participate in a peacekeeping operation. The second task is preparing for a global conflict.
- › In 2006 the government established a governmental commission for the military industry. It became responsible for developing and supervising the state armaments policy.
- › In 2014, the Russian Ministry of Defense established a National Defense Management Center. Functioning in a wartime structure, the center also became responsible for the daily supervision of MIC factories directly owned by the MOD. The MIC factories work on a 24/7 mode by executive order.
- › In 2014, the general staff started including training of private business and industries into strategic exercises.
- › In 2022, parliament and government formed coordination bodies to support the MIC. The Governmental Commission for the Military Industry is headed by Vladimir Putin.
- › Russia prioritizes “feeding a war machine”. Market rules do not apply. Laws are adopted and changed according to military needs, actions are taken, and restructuring undergone with the sole aim of being able to wage war.
- › Putin's reelection in 2024 and his decisions to reshuffle the government are going to speed up MIC transitions to the “mobilization of economy” mode and continue to build up the final stage of Russian mobilization – the “mobilizational economy”.

Table of Contents

Introduction: Russia’s Military Culture	2
The Military Industrial Complex in the USSR	2
Russian Military Industrial Complex in Transition	3
The Russian Military Industrial Complex Today	4
Conclusions	6
Imprint.....	9
The Author	9

Introduction: Russia’s Military Culture

To understand how Russia solves problems of the Military Industrial Complex (MIC), one ought to know particularities of the Russian military in general and the MIC in particular. Differently to a majority of Western militaries, the Russian military pertains to a so-called Prussian-German type of military, nurturing a Great German General Staff (Großer Generalstab) culture. Tsar Paul the First (1796-1801) introduced it to Russia and while Russian history brought some adjustments, the essence remains unchanged. While the Treaty of Versailles¹ forced Germany to dissolve the Great General Staff and Berlin was forbidden to reconstitute similar structures in any form, Russia upheld the structure. When after World War II most European countries abolished the Prussian-German type of military with only some maintaining elements of it, Russia again took another road. The structure and culture of this type of military is characterized by a set of different approaches: War economy is in the center of state economy, implying that economy must supply everything for war. This differs greatly from Anglo-Saxon or French military cultures, where the philosophy “a war costs and these costs should be taken into account” applies. As a result, when a war becomes too expensive, it becomes untenable and needs to be stopped to save the country from bankruptcy. Russian philosophy is different: “There is no such cost we wouldn’t pay for the victory”², so resources while waging a war are not limited and the state is willing to sacrifice everything for victory.

The Military Industrial Complex in the USSR

Following this approach, the Russian military is provided with a maximum of everything to wage a war. In the USSR, the Ministry of Defense (MOD) not only owned factories and research facilities, but also placed military orders to foreign state industries. From the beginning of the USSR’s existence, the country followed this path: The market was absent; the state provided demand and requested supplies on time and in the requested quantities. The country followed the Chief of General Staff - at that time, Marshal Boris Shaposhnikov - stating that the preparedness for war must be overwhelming, and that the MIC is an integral part of the country’s defense capabilities.³ Therefore, USSR factories, which before the war made civilian goods, were able to produce everything the forces needed during World War II in massive quantities. After World War II, a majority of civilian industries returned to producing peacetime goods. At the same time, the military - arguing with new threats and enemies - began developing its own Military Industrial Complex by expanding factories remaining under its control.⁴ Experts estimate this MIC was swallowing almost one third of financial, material and scientific USSR potential, becoming the main industrial branch in the Soviet economy.⁵

Next to providing everything the military needed, it was among the main sources of state income. The revenue generated through arms sales went straight to research and development and military-technical espionage to strengthen the MIC even more.

Russian Military Industrial Complex in Transition

When the USSR broke up, the MOD lost control over the MIC. It was transformed by Boris Yeltsin's government and passed into civilian hands. In 1992⁶, the idea to allow the MIC to produce both military and civilian goods was introduced with a special federal law "The Law on Military Conversion".⁷ Even a Ministry for Military Industrial Complex⁸ was established. It was disbanded in 1997. However, all state efforts failed and the military was left without any possibilities to obtain what it needed. At the same time, the majority of factories transferred to other state institutions failed to reorient to produce civilian goods. They went bankrupt and were privatized. Those that endured were looking for the state defense order (SDO)⁹ or foreign arms contracts to survive. The SDO itself was unreliable and payments usually postponed. As an example, in 1997 the state defense order was worth 28 billion rubles, but factories were paid only 8 billion rubles. The arms export sector faced similar hardships: While in 1990 up to 70 percent of military production was exported, these exports came close to zero in 1992.¹⁰

The MOD was not satisfied with this situation, and when Vladimir Putin became president, it began trying to restore the MIC. In October 2003, the MOD presented a document named "Urgent Tasks for the Development of the Armed Forces of the Russian Federation", that later received the name "**Ivanov Doctrine**" and became a political-military guideline for military modernization. It set two tasks for the Russian military: The first one was the readiness of the Armed Forces to fight two major conflicts (regional wars) simultaneously plus being able to participate in one peacekeeping operation with standing forces without mobilization. To achieve this level of readiness, the MOD started a military reform in October 2008. It was partially finished in 2015,¹¹ with the final stage postponed until 2022/23. As a result, Russia invaded Ukraine with its forces not completely reformed and this soon contributed to the big losses on the battlefield. The second "Ivanov Doctrine" task requested the Armed Forces to be ready for a global conflict after forces and state mobilization. Here the mobilization and the MIC status issues became relevant. To fix the situation in the MIC and rebuild capabilities, several Presidential Decrees in 2000-2003 led to remaining MIC factories being transformed into holdings, the state obtaining a majority of shares¹² and the Rosoboron export¹³ holding obtaining an arms exports monopoly.¹⁴ To get weapons for reformed forces, the MOD initiated a wide Soviet weapons modernization program and became responsible for the state defense order. To finance it, the government approved a state program for the armaments for 2007-2015.^{15,16} The program stipulated a new and modernized weaponry in the Armed Forces reaching up to 70 percent of all inventories.

These efforts changed the situation: Factories were granted the SDO and started to build up production capabilities, while the MOD maintained process control. The MOD further established a new unit called the "Board of Military Representatives to the MIC"¹⁷. Furthermore, in 2006, the government established a governmental commission for the military industry¹⁸. This commission became responsible for developing and supervising the state armaments policy. The commission consisted of military representatives and governors from regions where the MIC was located. The MOD received vast control over the MIC, but this was just the beginning.

In 2014, the MOD established a National Defense Management Center (NDMC). Functioning as a wartime structure, the center also became responsible for the daily supervision of MIC factories. The MOD also began having special days for accepting weaponry and arms into the Armed Forces¹⁹, with the defense minister receiving reports from the factories. The same year, Vladimir Putin became the Chairman of the "Governmental Commission for the Military Industry", hence tightening the control over the MIC. By now MIC factories – despite being partially owned by private owners – had almost no decision on what to produce and how much to charge for products. Yet the MOD was not satisfied. The MIC lacked capabilities to perform the second task of the Ivanov Doctrine – to guarantee production after the mobilization announcement.

To fix that, the MOD received permission to own military factories: The first factories for air defense systems S300 and S400 were built in Nizhny Novgorod and Kirov²⁰ in 2015/16. In 2021, the MOD built a UAV production factory in Dubna.²¹ When the full-scale invasion of Ukraine started, two additional factories were established to build and repair armed vehicles.²²

Now the MIC consisted of two types of factories: Factories owned by the state and private ownership, plus factories the MOD owned directly. However, this did not seem to be enough to guarantee the fulfilment of the second Ivanov Doctrine goal, especially when the amounts of everything needed became known to the military planners through the "State Defense Plan",²³ a new strategic document, signed in 2013.²⁴ One of the solutions to obtain the necessary quantities was to use Soviet experience and get civil industries and business mobilized to prioritize and fulfill military needs. Hence in 2014 the General Staff started including training of private business and industries into strategic exercises. For example, the General Staff had a special group to estimate effectiveness and efficiency of involvement of private business into supporting military activities during the strategic exercise "Vostok" in 2018.²⁵

Speedy military production became especially important after the full-scale invasion of Ukraine in 2022. High losses in arms and equipment forced the MOD to act decisively. To this end, the Parliament created "a coordination group to solve questions related to the special operation"²⁶ at the end of 2022. It consists of parliamentarians from both houses. The group adopts and changes laws according to military requests. A similar group, "a coordination board of the Russian Federation government to meet needs of Russian Armed Forces"²⁷, passing governmental orders at the request of the military, was established in the government at the same time. Both coordination bodies have military participation and work in a very fast mode with laws or executive orders to provide resources and meet financial needs within days or faster. Additionally, funds were approved to develop and expand the MIC.

The Governmental Commission for the Military Industry headed by Vladimir Putin is not standing on the side either. With the former President and Prime Minister Dmitry Medvedev appointed as a Deputy Chair of the Commission it seems to be ensured that requests of military orders are fulfilled timely and at fixed prices by the MIC.²⁸ The commission works statewide and interferes in all spheres. As an example, Dmitry Medvedev recently requested the "Skolkovo" foundation to terminate all projects and to switch to military developments or MIC factories to increase their production scale of everything²⁹. Military orders became financed in advance. The MIC factories now work in a **24/7 mode** through an Executive Order^{30,31}. Even more: The steel industry was ordered to increase steel supply to the MIC³² and automobile producers were ordered to produce more trucks and other vehicles for the military and to develop a state strategy to increase automobile production in general. Furthermore, the Construction Ministry received the task to work out a plan to increase fast assembling houses production, which would be necessary to rebuild occupied territories.³³

The Russian Military Industrial Complex Today

Even before the full-scale invasion of Ukraine, Russia prioritized "feeding a war machine". The market rules did not apply. Laws were adopted and changed according to military needs, actions taken, and restructuring undergone with the sole aim of being able to wage war.

Today, the Russian economy is supposed to function in three different stages. The first stage for the economy is called "**peacetime**". Here mobilization is not needed, and the MOD factories or military holdings produce all necessary items based on long-term budgeted contracts.

The second stage is activated according to the Ivanov Doctrine when the standing forces participate in regional conflicts. The Swedish research agency FOI³⁴ named this stage a "**mobilization of economy**"³⁵ stage. This stage doesn't require a military mobilization, however the MIC changes its routine vis a vis economy: Factories receive extra funds and orders to increase production. The state issues loans allowing the MIC to create extra production capabilities.

It also assigns resources from the state reserves and allows hiring extra workers and moving to an extended work regime. At the same time, the state sets prices, allowing only a minimum of profit for the MIC holdings. The war in Ukraine demonstrated how important a steady supply of materials, tools and machinery to MIC factories is. In 2023, Russian authorities reprivatized and nationalized 15 factories and companies important for military supplies, including the Chelyabinsk electrometallurgical plant, the biggest car dealer “Rolf” and a heavy machine tool plant in Ivanov³⁶. These factories were privatized in the early 1990s and the former owners (some from abroad) most probably used the market rules to increase the costs of production and services. Those assets now strengthen the Military Industrial Complex capabilities and allow to increase and speed up deliveries of military items necessary in the “mobilization of economy” times.

The third stage of economy, called “**mobilizational economy**”, is to be activated if Russia enters a global war. Most probably, it is based on the USSR idea of industries producing peacetime goods switching to the production of military items in a wartime. Based on available information – including the fact that the General Staff was testing this concept during strategic exercises – one could preclude that the “mobilizational economy” is arranged as follows: Selected civilian factories and businesses are prepaid to have extra capabilities, materials and workers to prepare in advance to switch to a wartime production after the general mobilization is declared. It seems that Russia has learned the USSR lessons by not planning to overburden its economy and instead having only certain factories and companies included into the “mobilizational economy” list. A policy to store necessary items helps extend the “mobilization of economy” stage and to transfer into war modus only in exceptional cases.

Graphic/Illustration



Source: Author's own work

Putin's reelection in 2024 and his decisions to reshuffle the government are going to speed up MIC transitions to the “mobilization of economy” mode and continue to prepare for the final stage of Russian mobilization – the “mobilizational economy”. The appointment of the former Defense Minister Sergei Shoigu as the Security Council Chair simultaneously leaving him responsible for the MIC, proves that the path he has chosen to increase the potential of MIC factories (fulfilling military requests), remains valid. As a strict controller of finances, the new Defense Minister Andrey Removich Belousov would add to this progress as well.

In the meantime, the “mobilizational economy” is being tested and created. This was confirmed by the newly appointed Vice Prime Minister Denis Valentinovich Manturov who, while speaking in the Russian Parliament, announced that almost 500 000 additional workers were hired by the MIC factories.³⁷ He also added that around 850 civilian factories were producing military items and fulfilling not only the MOD’s but also orders of other “power structures”. A clear statement, indicating that those factories already function as a part of the “mobilizational economy”. Asked by parliamentarians how those factories would work after the war, he mentioned that the progress could also be undone. According to him, already back in 2016, Putin tasked the MIC as well as civilian factories to be able to diversify up to 50 percent of the production towards military mode or vice versa by 2030. “We were at the level of 25 percent in 2021, today some factories already reached 50 percent and in average we are close to 30 percent. As soon as everything ends, civilian factories would go back to the civil production,” added the Vice Prime Minister.³⁸

Conclusions

Early on, Russia has chosen to focus its economy on the Military Industrial Complex. Supplying the war machine is a priority. Market rules do not apply, as the MIC factories are MOD owned or have mixed ownership. Hence, they can maintain reserves and receive extra finances to expand production on a short notice.

From a peace time economy, the Kremlin has moved to a “mobilization of economy” with the option to move towards a “mobilizational economy”. In addition, as soon as the concept of the “after mobilization economy” is finalized, the state will be able to increase military production even further and faster than the mobilization is announced.

With the lessons learned from the USSR, the new Russian mobilizational economy will be smaller compared to the USSR one but will still include a sizable number of civil industries, prepared to adapt in advance. Time will show whether this system is going to become a burden and a cause for the state to break up, as it has been the case with the USSR.

So far, Russia is able to compensate all military loses in Ukraine, even to supply extras and grow its military potential by forming new units and continuing the reform of its Armed Forces. We are witnessing a renaissance of conventional war, heavily depending on material. As horrific and brutal as Russia is waging the war in Ukraine, it is also preparing for more. Ramping up military industrial production – as the Czech Republic is doing – is the necessary action to be taken in EU and NATO-countries.

¹ The treaty of Versailles, article 160 part 3.

² rus. Мы за ценой не постоим.

³ Б. М. Шапошников Мозг армии. В 3-х книгах: 1.2,3. М.-Л.: Государственное издательство. Отдел военной литературы, 1927; Глава III, XII.

⁴В. Быстрова Военно-промышленный комплекс в экономике СССР в годы холодной войны.М. ИРИ РАН, 2000.

⁵ П. М. Крылов, Т. Г. Рунова. Хозяйственный комплекс России. Экономическая география и регионалистика. МГИУ, 2008.

⁶ Entered into power on 2 February 1992 updated on 13 April 1998 No. 60-ФЗ.

⁷ rus. О конверсии оборонной промышленности.

- ⁸ rus. Министерство оборонной промышленности.
- ⁹ rus. гособоронзаказ.
- ¹⁰ П.Е. Фельгенгауэр. Военно-промышленный комплекс России в 1991–2008 годах. История новой России. 2010.
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- ¹³ rus. «Рособоронэкспорт».
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- ²⁴ The plan is regularly updated.
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