

## **Title: Linking Peace with Development – Defense Procurements in US-Russia relations**

### **Introduction**

The dysfunctional mechanism of defense spending leads to the inadequate provision of resources to the armed forces and other security services. This may result either in military weakness or in "the rogue military" which expenditures decrease the state's abilities to fulfill the welfare aims and achieve economic growth. In the case of defense corruption, the population is affected by the inefficient distribution of resources and the army – by the unsatisfactory quality of arms and vehicles.

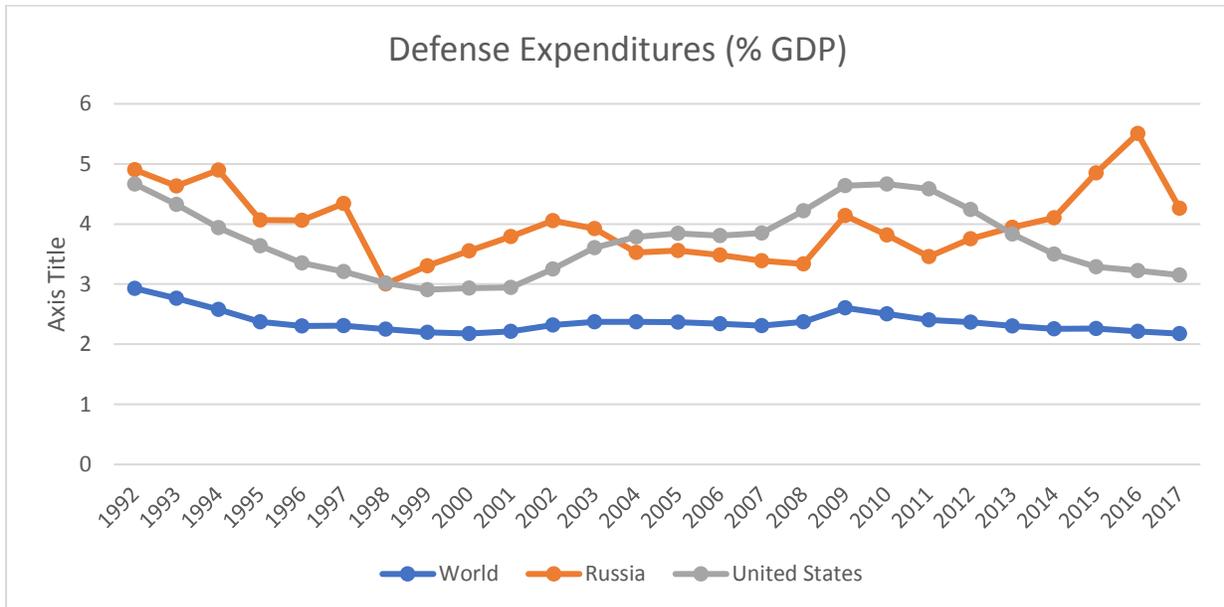
Corruption in the defense sector is also a political problem. It illegitimately redistributes political power from civilian decision-makers to military-affiliated industries and/or departments of defense. Sometimes it can even lead to a "state capture" when defense industries are inefficient but possess political leverage inside the state.

For Russia and the US, defense procurements play a prominent role in domestic and international economic and political relations. Apart from numerous well-known political reasons, the international distrust has been building on mutual suspicion towards national security sector build-up. One but particularly important aspect of a problem is defense procurement transparency.

### **Problem Description**

After the end of the Cold War, the world's defense expenditures gradually declined despite the presence of regional military

conflicts (figure 1). The main military producers, the United States, and the post-soviet Russia have also changed their military spending. However, the post 9/11 development in the US and changes after the war with Georgia in Russia stimulated budgetary growth on defense in both countries.



The two countries blame each other for [militarization](#). Indeed, the US is a #1 country in military expenditures, but its military build-up system is relatively [transparent](#).

Though Russia significantly lags in the transparency and efficiency of its defense procurement system, making extremely difficult to verify Russia's defense strategy and reducing Russia's economic capabilities.

Therefore, both countries can be interested in making defense procurements simpler and more explicit. The US may exploit its relative advantage over Russia to push for greater transparency while Russia may support its public claims with practical reforms in its defense procurement system.

An effective and transparent system of defense acquisitions reduces corruption, increases economic efficiency and growth and reduces international distrust in security sector development. In the case of the US and Russia, a global initiative in reforming defense procurement system may sustain peace.

On average, 31% (155.2 bln USD) of the US DoD's Base Defense budget is [spent](#) on military procurements, R&D and evaluation. However, a separate DoD's Overseas Contingency Operations fund, in general, [accounted](#) for 17% of the Base Budget. It is significantly less accountable than the main DoD's budget. Apart from the formal military budget, there is a number of nuclear, veterans affairs, international and intelligence budgets that [account](#) in total for more than 1 trillion USD.

To evaluate the structure of Russia's military expenditures is a tricky task. [Researchers](#) estimated that around 50% (33 bln USD) of Russia's defense budget is delegated to arms procurement after the adoption of GPV-2020 (state rearmament program). About 9% (6 bln USD) of the MoD's budget is dedicated to defense-related [research](#). However, these numbers are approximate. Firstly, Russia has diverse paramilitary structures with military equipment that participate in procurements as separate agencies. Secondly, a high overall level of [secrecy](#) (up to 70% of the defense budget) and poor reporting system does not allow to evaluate the budget.

In terms of procurement procedures, the US system is tremendously more efficient and transparent than the Russian

one. There is a low risk for corruption though there are some concerning systemic [problems](#). Firstly, the DoD has failed the 2018 full audit that [cost](#) almost 500 million USD. The lawmakers simply do not know where the [funds](#) are going in the DoD. Secondly, the allocation of funds is affected by the defense industry lobbying (128 mln USD in 2015), political considerations (jobs creation in electoral districts) and the DoD's influence (forced retirement of A-10 jets to get F-35). Finally, there is an actual problem with 21 trillion USD of undocumented adjustments (1998-2015) that the DoD has failed to explain. Moreover, the recent FASAB (Federal Accounting Standards Advisory Board) [recommendation](#) has allowed the DoD to classify funds under the plea of national security. These trends generate concerns on the trends of US defense procurements development.

Nevertheless, Russia's procurement and accounting system are [significantly](#) worse. Firstly, apart from extreme secrecy (70% of the annual defense procurement plan), there are criminal and administrative penalties for companies for failing the implementation of defense contracts. This creates punitive incentives for companies to violate existing inefficient procurement procedures. Secondly, Russia lacks independent interagency oversight and monitoring with a public reporting system. The main oversight bodies are mostly passive and do not conduct stand-alone inspections, their reports are usually not publicly available. Thirdly, there is no independent public or non-governmental assessment of defense procurements rationale. The decisions are made under a generic mandate of the defense

doctrine and classified state armament program (GPV) and annual state defense order (GOZ). Fourthly, there are no compliance programs, ethical standards, and training for the defense industry and MoD personnel working with procurements. Fifthly, there is an artificially high level of single sourcing (around 50%) and two-bids contracts. These artificial monopolies can multiply the costs of production up to 30 [times](#). Sixthly, there are no protection mechanisms for complainants and whistleblowers limiting bottom-up oversight. Finally, Russia does not control the use of agents, intermediaries in the procurement cycle as well as there is a lack of mandatory control over sub-contractors from the main contractor. These drawbacks make Russia both, vulnerable to corruption and bad performance of the rearmament programs and opaque military decision-making in the eyes of the international community.

Therefore, both the US and Russia experience problems with the defense procurement system though of different scale. The United States, as the main world military consumer, possesses an extreme nominal defense budget with some signs of the DoD's misconduct. This entails both additional responsibility and international political leverage in global defense procurement management. However, in general, the US system is superior to the Russian one. Russia lacks institutional and procedural oversight and procurement management. However, Russian officials do not miss an opportunity to criticize the US for its defense expenditures. This provides a window of opportunity for the US to start a global defense procurement standards initiative.

## Policy Options

In general, the idea of creating global standards of defense procurement is not new. Transparency International stepped in with a [proposal](#) of “Global Standards for Responsible Defense Governance”, as well as [NATO](#) works on constant improvement of practices among its member-states. However, the TI initiative is declarative and politically and legally non-binding and NATO’s program applies only to member-states and its partners. Therefore, the US may propose a draft of a politically binding technical initiative on the transparency of defense procurements for global peace. There is already a set of NATO member-states who may become the founding coalition of states. The underpinning idea of an initiative can be *“the promotion of peace, human security and economic development through mutually transparent defense procurement mechanisms.”*

The initiative may start with the declarative measures on the Responsible Governance of Military Power promoted by Transparency International. The UN [Convention](#) Against Corruption establishes 4 spheres of anti-corruption measures applicable to defense: prevention, law enforcement, and criminal law, international cooperation, technical assistance, and information exchange. These can be the spheres of technical implementation.

### *Prevention*

Prevention is impossible with a high share of secret items. The US and Russia should reduce the share of secret lines in defense

budgets to no more than 5% of total defense expenditures, excluding the acquisition of components of contemporary fighting vehicles. This may guarantee the non-disclosure of sensitive information on the country's technological development in the military sphere. Though the states should guarantee parliamentary oversight establishing a group of representatives with secret security clearance. The full defense procurement cycle process should be disclosed to the public, including the assessment of needs, contract implementation, sign-off, and asset disposal. The main contractor should ensure the adoption and compliance of sub-contractors with anti-corruption and transparency laws and regulations. The Defense Agency servants and the defense industry workers should regularly pass anti-corruption training for being permitted to work.

### *Law-Enforcement and Criminal Law*

The punitive measures against the non-execution of defense order are permissible only in the cases of top national security such as strategic technologies and during the outbreak of war. The oversight bodies should be independent and autonomous in their decision to conduct monitoring, evaluation, and audit of tenders. Their reports should be publicly available if not about the secret items of the defense budget. The Defense Agencies should respond to the violation of laws and regulations in a reasonable period of time. Whistleblowers should be legally and politically protected by the state and, if valid, their reports should not be prosecuted by any means.

### *International Cooperation*

The US and Russia should sign and ratify the Arms Trade Treaty though the prospects are currently low. The treaty is a cornerstone for further advancement of ethical arms trade and peace-focused deals. Countries should be committed to making budgets for overseas operations more transparent and accountable to independent oversight. They should not be used for undercover arms sales and security assistance.

### *Technical Assistance and Information Exchange*

The US and Russia academic community may establish mutual bi-annual conference on defense procurements and acquisitions focusing on best practices and international progress in implementing transparent defense procurement mechanisms. Despite different views on international security, countries may become strategic proponents of international development in building trustworthy, transparent and effective systems of defense acquisitions worldwide.

These policy options are not monolithic and can be recomposed responding to political opportunities and the states' commitments. However, the core of the initiative is a human-focused and effectiveness-oriented discussion about the systems of defense procurement that promote economic development, reduce corruption, increase human security and foster international peace.

## **Conclusion**

The dysfunctional mechanism of defense spending reduces economic growth, increases political and economic inequality and distrust in international affairs. Therefore, international initiatives in adopting best practices of defense procurement are valuable domestically and internationally. For Russia and the US, a process toward the defense procurements *normalization* can become a small incremental but politically powerful move for building better trust and wellbeing of both nations.

There are interested actors in both nations. In Russia, the Accounts [Chamber](#) led by Alexei Kudrin with few Kudrin affiliated think-tanks, [Center](#) for Strategic Research, [Center](#) for Advanced Governance, and Civic Initiatives [Committee](#), are the main proponents of institutional reforms in Russia though heavily “depoliticized” due to their coopted status and ever-growing surveillance by security services. Apart from Kudrin’s coalition, the Ministry of Finance, led by Anton Siluanov, is naturally interested in greater financial transparency and tax oversight. The Military Procuracy might become a third government pro-reform agency. Recently the Military Procurator [claimed](#) the official annual costs of corruption in Russia quadrupled up to 7 bln rubles (110 mln USD).

In the United States, the newly established Quincy [Institute](#) may become a leading think tank for the initiative. Apart from it, Cato Institute and Niskanen Center are two top think tanks supporting fiscal conservatism and national defense reform. Senators Rand Paul and Bernie Sanders from both parties promote higher defense efficiency and military budget cuts, signifying a room for a bi-partisan consensus in this sphere.

Linking development issues with high-level foreign policies can become a new platform for change. The US will achieve strong international support and increase its international status if it proposes Russia to start a bilateral initiative for “*the promotion of peace, human security, and economic development through mutual transparent defense procurement mechanisms.*” Though there are little prospects for Putin’s Russia to adopt and implement these measures immediately, the initiative may become a new point for international cooperation.