

Russia's Bipolar Economy Opening Door to Disaster Ahead

Datum 14.10.2026
Subjekt Jamestown
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Region USA
Kategorie Ekonomika, Vojenský průmysl, Bezpečnost

President Vladimir Putin's Russia has two economies. The burgeoning military-industrial one continues to support his invasion of Ukraine despite sanctions, and the troubled civilian sector is at best stagnating and near free fall. Analyses that lump the two together obscure this divide and allow the Kremlin to present a positive picture while Russia's critics present one overstating how close its economy is to collapse. More seriously, this divide points to disaster ahead for Russia because, in most other countries, innovation now comes from the civilian sector rather than the state. This pattern will leave Russia behind, and Putin is trying to compensate for it through espionage and sabotage.

Russian President Vladimir Putin's Russia has two economies. The burgeoning military-industrial complex continues to support his invasion of Ukraine despite sanctions, and the troubled civilian sector is at best stagnating and at worst is near free fall (Ekho Rossii, April 6, 2012; Window on Eurasia, December 20, 2025; Defense News, September 28; Svobodnaya Pressa, October 9). Émigré Russian analyst Sergey Rogov has introduced the term "bipolar" to describe the Russian economy (Ekho Rossii, October 7; Re: Russia, October 8). With only a few notable exceptions, efforts to describe the two together obscure this divide and let the Kremlin present a positive picture while Russia's critics overstate how close its civilian economy is to collapse (Window on Eurasia, June 13, August 29). More seriously, however, this divide points to disaster ahead for Russia. In most other countries, over the last several decades, innovation has moved from the civilian sector into the military rather than the other way around, as it did earlier during the Cold War. This pattern will leave Russia ever further behind in the military sector. Putin is already seeking to compensate for this mistake—not by liberalizing, but rather by espionage and sabotage against the West (see EDM, March 16, September 15; Cybersecurity and Infrastructure Security Agency, April 17; Novaya Gazeta, October 7; Defense Express, October 10).

Many in Moscow have grown alarmed that Russian economic growth has declined in recent months to near zero. Even more in the West have viewed this as evidence that sanctions alone can restrain Russia. They are wrong to think this means that the Russian economy is stagnating, Rogov says. He argues what is really going on is "the simultaneous coexistence of growth and recession." Military spending is rising to levels not seen since Soviet times, while spending in the civilian sector is declining across the board. The number of firms operating in the red or even being forced to close is increasing, and in many cases human suffering is rising as Russians no longer have access to many of the things they had grown accustomed to earlier in the Putin years (Re: Russia, October 8). The Kremlin leader has kept dissent in check both by suggesting that Russia is marching toward victory over the West in Ukraine and by adopting ever more repressive measures. It is unclear, however, whether either method is as effective as it was earlier (Window on Eurasia, June 13).

Moscow's rapid expansion of military spending has allowed the Kremlin, after some initial difficulties, to grow its military and keep replenishing the weapons and ammunition it has expended in Ukraine. The Russian defense industry has been less able to come up quickly with new weapons to

respond to Ukraine's challenges, however, as the case of drones highlighted. On the one hand, this undoubtedly reflects the effect of sanctions, which have deprived Moscow of much of the advanced electronics it had imported in the past and did not produce itself. On the other hand, it reflects a shift in where innovation comes from. Moscow, by various means, has worked around much of the former problem. It has yet to figure out how to address the latter. The Russian military has been very good at ramping up production of existing weapons systems, manufacturing more guns and ammunition. It has had less success, however, in developing and introducing innovations, a weakness Ukraine has exploited and will no doubt continue to exploit.

Beyond what appears to be the innate conservatism of the Russian Defense Ministry, this shortcoming stems from a shift in military innovation from Cold War times to now. In a recent *Novaya Gazeta* article, Russian economist Vladislav Inozemtsev compares how innovation happened in Western militaries during much of the Cold War with how it has happened more recently. This comparison is suggestive as far as what has happened more recently in the Russian Federation (*Novaya Gazeta*, October 7). In the first decades of the Cold War, he writes, the U.S. government spent enormous sums on research and development in its own labs, coming up with inventions that spread from the military to the private sector, a process whose transfers came to be known as "spin-offs." By the 1970s and 1980s, however, Washington reduced such in-house spending and began to draw more heavily on private sector research institutions for innovations in the military, a process that has been called by some "spin-ons." (On that shift, Inozemtsev cites the work of John Alic et al., *Beyond Spinoff* (Cambridge, 1992).)

The Soviet Union did not have an analogous situation regarding innovation. The Russian Federation had begun to develop one, with university and institute laboratories generating ideas that flowed into the Defense Ministry and which, more than a decade ago, Moscow sought to organize to accelerate innovation (Chatham House, September 23, 2021). Moscow's desire to expand such relationships increased with the Russian military's experience in Ukraine and the impact of sanctions. Because of Putin's crackdown on higher education and the exodus of many scholars working in such fields, however, Moscow has no longer been able to count on that small but important private sector to help power military innovation (CSIS, February 2026). That helps to explain why Ukraine, which has been more open, has proved nimbler and why Russia is struggling to catch up (Chatham House, July 1, 2025).

Unsurprisingly, given Putin's background and proclivities, the Russian government has responded, at least initially, by increasing industrial espionage and even sabotage against Western firms that had been suppliers, rather than by loosening controls over private institutions in Russia (see EDM, September 15; Cybersecurity and Infrastructure Security Agency, April 17). As long as Putin is in power and Western sanctions are in place, such Russian actions are likely to continue or even expand. It is unclear whether Russia can match the ways its military can use products from civilian research institutions, which are currently achieving far fewer breakthroughs than they were (Window on Eurasia, February 3). If Moscow cannot compensate for its losses in this sector, Inozemtsev suggests, it will fall further and further behind the West in such technologies, highlighting the importance of a strong private sector for modern militaries and the problems any country without one must try to compensate for if it does not allow one to flourish.

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