



War Economy, War Society – How Strong Is Putin Really?

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The Kremlin's Appetite Grows with Eating

Executive Summary

This report develops one simple but important insight: that after the failed blitzkrieg on Ukraine in February 2022, the Kremlin initiated on structural changes to Russia's economy and society to support a protracted war. Since these changes will be exceedingly difficult to unwind, war has become the operating system of Russia by default. If war is not current or imminent, the entire edifice becomes incoherent and risks collapse.

The report does not deal in predictions, but rather sets out a combination of circumstances. How those circumstances unfold cannot be known, but understanding the conditions at least helps in managing and preparing for what might come.

Barely a week into the invasion of Ukraine in February 2022 it became clear that the expectation of a rapid victory was misplaced. The Kremlin leadership would have to dig in for a long struggle in which it would hope eventually to overwhelm Ukraine by force of numbers and industrial capacity, and overwhelm the west by outlasting its attention span. The alternative course was a humiliating retreat and climbdown, something that is plainly anathema to Vladimir Putin.

Adapting to this unexpected situation necessitated two immense domestic shifts in Russia. Neither shift is complete, but rather we are seeing rapid movement along a continuum.

- The first shift is towards a war economy where production of arms and ammunition is the national priority, combined with 'military Keynesianism' and a move towards autarky necessitated by international sanctions.
- This process is still a long way from 'total war'. Russia possesses massive untapped military potential and has yet to institute a general draft, for example. The argument that 'Russia can't even beat Ukraine' is a canard. In some regards, by Russian standards, Ukraine really is a 'special military operation and not a 'war'. The paper outlines the scale and extent of Russia's crude but massive military potential, should it continue on its current course.

- The second shift is towards a war society. In place of the previous hybrid that paid lip service to democracy, there is now naked authoritarianism. Since February 2022 we have seen the passing of repressive laws and Putin's 'victory' in a sham election where opposition leaders were denied candidatureship, jailed or killed.
- These shifts create an extremely dangerous dynamic inside Russia. Since Putin cannot simply flick a switch and return to the *status quo ante*, he is stuck with this new national structure. As a result, even if the Ukraine war were to end tomorrow, Russia would no longer function or remain controllable without external conflict.
- The Kremlin has remade Russia in such a way that a state of enduring external conflict is necessary. War has become an end, rather than a means.
- The policy implications be unpalatable to governments beyond frontline states in Central Europe. *Regardless of the situation in Ukraine*, the Kremlin is likely to focus on foreign threats to justify economic privation and repression.
- This implies intensifying information operations for domestic consumption, which portray NATO as an existential threat to Russia, with Ukraine, Poland and the Baltic states acting as spear tips. The accession of Finland and Sweden will be depicted as an act of preparation for such aggression. This implies provocations such as incidents at sea and in the air, border skirmishes, fabricated espionage cases and false flag atrocities against Russian civilians.
- Outside of Russia, the Kremlin is likely to double down on influence and espionage activity aimed at dividing, disrupting and demoralizing adversaries – from online disinformation to laundering funds into extremist parties to manipulating migrant flows. In particular, as a priority the Kremlin will seek the election of Western leaders who would acquiesce in an attack on NATO territory.
- Policy responses should therefore include ensuring that Ukraine prevails; rearmament, restocking and development of the defense industry base to allow for a protracted war; similar preparations in reserves and cadres, with mothballed equipment; and the Alliance to deny rather than deter in the Baltic states, the Suwalki Gap and the Swedish island of Gotland; continued declassification of intelligence to pre-empt provocations; further development of doctrine to enable coherent response to the threat or use of tactical nuclear weapons and; acting to plug the many loopholes that facilitate Kremlin interference in democratic processes. For Europe, all of this needs to be done with the assumption that the US

may not be willing to intervene from January 2025.

- If these things are done, then it is entirely feasible that a Russia that is fixed on the path of conflict can be effectively deterred and contained. If not, the policy of the last 20 years – to invite further aggression from Moscow by exhibiting weakness – will continue, with potentially disastrous results.

War Economy

When Russian forces rolled into Ukraine on 24th February 2022, the plan evidently was a swift decapitation operation. As is now well known, events did not unfold in that way, and within a week it was clear that Ukraine would defend itself, with support from foreign allies.

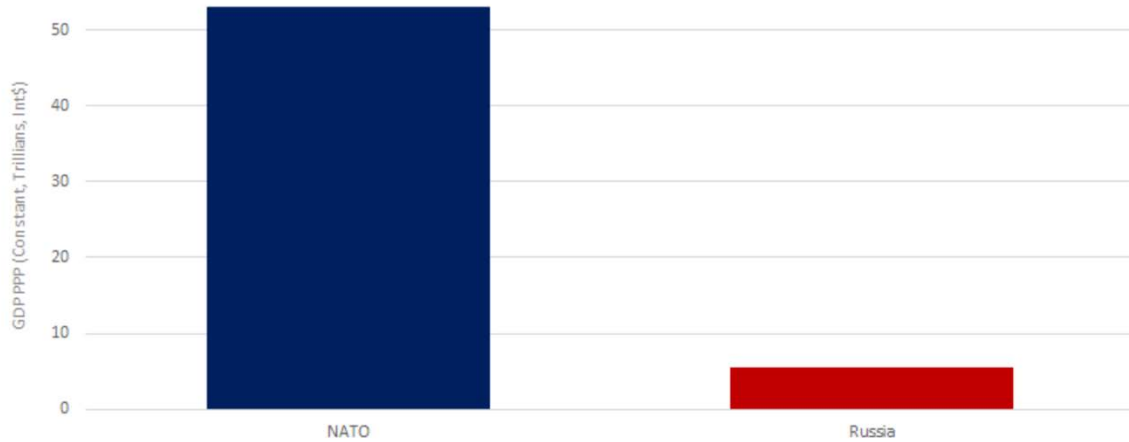
In other words, a series of incorrect assumptions combined with incompetence landed the Kremlin in a dilemma it had not anticipated – to accept a humiliating withdrawal from Ukraine or to dig in for a long fight to overwhelm Ukraine and its western backers. Ukraine would be defeated through mass and persistence of the Russian army, while western backers would inevitably lose interest. For the west, Russia's 'energy weapon' would help to bring populations and governments to their senses. This again was a miscalculation. Rather than bringing Europe to its knees, the Kremlin's energy threats drove its largest customer to successfully find alternative sources of gas, leaving Russia as a supplicant for Chinese contracts.

Despite all of these grave mistakes, Russia has indeed moved a long way down the road of a war economy. Where NATO is the presumed adversary, Russia is severely outmatched economically, as shown in the graphic below, where Russia can barely muster 10% of the GDP of the NATO bloc.⁸ When Non-NATO allies such as Australia and Japan are included in the calculations, the disparity is even greater.

8 <https://www.worldeconomics.com/Thoughts/NATOs-Combined-GDP-is-far-larger-than-Russias.aspx>

NATO's Combined GDP Significantly Dwarfs Russia's GDP

(GDP in Purchasing Power Parity Terms, Trillions, Int\$)



So far, the adversary is Ukraine, and so militarization of the economy has been scaled at that level. Russia's economy today is far more militarized than in 2020, and yet nowhere near the level of militarization seen in 1943.

Still, the degree of militarization is considerable. In the 2024 'Military Balance', the International Institute for Strategic Studies (IISS) estimates that one-third of Russia's state budget is now devoted to military spending.⁹

In some areas, Russia achieved impressive increases in production, despite the obstacle of international sanctions. On 15th January 2024,¹⁰ Major-General Vadym Skybitskiy, deputy commander of Ukraine's GUR military intelligence, described the rapid rate of increase in missile production:¹¹

Russia is currently making around 115 to 130 missiles with a range of at least 350 kilometers each month, along with 100 to 115 shorter-range missiles. This estimate echoes other recent GUR assessments. According to the GUR, Russia is producing, among other things, 40 Kh-101s per month as well as 30 ballistic missiles fired by the Iskander-M system. In late 2022 and early 2023, by contrast, Ukrainian officials put Russia's monthly Kh-101 production at 13 to 30. And as late as May 2023, Ukrainian officials asserted Russia was making just a handful of Iskander ballistic missiles every month.

This step up in missile and shell production is augmented by supplies from allies such as North Korea and Iran – notably the Shahed drone system. This crude but effective weapon was at first imported from Iran. Moscow

9 <https://www.politico.eu/article/russia-sustain-war-effort-two-three-years-defense-study/>

10 <https://www.rbc.ua/rus/news/vadim-skibitskiy-rosiyan-e-motivatsiya-voyuvati-1705266418.html>

11 https://www.fdd.org/analysis/op_ed/2024/01/18/russian-munitions-production-higher-but-still-insufficient/

now has domestic production, with Skybitskyi estimating a production rate of 300-350 per month.

RUSI research published in January 2024 indicated that Russia had also significantly increased its output of armored vehicles: ‘...delivering approximately 1,500 tanks to its forces per year along with approximately 3,000 armored fighting vehicles of various types’.¹²

Where shortfalls remain in industrial capacity and natural resources, Ukraine itself provides many of the answers for Russia.¹³ At first glance, Ukraine’s economy would only represent a marginal addition to Russia’s – regardless of which measure is used, Ukraine’s economy is around one-tenth of Russia’s. This can be seen in the table below. This can be viewed as a distortion imposed by Russia’s abundance of natural resources; by other measures, the country is a very attractive target.

Russia vs Ukraine, IMF projections for 2024¹⁴

	Russia	Ukraine
Population 2023 (m)	143	33.7
GDP 2023, current prices, \$	1.9trn	186bn
GDP 2023, PPP, \$	5.23trn	501bn
GDP/Capita 2023, current prices, \$	13,320	5,530
GDP/Capita 2023 at PPP, \$	36,560	14,880
GDP as share of global GDP, current prices, %	2.84	.27

Ukraine would add over 34m in population, secure some of the world’s most fertile agricultural land and would allow Russia to vie for dominance over the Black Sea with NATO. Russia would, in the worst case, be able to position its forces and missiles on the borders of Poland, Hungary, Slovakia and Romania. As in the policy recommendations section, this often-overlooked factor is yet another reason for the US and its allies to support Ukraine.

Ukraine also possesses reserves of strategic elements such as titanium, manganese, lithium, nickel and cobalt, as well as some rare earths. During the Soviet era many of the most sophisticated military industries were clustered in eastern Ukraine, particularly in the Kharkiv, Dnipropetrovsk

¹² <https://www.rusi.org/explore-our-research/publications/commentary/russian-military-objectives-and-capacity-ukraine-through-2024>

¹³ The Third Reich again provides an interesting parallel. Hitler’s interest in Czechoslovakia was partly driven by the need to gain control of its engineering industries, which at that time were some of the most advanced in Europe.

¹⁴ <https://www.imf.org/external/datamapper/profile/RUS>, <https://www.imf.org/external/datamapper/profile/UKR>

and Zaporizhzhia oblasts. One notable example is the helicopter engine manufacturer Motor Sich, which before 2014 supplied the majority of engines to Russian Helicopters, the state manufacturer.¹⁵ In late 2022 the Russian defense company UEC set up a helicopter engine plant, but it is reportedly far from making up the shortfall left by Motor Sich.

Another strategic industrial asset is Pivdenmash, a producer of missiles and space vehicles based in Dnipro, where there are several related factories forming a rocket-industry cluster. Where Russian forces have not been able to hold territory, they have resorted to carrying off machinery to Russia, particularly in the steel industry (where they have also destroyed a considerable portion of Ukraine's capacity, notably the Azovstal plant).¹⁶

Russia's move towards a command economy means that it can, for now, out-produce its western adversaries, who are seeing encountering serious bottlenecks in stepping up output. In September 2023 Kusti Salm, an Estonian defense official told the *New York Times* that according to his estimates 'that Russia's current ammunition production is seven times greater than that of the West'.¹⁷ The Estonian defense ministry estimates that this annual artillery shell output will rise to 4.5m during 2024.¹⁸ Yet even this level is far below the current demand for shells, which was as high as 10m shells per year in the first year of the war.¹⁹ This shell production situation again illustrates that despite rapid progress Russian has made in ramping up defense production, there is still a long way to go in satisfying current demand and fully transitioning to a war economy.

One reason for the gradualist approach to militarizing the economy is that the Kremlin is evidently wary of mass discontent. For the same reason, a general draft has yet to be declared, but this may change in the coming months. In March 2024 the Kremlin spokesman Dimitri Peskov for the first time explicitly stated that the Ukraine war is indeed a war and not a 'special military operation'.²⁰ Later the same day came the devastating ISIS-K terrorist attack on the Crocus City Hall in Moscow. Putin then attempted to blame Ukraine for the attack, saying three days later 'They tried to hide and moved toward Ukraine, where, according to preliminary data, a window was prepared for them on the Ukrainian side to cross the state border'.²¹

15 'Economic War', Maximillian Hess, C Hurst & Co, 2023. P 30.

16 Ibid p136.

17 <https://www.nytimes.com/2023/09/13/us/politics/russia-sanctions-missile-production.html>

18 https://kaitseministeerium.ee/sites/default/files/setting_transatlantic_defence_up_for_success_0.pdf

19 <https://www.reuters.com/world/europe/russia-ramps-up-artillery-production-still-falling-short-western-official-says-2023-09-09/>

20 <https://www.rferl.org/a/russsia-ukraine-kremlin-war/32872842.html>

21 <https://www.nbcnews.com/news/world/putin-moscow-attack-isis-war-ukraine-crocus-rcna144826>

In a situation of full militarization, civilian enterprises would be subject to Soviet-style ‘mobilization plans’ and the draft would be fully imposed. The extent of this potential in military terms is set out further on in this report. The civilian economy is already subject to a different form of coercion, as the Ukraine war has triggered a renewed round of corporate raids.²² In some cases this takes the form of simple nationalization, at least as a first step. *Nova Gazeta Europe* reported in March 2024 that it was investigating,²³ ‘nationalization of some 180 private companies in the two years since the start of the war’. The reasons given for these appropriations concern allegedly ‘unpatriotic’ owners, including Yury Antipov’s Chelyabinsk Iron and Steel Works Group, worth approximately €1bn.

For now, the situation can be summed up as a surge in government defense-related expenditure, which is sustainable for now thanks to buoyant energy revenues.

On the revenue side, the US and its allies face an awkward dilemma regarding Russian energy. On one hand, they want to ensure plentiful supply of oil in the global market in order to control process and inflation. On the other hand, they want to deny, as far as possible, the resulting revenues to the Kremlin. The result is a strategy of doing two conflicting things at once, namely the 2022 oil price cap policy. The intention of this instrument is to oblige Russia to sell oil at a capped price so that, in an ideal situation, Russia would actually increase production in an effort to make up for the reduced revenue per barrel.

As the US Treasury Department acknowledges,²⁴ in the first year of the price cap, the Kremlin saw a 40% decline in oil revenue. However, during 2023 there was rapid adaptation, notably the emergence of a ‘shadow fleet’ of tankers whose ownership was obscured. This ‘shadow fleet’ – often employing tactics such as ship-to-ship transfers and turning off AIS transponders – necessitated an updated set of measures from the US and its allies. The Treasury Department states that during February 2024, Russia was being denied about \$19 on every barrel exported. With Urals crude around \$70/barrel in that month, this still left Russia with about \$50/barrel.

Russian gas exports by pipeline fell 53% in 2023 as Europe sought other sources and the Nordstream pipelines were breached, but liquefied natural gas (LNG) exports surged. According to the US Officer of the Director of

22 A ‘corporate raid’, in Russian terms, is an attack on a business that uses political and government connections to transfer ownership.

23 <https://novayagazeta.eu/articles/2024/03/12/war-and-fleece-en>

24 <https://home.treasury.gov/news/featured-stories/phase-two-of-the-price-cap-on-russian-oil-two-years-after-putins-invasion>

National intelligence's Annual Threat Assessment for 2024,²⁵ 'In the first half of 2023, Russia was still the second-largest supplier of LNG to Europe '.

The Ukrainian-US Yermak-McFaul International Working Group on Russian Sanctions published four recommendations in January 2024 recognizing that energy sanctions are not having the desired effect. It proposed phasing in a complete ban on Russian hydrocarbons in the EU, including LNG.²⁶ This underlines how there is considerable further potential for sanctions, if the political will exists and if replacement sources can continue to make up for Russian energy.

In 2023 Russia's energy revenues were reportedly RUB 8.8trn, a substantial drop from 2022 but roughly in line with the average for the last decade.²⁷ This shows that, while the price cap has undoubtedly denied some billions to the Kremlin, it has not addressed the LNG question and has failed to strike a serious blow to the main engine of Russian government revenue. (An important side issue here is that Russia has a strong incentive to suppress global oil output and deliveries and therefore support prices – something its Iranian allies, via their Houthi proxies in Yemen, are industriously doing.)

This helps to explain the IMF's upgrading of growth projections for Russia in 2024 by 1.5 percentage points,²⁸ to 3%. This places Russia well ahead of the US (2.1%), the Eurozone (0.9%) and the UK (0.6%). As the IMF acknowledges, the statistics that Russia publishes may not be entirely reliable, but nevertheless, the Russian economy appears to be faring remarkably well. Russian propagandists have taken such figures as proof that the country is weathering sanctions and even outperforming its adversaries.

Together with resilient energy revenues, economic activity has been supported by state spending on defense (both industrial production and the current budgets of the armed forces). This has been described as 'military Keynesianism', pump-priming of the economy by channeling energy revenues into military spending.

The Bank of Finland published a forecast for the Russian economy in 2023-24 in September 2023.²⁹ It painted a picture of a vast increase in public expenditure driving economic activity. The report describes uncharted territory for the Russian economy:

The verities of economic policy cease to apply when a government

25 <https://www.dni.gov/files/ODNI/documents/assessments/ATA-2024-Unclassified-Report.pdf>

26 https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-02/energy_sanctions_final_2-7-24.pdf

27 <https://www.ft.com/content/d304a182-997d-4dae-98a1-aa7c691526db>

28 <https://www.ft.com/content/21a5be9c-afaa-495f-b7af-cf937093144d>

29 <https://www.bofit.fi/en/forecasting/latest-forecast-for-russia/>

prioritizes war over all else. Russia's decision last year to dispense with two decades of prudent economic policies caught many by surprise, not just forecasters. In late February 2022, Russia abandoned free convertibility of the ruble and imposed capital controls to mitigate the impact of financial market sanctions imposed by Western countries. At the end of 2022, Russia embarked on an unprecedented episode of increased public spending to support the war effort directly and indirectly. Rosstat's figures for the first quarter of 2023 indicate that public consumption rose by 14 % y-o-y in demand-side GDP categories. This huge jump in government spending defied our conventional expectations.

The *FT* reported, in February 2024³⁰:

Economists and even some of the Kremlin's own top technocrats have warned, however, that the rampant spending is already exposing new cracks in the Russian economy. Instead of lessening its dependence on oil and gas export sales, which make up about a third of budget income, Putin's wartime drive has created a new addiction: military production.

The calendar cannot be reset to January 2022 – in this situation the most palatable gear for the Kremlin may well be to be forward, rather than reverse.

War Society

The first two decades of Vladimir Putin's rule saw a hybrid system often termed 'managed democracy'. Russia maintained the outward manifestations of democracy such as elections with multiple parties, ostensibly free media outlets, courts, NGOs and so on. Yet behind this façade, democracy's potential for unruliness and changes in government was strictly managed. This was done by means of 'political technology' and ruses such as 'systemic opposition' – the fielding of apparently independent opposition candidates whose only purpose is decorative.

The figure most closely associated with this performance is Vladislav Surkov, variously deputy head of the presidential administration, later deputy prime minister and then point man for the occupation of the Donbas. The author Peter Pomerantsev had first-hand experience of Surkov's methods as a television producer in Russia. He wrote in *The Atlantic* in 2014:³¹

...Surkov has directed Russian society like one great reality show. He claps once and a new political party appears. He claps again and creates

30 <https://www.ft.com/content/d304a182-997d-4dae-98a1-aa7c691526db>

31 <https://www.theatlantic.com/international/archive/2014/11/hidden-author-putinism-russia-vladislav-surkov/382489/>

Nashi, the Russian equivalent of the Hitler Youth, who are trained for street battles with potential pro-democracy supporters and burn books by unpatriotic writers on Red Square. As deputy head of the administration he would meet once a week with the heads of the television channels in his Kremlin office, instructing them on whom to attack and whom to defend, who is allowed on TV and who is banned, how the president is to be presented, and the very language and categories the country thinks and feels in

These decades now appear as a transitional period between the chaos of the Yeltsin era and the much simpler authoritarianism that has emerged since February 2022. In the same period the Kremlin was ratcheting up its foreign aggression: the use of polonium in London in 2006; the invasion of Georgia in 2008; the annexation of Crimea in 2014; the interference in the US Presidential election and UK Brexit referendum in 2016.³² These foreign exploits toyed with boundaries and deniability, before shedding any pretense with the full invasion of Ukraine in 2022. Similarly, there were numerous assassinations of opponents inside Russia in this period, along with growing repression and unrestricted violence in Chechnya. But it is only since February 2022 that the mask has slipped and the Kremlin has moved towards direct authoritarianism. As of today, Surkov seems as anachronistic a figure as Tsar Nicholas II.

The most striking domestic event has been the death of the opposition leader Alexei Navalny in a Siberian penal colony in February 2024. And in 2023 the anti-war leader Vladimir Kara-Murza was handed a remarkably severe 25-year jail term for the crimes of treason, spreading false information about the Russian army and being affiliated with an undesirable organization.³³

Yet this in some ways is not a clear break with the pre-2022 period. In 2015 the opposition leader Boris Nemtsov was shot dead in front of the Kremlin walls. In 2020 Navalny was poisoned in Russia, probably with nerve agent.

The clearer break with the period before 2022 can be seen in the extension of repression at the level of the population, rather than high-profile figures. It is this transition – again a work in progress far from complete – to

32 An academic question is to what degree Vladimir Putin had planned this shift to conflict and naked authoritarianism over recent decades. In a Newsweek article published on 7th February 2024, Putin's former economic adviser Andrei Illarionov wrote: When it came to waging war against Ukraine, Putin was planning it since at least 2003. There were 19 years between the Tuzla crisis and the full-scale invasion in 2022. <https://www.newsweek.com/i-putin-adviser-accused-crimes-face-1867265>

33 <https://www.bbc.co.uk/news/world-europe-65297003>

a 'war society' that is most important. The Ukraine war in itself, together with the hundreds of thousands of casualties, the devaluation of the rouble, the restrictions of foreign travel and money transfers: all of these things have the potential to generate unrest among different segments of the Russian population.

The resulting repression aims to manage these risks. Putin's inevitable election 'victory' in March 2024 came at the cost of a public admission that he is too weak to allow any form of opposition.

The regime clearly senses danger and cannot even allow its citizens to appear in public holding blank sheets of paper. Taken together, these measures will be almost impossible to unwind, and point towards accelerating internal repression justified by perpetual conflict or threat of imminent conflict.

Legal framework

Since 2022 a slew of legislation restricting political freedoms has been passed. The importance of these laws to the paper's central argument is that they are unlikely to be temporary measures that the Duma will at some stage repeal. They signify a lasting and fundamental shift in the nature of Russian society.

The most important legislative changes are as follows:

- On 28th April 2023 Russia adopted a law criminalizing assistance to foreign and international bodies of which Russia is not a part. This would include Ukrainian and foreign courts, the District Court of the Hague, the International Criminal Court, or any *ad hoc* tribunals set up in the future to prosecute Russian officials. Co-operation with such bodies is punishable by up to five years in prison.
- In July 2023, the Duma passed a bill criminalizing collaboration with unregistered foreign NGOs. Already in 2022, Russian authorities revoked the registration of Human Rights Watch, Amnesty International, the Carnegie Endowment for International Peace, The Rosa Luxemburg Foundation, the Aga Khan Foundation and the Institute of International Education and nine other international organizations, effectively closing their offices inside Russia.³⁴
- The Duma passed a bill On March 18th 2023 making it a criminal offence to discredit or spread false information about *anyone* fighting on Russia's side in the war in Ukraine,³⁵ expanding on existing legislation. In cases

34 <https://www.reuters.com/world/europe/russia-revokes-registration-amnesty-human-rights-watch-ministry-2022-04-08/>

35 <https://www.themoscowtimes.com/2023/03/02/duma-votes-to-expand-russias-military->

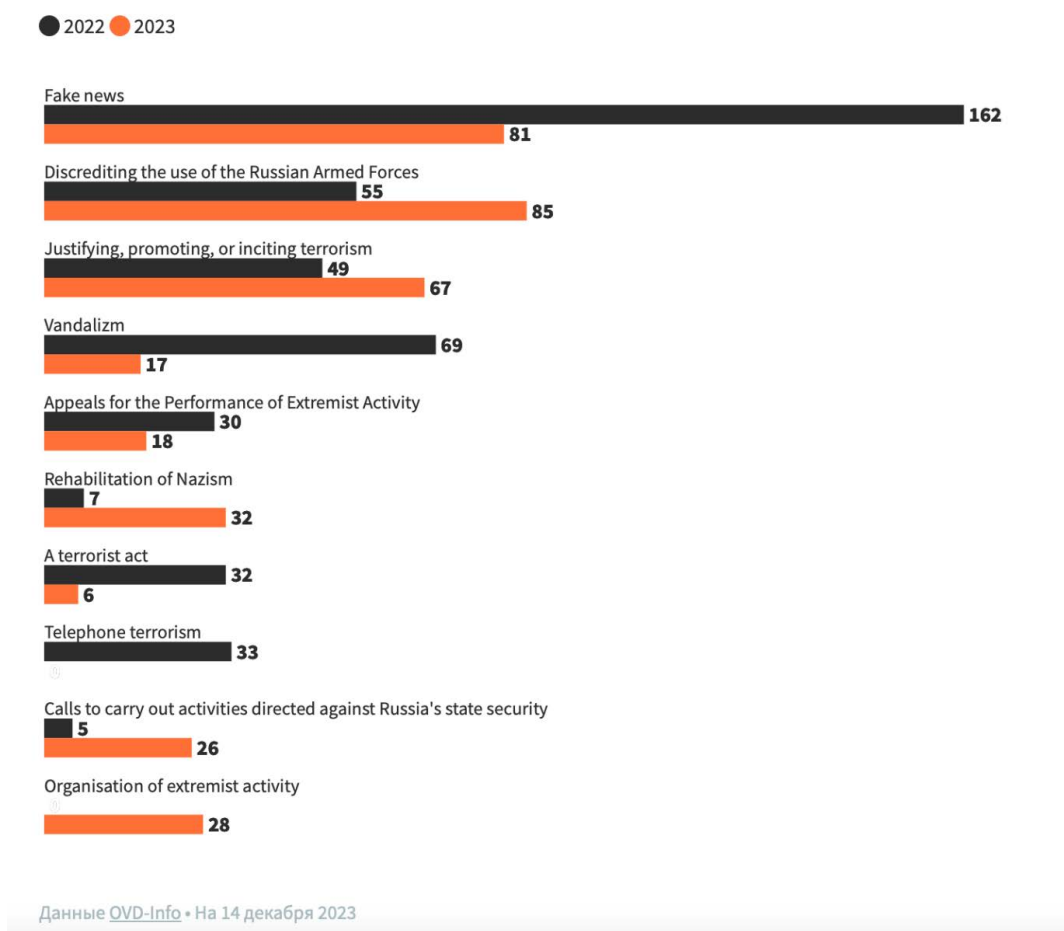
in which the dissemination of false information is deemed to have had serious consequences, those convicted could face up to 15 years in prison and/or loss of citizenship.³⁶

Severity of Punishment

In addition to this, according to the Russian human rights organization OVD-Info:³⁷

The number of defendants in «anti-war» criminal cases has risen. These cases encompass persecution for different forms of expressing one’s anti-war position. As of 19 December 2022, our records contained cases against 378 people in 69 regions of Russia. However, by 18 December 2023, the number of defendants increased to 794 defendants in 78 regions. In 2023, an additional 423 people were added to the list of those persecuted for their anti-war positions.

Here is a graph produced by OVD-Info showing the top-10 articles that defendants in criminal anti-war cases are charged with.



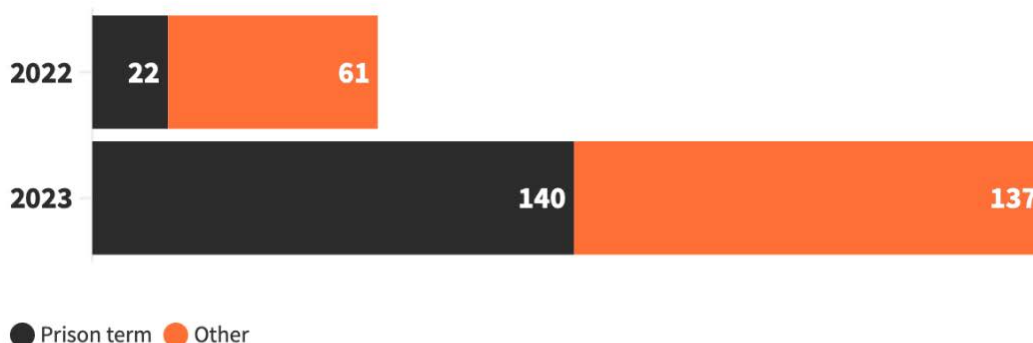
[discreditation-law-a80379](#)

36 <https://www.hrw.org/world-report/2024/country-chapters/russia#eea21f>

37 <https://en.ovdinfo.org/repression-russia-2023-ovd-info-overview#3>

OVD-Info also noted that:

In 2023 we also saw an increase in the number of prison sentences handed down to individuals involved in anti-war cases.



Data OVD-Info • As of 15 December 2023

We consider real prison terms to be: imprisonment in a colony-settlement; imprisonment in a general regime colony (including in absentia); imprisonment in a maximum security colony; compulsory treatment. Other types of punishment include: fine; restriction of freedom; suspended imprisonment; forced labor; correctional labor, including probation; compulsory work.

Sentences handed down for online posts have become harsher. In 2022, most cases did not involve imprisonment, but by 2023, the distribution was roughly 50/50. The length of the sentences also increased. While in 2022 the average sentence length relating to cases concerning online posts was 34 months, in 2023 it reached 65 months.

The average sentence for anti-war cases in general has also increased: in 2022 it was 36 months of incarceration, and in 2023 it was 77 months.

Unequal burden

According to research by Dr Jack Watling and Nick Reynolds for RUSI, published on 13th February 2024,³⁸ the invasion force deployed in Ukraine in February 2022 comprised approximately 360,000 troops, rising to 470,000 troops in early 2024. Over this period the reliance on Chechen formations, Wagner and other private forces decreased, and standard conscripted forces became the norm. They note:

Although the Russian military's aspiration to increase in size to 1.5 million personnel has not been realized, recruiters are currently achieving almost 85% of their assigned targets for contracting troops to fight in Ukraine. The Kremlin therefore believes that it can sustain the current rate of attrition through 2025.

38 <https://www.rusi.org/explore-our-research/publications/commentary/russian-military-objectives-and-capacity-ukraine-through-2024>

Yet this burden of conscription, death³⁹ and maiming has fallen unequally across Russian society. Conscripts are overwhelmingly drawn from the south and east of the country, the poor and the prison population. For example, the republic of Buryatia in eastern Siberia has seen disproportionate mobilization of its men and heavy losses.⁴⁰ As a remote region with a distinct Buddhist culture and its own language, Buryatia evidently appears to the Kremlin as a relatively low-risk source of manpower.

Again, a gradualist approach to conscription can be seen – the Kremlin has dialled up its conscription efforts fairly slowly, and has sought to avoid unsettling major cities in the west of the country. In 2023 the widened the age bracket for conscription was to 18 to 30, whereas previously the lower limit had been 21 and the upper limit 27. This came as part of a drive to increase the size of the army from 1.15m to 1.5m.⁴¹

As Russia seeks to overwhelm Ukraine by mass and possibly to initiate further foreign aggression, there will be less room for discretion and the burden will start to fall on cities such as Moscow and St Petersburg. This would, in turn, necessitate further tightening of repression.

One factor that is unlikely to generate serious unrest is the standard of living of educated professionals. So far, items such as BMWs and iPhones can still be obtained, albeit with additional cost and effort; holidays in France and the US are out, but Turkey and Thailand are still open. This could change, but overall the response of this segment of society is more likely to be emigration than political action. In January 2024, *The Times* reported that⁴² 1m Russians had already left since the start of the war; in 2023, FinExpertiza estimated that 1.3m Russians under the age of 35 left the country in 2022 alone.⁴³ According to the Atlantic Council, 86% of those who have left Russia since the war began are under the age of 45, and 80% have a university education.⁴⁴

This exodus could nonetheless exacerbate social tensions by leaving essential services – such as medicine and the maintenance of IT networks – understaffed.

39 The generally-accepted estimate for Russian dead and wounded is circa 300,000: <https://www.pbs.org/newshour/show/russias-ethnic-minorities-disproportionately-conscripted-to-fight-the-war-in-ukraine>

40 <https://www.wilsoncenter.org/audio/buryatia-and-high-toll-russias-war-ukraine-ethnic-minorities>

41 <https://www.themoscowtimes.com/2023/08/04/putin-signs-law-raising-maximum-draft-age-a82061>

42 <https://www.thetimes.co.uk/article/russia-forced-to-bribe-skilled-workers-to-stay-as-a-million-flee-v6crx8tnp>

43 <https://www.rbc.ru/economics/11/04/2023/6433e7499a7947356c70a065>

44 <https://www.atlanticcouncil.org/blogs/econographics/indonesias-economy-will-surpass-russias-sooner-than-expected-heres-what-that-says-about-the-global-economy/>

Military Outlook

Defensive situation

Should the incomplete transition to a war economy and society continue, it is worth looking at what might come, and the threat that will pose. This is a rejoinder to those who think Russia is a paper tiger that cannot credibly threaten NATO. A common trope is that 'Russia can't even beat Ukraine'. This does a disservice to both countries: Ukraine has put up a formidable national defense, while Russia, by historic measures, has barely started.

The fact that there is so far only a partial transition to a war economy and society means that Russia still has massive unrealized military potential; the current situation is scaled to defeating Ukraine, rather than confronting NATO. But that can change, making complacency dangerous. An unsophisticated mass army that relies on many millions of semi-trained conscripts, artillery and armour can potentially overwhelm smaller armies by sheer mass over time.

NATO armed forces (with the obvious exception of the US) are typically configured for expeditionary operations of limited intensity and duration. They generally have relatively modest numbers of volunteer personnel who are relatively well equipped. However, the numbers of platforms and the depth of ammunition stocks reflect budgetary considerations. In other words, we are still seeing the 'swords into ploughshares' approach adopted after 1989. Unfortunately, we are no longer living in the 1990s.

Territorial defense and indeed major land war features very little in European states' defense planning. Their assumptions are i) there is no territorial threat ii) if there is, the US, UK and France have nuclear deterrents that form an 'umbrella' over the Alliance iii) anyway the Americans will intervene and iv) heavy land warfare is a thing of the past. All four of these assumptions are completely obsolete.

First, a territorial threat to NATO is emerging, as this paper argues. Moreover, it has not appeared as a rabbit from a hat – it has been approaching in plain sight since the mid-2000s. Second, nuclear deterrence rests on the assumption that even if an enemy possesses nuclear weapons of his own, he will not risk a nuclear exchange. This starts to fall apart if the enemy takes the view that NATO states can be coerced and bluffed, and that they lack the nerve to respond to first strike, let alone order a first strike. In this scenario, Russian strategists may view a first strike as a useful tool to bring about capitulation. Third, Donald Trump has stated that if elected, not only would he tolerate Russian attacks on NATO allies, he would encourage them in cases where the country in question has failed to commit 2% of GDP to

military spending.⁴⁵ It also has to be acknowledged that Trump is responding to a well of war weariness in the US population that goes back to Vietnam. As well as Iraq and Afghanistan. The tendency towards isolationism is not a one-man phenomenon. Finally, the Ukraine conflict provides a vivid illustration of the fact that future wars will not see drones and cyberattacks replace of artillery, armor and infantry – they feature *in addition to* more familiar forms of warfare.

Senior NATO military leaders have recently been trying to communicate this situation to political leaders and populations, with limited success. The UK's outgoing Chief of the General Staff, General Sir Patrick Sanders, in January 2024 described the need for a 'whole-of-nation undertaking' against the backdrop of 'moving from a post-war to pre-war world'.⁴⁶ He spoke out against the shrinking size of the British army and raised the idea of a 'citizen army'.

Following the annexation of Crimea in 2014, policymakers still appear to have found the idea of Russia initiating a major war improbable. But even after the full invasion in February 2022, the British and German governments, in particular, are still reluctant to take concrete measures.⁴⁷ In response to General Sanders' speech, the office of the prime minister, Rishi Sunak, issued the following statement, likening his comments to idle gossip: 'I think these kinds of hypothetical scenarios, talking about a conflict, are not helpful and I don't think it's right to engage with them'.⁴⁸

Russia's military potential

On the other side, when looking at Russia's theoretical military potential, the obvious caveat is that realizing that potential could carry serious risks of internal instability. Against that caveat is the syndrome set out in this report whereby an alleged foreign threat and conflict drives increased militarization and repression, which then feeds back into further external conflict.

On this matter, as elsewhere, research by the Estonian defense ministry is invaluable. In January 2023 it published a paper titled 'Russia's War in

45 Trump's overall critique of European allies and Canada for underspending on defence has considerable merit per se. The question is whether he raised this point with the intention of fixing it, or with the intention of dismantling the Alliance. Evidence in the public domain points to the latter explanation.

46 <https://news.sky.com/story/british-citizens-should-be-trained-and-equipped-to-fight-in-a-potential-war-with-russia-military-chief-says-13055161>

47 This failure to commit resources to defence should not be confused with the provision of military aid to Ukraine, where the UK has led the world.

48 <https://europeanconservative.com/articles/news/sunak-burying-head-in-sand-over-shrinking-british-army/>

Ukraine: Myths and lessons'.⁴⁹ The paper addresses the idea that 'Russia is Militarily and Strategically Weakened – Enough to Eliminate Russia's Threat for Years to Come' – the 'paper tiger' myth. It is worth quoting a couple of paragraphs:

As the war stretched out over weeks and months, and figures reflecting Russia's losses on the battlefield continued to grow, a popular opinion of a weak Russia – enough so to disqualify it as a threat all along – started to gain ground. Indeed, we have seen the Russian army suffer significant costs in manpower and military capabilities alike, but these costs matter very little. For Russia, the ends justify the means and the price tag has not been high enough.

Russia has shown that failure in military quality can be substituted with quantity, remaining just as dangerous. Russia's losses in manpower would be unbearable in democratic states today. Meanwhile, an autocracy with roughly 30 million men in mobilization reserve can write this off as a necessary cost that can be regained rather expeditiously.

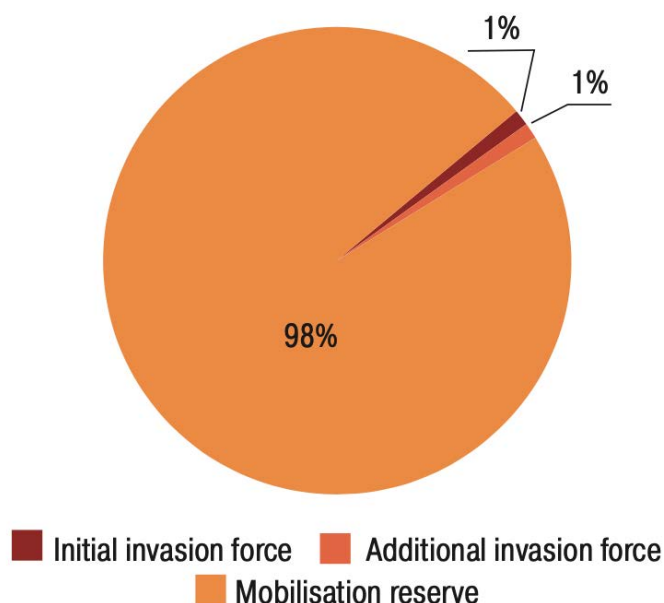
The paper emphasizes the vast pool of obsolete Warsaw Pact military equipment still stored in Russia, which can be refurbished in addition to ramped-up production of new vehicles: '10,000 tanks and 36,000 armored vehicles. A third of these can likely be reconditioned, adding at least 3000 tanks and 12,000 armored vehicles to the front line. For scale: Germany has around 250 Leopard-2 battle tanks.' As a Ukrainian soldier recently told me, based on his experiences in the Donbas, 'don't listen to people who tell you the T-55 is useless junk. When you're in a trench without any anti-tank weapons, the T-55 bearing down on you is invincible.'

The same calculus of mass plus mediocrity applies to Russia's manpower. Again from the Estonian report, below, the full extent of the mobilization reserve is estimated at 30m. Just like the bulk of the troops deployed to Ukraine, these would be semi-trained and poorly-equipped cannon fodder. Their junior leaders would have zero license to use initiative and their officers would mostly be corrupt and cowardly, with minimal regard for the welfare of their troops. This combination of mass plus disregard for human life, which extends to the highest levels in the Russian state, is precisely why a mass Russian army would present such a threat to Europe's small, professional forces.

Russia has barely scratched the surface of its theoretical military potential. Under the post-February 2022 conditions, the barriers to realizing that potential may be lower than assumed in NATO capitals.

49 'Russia's War in Ukraine: Myths and lessons', Estonian defence ministry, January 2023.

RUSSIA'S MANPOWER



Historical Parallels

Given that no parallel is exact, there are nonetheless disturbing precedents.

There are numerous cases of authoritarian leaders running out of road after wrecking their country's economy, and turning to war as a last roll of the dice. For example in the early 1990s the Serbian demagogue Slobodan Milosevic debased the Yugoslavia's currency by printing vast sums in order to enrich himself and his cronies. This generated the second-highest hyperinflation in world history, peaking in January 1994, when monthly inflation hit 313,000,000%.⁵⁰

Similarly, the Argentine military dictator Leopoldo Galtieri invaded the Falkland islands in 1982 after years of economic chaos culminated into a crisis.⁵¹

In these instances, and others like them, authoritarian leaders use conflict as a refuge from unmanageable economic crisis. The scenario described in this paper is more specific: the transition to war economy can only be sustained by war, and peace becomes an unpalatable option for the leadership. Viewed in this way, perhaps the closest parallel is Nazi Germany

50 <https://www.forbes.com/forbes/1999/0705/6401080a.html>

51 <https://www.cia.gov/readingroom/docs/CIA-RDP83S00855R000100150001-8.pdf>

from the mid-1930s, when a war economy was imposed in peacetime. In the case of Russia in 2022, the transition to war economy followed the outbreak of war. But the two situations are no so radically different because the scale of war, by Russian historical standards, is so limited at this point; Russia can be viewed still as in a transition to both war and war economy.

Returning to Nazi Germany, it can be argued that a policy of military Keynesianism during peacetime rendered war almost inevitable. It is true that priming the economy in this way pulled Germany out of the Great Depression. It is also true that the Keynesian policy was a hybrid of civilian and military – an example being the massive project of constructing autobahns and building Volkswagens. In spite of this, the stimulation of a depressed economy by massive state spending with an emphasis on military spending was unsustainable. The obvious route out, particularly for a nationalistic and expansionist regime, was war. William L Shirer writes in ‘The Rise and Fall of the Third Reich’:⁵²

But the real basis of Germany’s recovery was rearmament, to which the Nazi regime directed the energies of business and labor – as well as the generals – from 1934 on. The whole German economy came to be known in Nazi parlance as *Wehrwirtschaft*, or war economy, and it was deliberately designed to function not only in war, but during the peace that led to war.

This could not go on indefinitely, not least because of the heavy reliance on debt and inflationary measures:⁵³

Printing banknotes was merely one of [minister of economy Hjalmar Schacht’s] devices. He manipulated the currency with such legerdemain that at one time it was estimated by foreign economists to have 237 different values...

...From 1935 to 1938 [‘Mefo’ bills] were used exclusively to finance rearmament and amounted to 12bn marks. In explaining them once to Hitler, Count Schwerin von Krosigk, the harassed minister of finance, remarked that they were merely a way of ‘printing money’.

The point here is that Hitler intended to go to war, but the measures he took to stimulate the economy and prepare for war, made war all but inevitable. In the case of Russia today, a move towards a war economy sustained by military expenditure came *after* the initiation of hostilities in Ukraine. But the ultimate effect is likely to be similar – railroading in the direction of continued conflict.

52 ‘The Rise and Fall of the Third Reich’, William L Shirer, 1960, Penguin paperback edition 1991, page 259.

53 *Ibid*, page 260.

Policy Recommendations

1. Ensure that Ukraine prevails in its current war with Russia. It is tempting for western policymakers to try to bring an end to the fighting, most likely on terms that are unfavorable to Ukraine and would leave Russia in control of Ukrainian territory. According to the thesis set out above, doing so would most probably give Russia an opportunity to regroup and overcome bottlenecks in its military supply, before relaunching the war. In addition to this practical point, and the moral/humane imperative, there is a further compelling reason to step up support to Ukraine: a partial or full Russian conquest of Ukraine would transform Russia from 'a gas station with nukes' to a far more substantial global power. It would provide access to rocket, aerospace and heavy industrial capacity, mineral resources, 34m people (who are overall better educated and trained than Russia's population) and massive agricultural production. Moreover, the geostrategic situation in the Black Sea and on NATO's eastern flank would be transformed in Russia's favor
2. Rearmament, restocking and development of the defense industry base to allow for a protracted war. This means that advanced weapons should be ordered and stockpiled in quantities that would sustain years of conflict, but it also means that NATO states should develop the capacity to turn out large volumes of artillery shells and small-arms ammunition. This inevitably means that states should invest directly or indirectly in additional defense manufacturing capacity. Left to their own devices, defense contractors are unlikely to make these investments on commercial grounds, since future demand is uncertain. Ideally, new capacity would be concentrated in the west rather than the east and would have a resourced air defence plan in the event of war.
3. Army, navy and air force reserve and cadre structures should be strengthened in order that mass can be generated at shorter notice, if needed. Armor, artillery and other materiel should be kept in mothballs to equip an expanded force, and again to signal readiness to the enemy. This will not be cheap, but democratic leaders need to understand that national defense has limited compatibility with concepts such as 'the lean organization' and 'just in time delivery'. The Finnish approach to territorial defense provides a helpful model
4. NATO to pursue a denial rather than deterrence strategy in the Baltic states, the Suwalki Gap and the Swedish island of Gotland. This means stationing sufficient multinational forces in these places so that invaders could be held off until reinforcements arrive, without ceding significant territory. This is a far more substantial force than a token 'reassurance' or

‘tripwire’ force

5. Continued declassification of intelligence to pre-empt provocations. The precedent here is the decision of the US and UK to make public their advance knowledge of Russia’s plan to invade Ukraine in February 2022
6. Further development of doctrine to enable coherent response to the use of tactical nuclear weapons, or imminent threats to use them. One particularly troubling scenario is that Russia seizes a parcel of NATO territory, annexes it and declares it to be Russian territory under its nuclear umbrella. Communicating to the Kremlin that such threats would not be effective would help to deter such a move
7. Act to plug the many loopholes that facilitate Kremlin interference in democratic processes. Vladimir Putin has held power since 1999, and undoubtedly views leaders of democratic states as temporary figures who can sometimes be unseated with Russian help. In many cases this Russian help is delivered thanks to electoral legislation in target countries that is riddled with loopholes.⁵⁴
8. Be prepared to institute the recommendation of The Ukrainian-US Yermak-McFaul International Working Group on Russian Sanctions from January 2024. In particular a phased blanket ban on Russian hydrocarbons, including LNG, would help to choke off funding to the Russian war effort.⁵⁵ In addition, further action to close sanctions loopholes would serve to choke off access to high-tech materials. In particular, there are several states whose trade statistics show massive spikes in imports and exports of relevant items since mid-2022.⁵⁶ Additional measures should ensure that these states – such as Georgia and Kazakhstan – pay a price for this behavior
9. Be prepared to take decisive action against Hungary, which acts as a *de facto* ally of Russia while being a *de jure* member of NATO. In the current environment, this situation cannot be sustained

54 <https://www.atlanticcouncil.org/in-depth-research-reports/report/democracy-in-the-crosshairs-how-political-money-laundering-threatens-the-democratic-process/>

55 https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-02/energy_sanctions_final_2-7-24_2_update.pdf

56 <https://www.reuters.com/breakingviews/shady-export-leaks-suggest-russian-sanctions-work-2023-08-29/>

For Europe, all of this needs to be done with the assumption that the US may not be willing to intervene from January 2025. If it can be done in concert with the US past January 2025, so much the better. Underpinning all of this should be the understanding that weakness provokes Moscow and strength preserves peace. It is argued that Russia risks falling into a circular pattern of militarization of its economy and society, which in turn demands escalating external conflict to be sustainable. But nothing is inevitable; if the Kremlin understands that NATO is prepared and that the cost of this path is too great, then disaster can be averted.



Russia’s “Wartime Economy”: A Colossus On Clay Feet?

Executive summary

This article analyzes Russia’s potential to create a sustainable “wartime economy” capable of confronting Ukraine and NATO for years to come. The main points can be summarized as follows:

While Russia’s economic model has shifted considerably toward prioritizing expanded military spending and production, it cannot be characterized as a full-fledged wartime economy, because the resources to finance it are scarce and convergence with the rest of the economy is low. Russian arms production is currently running at near full capacity, and the possibilities to expand it are limited. Dependence on Western technologies and component parts is critical in this context. Talk of Russia’s ability to mobilize “unlimited manpower” to wage a war for years to come is exaggerated. Russia’s current focus on military spending and production as key drivers for the economy is unsustainable in the long run.

* * *

Since Putin’s full-scale invasion of Ukraine in February 2022, Russia has significantly ramped up its military spending (the approved military budget for 2024 is about three times the size of the 2021 pre-war military budget) and production. Arms-related manufacturing sectors are currently demonstrating much higher rates of output and investment than most other sectors—which has prompted many commentators to define the new Russian economic model as a “wartime economy.” Some argue that this model, which relies on increased military spending, will help Putin sustain economic development for years to come, and guarantee the necessary levels of military production for Russia to outperform Ukraine on the battlefield.

But has Putin really been able to build a new full-scale wartime economy? A thorough assessment requires going beyond catchy soundbites, instead focusing on a nuanced analysis of the recent structural changes in the Russian economy. Do these changes amount to the emergence of a whole new economic model, or are they just the result of a temporary boost due

to military expenditure, until Russia runs out of money, without any strategic intent?

First, let us discuss in detail what the term “wartime economy” means in reality. In the Soviet era—when there was no private ownership and centralized planning was enforced—nearly all enterprises had mandatory “mobilization plans”. This meant that they were obliged to maintain the additional production capacity required for possible wartime needs, and to switch to military output whenever the Soviet government ordered them to.

Nothing of this sort is happening today. While some civilian enterprises are receiving orders for the manufacture of arms and related products, this is happening on a limited scale, and most of the weapons and ammunition are being produced at existing arms factories, which at their maximum capacity work across two or three shifts.¹ True, Russian military spending has grown to 6% of GDP this year—with around 70% being allocated to arms production, not the army itself—but most of the economy continues to produce civilian products. So, it would probably be more accurate to speak about Russia significantly boosting the output from its arms factories, which are operating at near full capacity, rather than of the country shifting toward a new full-fledged military-focused structure and operational model for the economy.

Output levels related to military production, while present, are a fraction of total industrial output. The Russian statistics agency, Rosstat, accounts for military output within three major industrial segments: “Finished metal products other than machinery and equipment” (production of weapons and ammunition); “Computers, electronic and optical products” (radar devices, radio electronics, and optics); and “Other transport facilities and equipment” (military aircraft, tanks, and armored vehicles). The combined share of these segments in total industrial output is just 8.5%, with the total output of the manufacturing industries at 13.2%. The real military-related production share is much lower, because the overall output figures in the above-mentioned sectors combine military production with a significant share of civilian production (the detailed breakdown is classified). The bottom line is that the share of military production in Russia’s industrial output and GDP is not significant; rather it remains within single-digit percentage points—corresponding to the proportion of GDP spent by the state on the military.

The resources available for financing wartime production are also finite. According to the Russian Ministry of Finance, the share of liquid reserves in the National Wealth Fund, the government’s rainy-day fund, is down to a historic low of 5 trillion rubles as of April 1, 2024, or \$55 billion. That is less than half of Russia’s annual military budget; when the full-scale invasion of

1 <https://ria.ru/20230616/opk-1878714182.html>

Ukraine began in February 2022, the liquid portion of the National Wealth Fund was 2.5 times higher than the annual military budget then in effect. So, in two years, the government's financial reserves have shrunk considerably, while military expenditures have almost tripled.

The liquid portion of the National Wealth Fund is the actual cash available for the Russian government to finance expenditures—the remaining part of the National Wealth Fund is invested in corporate shares, bonds, and projects, and is not easily accessible. For 2024, the Russian federal budget envisions a deficit of 1.5 trillion rubles (after three months the deficit is already 0.6 trillion rubles, or 38% of the planned annual figure)—which is supposed to be covered with cash from the National Wealth Fund. If this does indeed happen, by the end of the year the state's available cash reserves will have shrunk to about one-third of the annual military budget.

Putin still can maneuver by mobilizing more revenue through increasing taxes and so on, but the trend is clear: the Russian government does not have enough money to sustain the current boost in military spending. It will struggle to keep this model afloat for years to come. Taking all of these factors into account, the current Russian situation does not amount to the establishment of a long-term sustainable wartime economy.

Another piece of bad news for the Russian military–industrial complex is that it has lost a lot of export revenues since the full-scale invasion of Ukraine. Unlike Western military hardware manufacturers, the Russian arms industry has little or zero convergence with civilian production and, hence, little revenue from civilian markets. The only lifeline that supported it financially was arms exports—which appear to have peaked at around \$15 billion per year in 2021, but have since collapsed to no more than \$6–\$7 billion per year (the exact figure is not publicized). Traditional overseas Russian arms buyers are scrapping their procurement for various reasons—from Russia's overall toxicity to its inability to properly deliver military products to customers due to the prioritization of military supplies for the war in Ukraine.

As a result, the dependence of the arms industry on state funding—which is finite and becoming scarce—has grown enormously. This is also a factor which makes any wartime economy model far less sustainable.

True, the Russian arms industry has been the largest contributor to the country's impressive figure of 3.6% GDP growth in 2023, as recognized by the Russian statistics agency²—with the above-mentioned manufacturing categories being the major growth boosters, while economic growth in most other areas is modest at best. In Putin's February 29 address to the Russian Federal Assembly, he stated that “the share of non-commodity industries

2 <https://rosstat.gov.ru/folder/313/document/230009>

in the growth structure now stands at well over 90 percent.” This corresponds roughly to the share of the military sector in the country’s GDP growth, because Russia does not produce any other competitive products (according to the Ministry of Industry and Trade, non-energy and non-commodity exports fell by 23% in 2023).

But for how long is this sustainable? Apart from the state’s dwindling financial resources and falling export revenues, important limitations exist regarding the expansion of manufacturing capacities and access to technologies and component parts. As noted above, all signs point to the fact that arms factories are operating at full capacity and, in the early months of 2024, Russian Defense Minister Sergey Shoygu more than once publicly expressed his dissatisfaction with the speed of production when visiting military manufacturing facilities.³

But the expansion of arms production is complicated, since neither Russia nor even China is capable of producing some of the necessary high-precision machinery required for military manufacturing. Russia has been heavily reliant on Western technologies and component parts in this regard, and was clandestinely importing equipment from the U.S. and Europe,⁴ and even Taiwan,⁵ to maintain production capabilities. According to the Kyiv School of Economics, Russia imports a third of its battlefield technology from Western companies.⁶

The West, therefore, possesses significant leverage over the Russian arms industry, and has a critical mass of tools to shut down the “Russian wartime economic miracle.” Export controls in these areas should be strictly enforced—the mere fact that Russia imports so many Western parts for its arms production clearly indicates that it will not be able to maintain the current levels of military-related output without these supplies.

Another important factor is that Russia does not have the unlimited human resources for the war that some Western analysts suggest. The first wave of mandatory mobilization in the fall of 2022 created such great difficulties that the second wave has not yet been announced—and though this may happen any time, the delay itself illustrates significant problems with Putin’s ability to mobilize manpower for the war. A shortage of skilled labor is one of the most

3 <https://lenta.ru/news/2024/01/31/konchayte-tut-duraka-valyat-shoygu-ustroil-raznos-direktoru-zavoda-iz-za-artillerii/>; <https://rg.ru/2024/03/30/reg-sibfo/shojgu-potreboval-ot-oboronnogo-predpriatiia-na-altae-pahat-v-tri-smeny.html>

4 <https://foreignpolicy.com/2024/02/22/russia-sanctions-weapons-ukraine-war-military-semiconductors/>

5 <https://www.washingtonpost.com/investigations/2024/02/01/taiwan-russia-sanctions-cnc/>

6 <https://www.intellinews.com/kse-russia-imports-a-third-of-battlefield-technology-from-western-companies-307476/>

critical economic challenges of the day, and new waves of mobilization will worsen this issue considerably. The first wave of mobilization demonstrated that the quality of the mobilized manpower is quite poor—and it will be worse in future rounds, with higher evasion rates and less combat ability. Russian independent media report that the Russian courts are currently hearing up to 1,000 criminal cases of “unauthorized abandonment of a military unit” per month,⁷ which shows just how high the military service evasion rates are at the moment (especially given that the cases which have made it to court are just the tip of the iceberg). A potential second wave of mobilization has been rejected by about two-thirds of Russians according to public opinion polls—and Putin is known for avoiding moves that go against majority opinion. Furthermore, Russian conscription and military training centers are simply incapable of processing more than 200,000–300,000 draftees at once, as was proven during the mobilization in the fall of 2022—with large numbers the situation rapidly descends into chaos. So, new rounds of mass mobilization for the war are easier said than done.

Russia’s wartime economy, therefore, at a close glance looks more like a colossus on clay feet. The resources needed to maintain such an economic system in the long run are scarce. There is no convergence with civilian markets through the manufacture of competitive civilian products for domestic and international consumers. The budget stimulus for the arms industry is somewhat offset by the loss of export revenues. The Russian military manufacturing sector lacks competitiveness and is dangerously reliant on state money. The benefits of heavy military spending and an increase in the production of weapons and ammunition do not spill over into the civilian economy—which still accounts for over 90% of Russian GDP and remains in a distressed condition (an overall analysis of the state of the Russia’s economy is a separate topic which will be addressed in future publications). Russian arms factories are operating at near full capacity and have major difficulties building new production lines without access to Western machinery and technologies. Military production is significantly reliant on Western supplies—should these be cut off, the Russian arms industry will experience serious difficulties in maintaining current levels of production.

Therefore, the key policy recommendations for Western governments are the following:

1. Maintain and expand sectoral and financial sanctions, and enforce the G7 Russian crude oil price cap to speed up the depletion of Russia’s financial reserves, which are the sole remaining source of financing for

7 <https://zona.media/article/2024/04/12/AWOL>

the wartime economy (detailed recommendations for increasing the effectiveness of economic sanctions against Russia will be considered in upcoming papers).

2. Perform a detailed analysis of the sources of imports of equipment, machinery, technologies and component parts for Russian military production from Western and non-Western countries. Finally, ensure the maximum strengthening of export controls and other measures to limit Russia's ability to import critical components for its arms production.

These measures, if enforced strictly, would accelerate a full-fledged crisis in the Russian arms industry, creating major financial, technological, and capacity restrictions, and, therefore, severely handicapping Russia's "wartime economy."