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Georgia's Dangerous Geopolitical Gamble with Russia: Implications for the Future

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Abstract:

This article examines Georgia's foreign policy trajectory following the recent parliamentary elections and its implications for Russian-Georgian relations. It delves into the challenges Georgia faces as a small state strategically positioned between the European Union and Russia, navigating the delicate balance between its aspirations for Euro-Atlantic integration and the reality of Russian influence. The analysis highlights how domestic political developments, including the lack of internal and external legitimacy of a one-party-dominated parliament, have weakened Georgia's socio-economic and institutional resilience. These vulnerabilities leave the country susceptible to external pressures, particularly from Moscow, which seeks to leverage divisions within Georgian society to reinforce its influence

The controversial 2024 parliamentary elections in Georgia have further complicated the country's foreign policy trajectory. The election was broadly regarded as a referendum on Georgia's geopolitical future and was therefore dominated by foreign policy concerns, eclipsing traditional domestic issues. Whereas the opposition framed the elections as a choice between Europe and Russia, the Georgian Dream (GD) government portrayed them as a choice between war and peace, claiming an opposition victory would drag Georgia into another war with Russia. Civil society, meanwhile, saw the choice as being between democracy and Russian-style authoritarianism.

The ruling party, Georgian Dream (GD), announced a narrow majority (CEC 2024) victory in the election, but the outcome was marred by controversy. Nearly all opposition parties have refused to accept the results reported by the election authorities, declining to enter the new parliament and demanding fresh elections, as well as calling on Georgia's Western partners to conduct an international investigation into alleged electoral misconduct. As the opposition raised concerns over alleged irregularities, including voter intimidation and procedural manipulation, Georgian president Salome Zurbishvili stated that the country had been the victim of a "Russian special operation" (*RFL/RL* 2024). Moscow denied the allegations, accused the West of interfering in Georgia's internal affairs, and expressed readiness to further normalize bilateral relations with Georgia.

Although international observers, including the OSCE, reported that the election's transparency fell short of democratic standards, prompting calls for an investigation from U.S. and EU leaders, Russia and a handful of other countries—Azerbaijan, Iran, Armenia, China, Türkiye, and Hungary—endorsed the results. The Georgian Dream-led government, which

promotes closer ties with Moscow, still hopes to reset relations with the West. However, it remains isolated, lacking both internal and external legitimacy. This situation has raised significant questions about the future of bilateral relations between Russia and Georgia.

Georgian Dream's Geopolitics: Between War and Peace

A contested election may cement Tbilisi's drift away from the West, leaving Georgia facing isolation both domestically and internationally. While the Georgian Dream-led government continues to deepen its ideological and geopolitical alignment with Russia, there are critical questions about the extent to which Georgia can accommodate Russia's strategic interests without compromising its own sovereignty and territorial integrity.

This issue was a major topic of discussion during the pre-election period. By invoking memories of past conflicts with Russia, GD emphasized its commitment to preserving peace and strategically leveraged the "Russian factor" during the campaign to bolster its position and portray itself as the force most capable of preventing renewed hostilities. It framed the election as a critical choice between stability and security under its leadership, on the one hand, and potential disorder under the opposition, on the other hand. Additionally, GD made several pointed statements regarding South Ossetia and Abkhazia, hinting at a potential opportunity to restore long-awaited territorial integrity and even claiming that the party was prepared to risk Western sanctions in pursuit of the country's "reunification." Ivanishvili's controversial Gori speech, which many interpreted as blaming Georgia for the 2008 war rather than Russia, only fueled these allegations. The party's Political Council even highlighted the necessity of readiness for peaceful territorial reintegration, stating that "given the rapidly

evolving situation around Georgia, we must be prepared to restore territorial integrity in a peaceful manner and be ready for such a scenario at any time” (*ITV* 2024). This included the possibility of constitutional amendments to adapt Georgia’s governance and territorial arrangements to new realities. While, after a 50-day delay, Georgian Dream has finally denied claims that they are considering a confederate state with Abkhazia and South Ossetia, the ruling party’s growing rapprochement with Russia was increasingly framed as a conduit to achieving this goal.

Moreover, such statements were widely seen as signals that Moscow was prepared to help Tbilisi restore relations with the breakaway regions—a narrative that clearly worked to the advantage of Georgian Dream. Russian officials have acknowledged Ivanishvili’s apology as a positive shift in Georgia’s stance on the occupied regions. Prominent Kremlin propagandist Margarita Simonyan even praised Ivanishvili’s promise, commenting on Twitter that “Georgia is acting in a surprisingly rational way, as if emerging from a long-term binge or psychosis.” In general, however, Moscow appears unwilling to take further steps in this direction as long as Georgia maintains even formal ties with Euro-Atlantic structures.

Balancing Territorial Integrity and Russian Influence: What’s Behind GD’s Narrative?

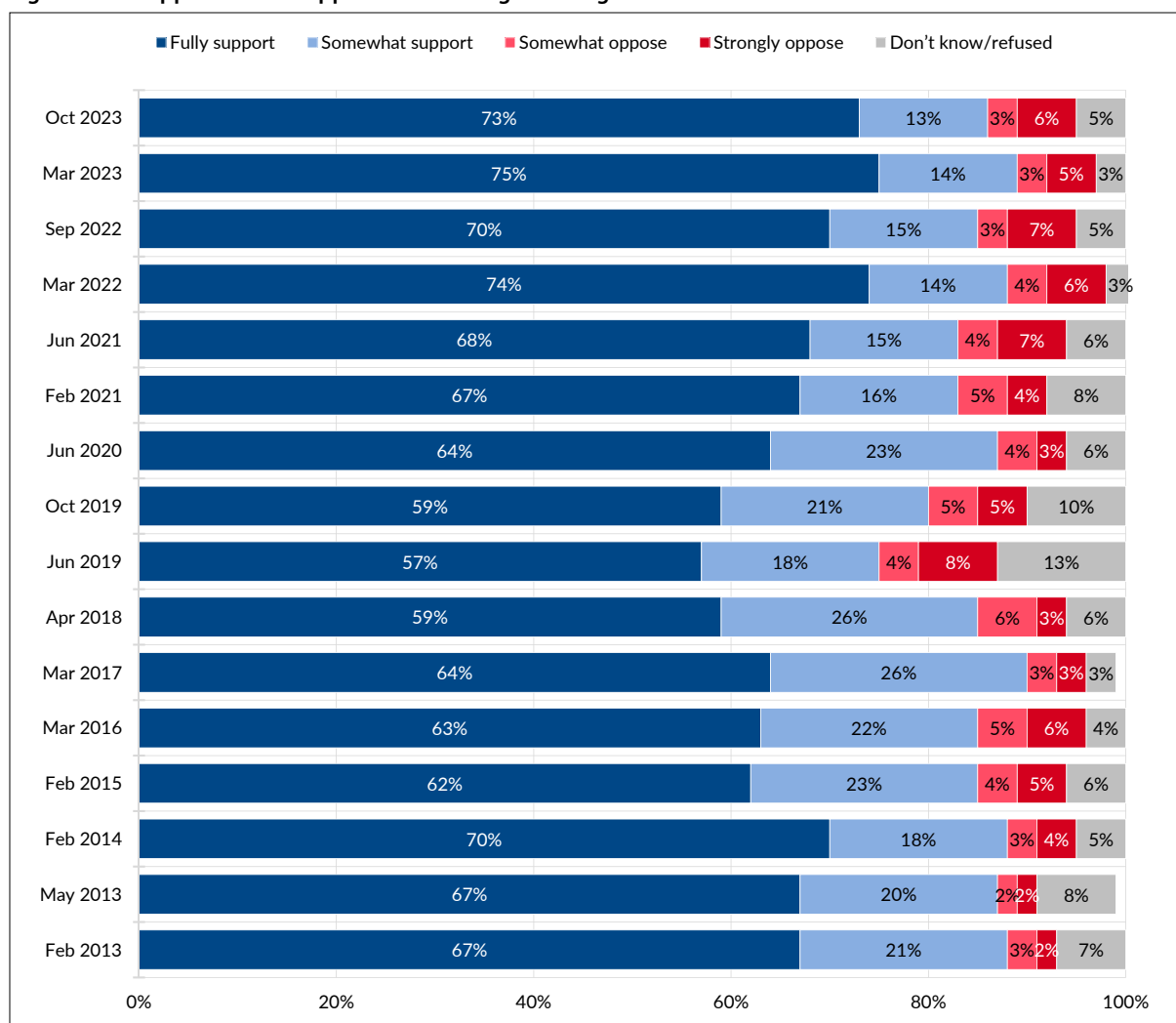
The GD leadership generally sees the heated competition among great powers (US, EU, Russia, China, Iran, Turkey) in the South Caucasus as a temptation to pursue a multi-vector foreign policy until the geopolitical uncertainty is settled. This would be supported by the domestic political situation and the regime’s own tendency toward authoritarianism. The essence of GD’s policy is for the ruling elite to maintain its power for an unlimited period and minimize the government’s economic and political dependence on the West.

Furthermore, it seems that the new strategic realignment in the South Caucasus has sparked cautious optimism in Tbilisi. Russia’s apparent shift away from traditional alliances—as evidenced by Armenia’s setbacks, the collapse of Nagorno-Karabakh, and Azerbaijan’s restoration of its territorial integrity with Turkish military support and the Kremlin’s tacit approval—has raised hopes that an authoritarian “Conflict Resolution” scenario will also unfold in Georgia. Moreover, as Georgia, Turkey, and Armenia play key roles in circumventing sanctions, Tbilisi has recognized that Moscow—strained by Western sanctions and reliant on the North-South Transport Corridor to access Iran, Türkiye, India, and the Gulf states—might face constrained regional leverage, potentially creating opportunities for Georgia to reclaim territories under de facto Russian control.

In the context of the introduction in Georgia of a Russian-inspired law on “foreign agents,” this possibility has sparked concerns among Kremlin-backed local elites in Sokhumi and Tskhinvali. Their fear is that Moscow—which lost its strategic influence in the South Caucasus after the Second Karabakh War in 2020—might “return” the regions to Tbilisi to gain geopolitical leverage over the broader region and counter Western influence. According to the media, while local authorities in separatist entities have avoided publicly addressing this issue, they fear that improved Russian-Georgian relations could come to jeopardize their de facto sovereignty. As one commentator rightly put it, this scenario “would benefit Moscow, as it would permanently bind Georgia to itself with the lure of Abkhazia.”

However, while Russian officials appeared satisfied with the outcome of Georgia’s elections and the GD government’s recent foreign policy moves to distance itself from the West, it remains unlikely that the Kremlin would relinquish its leverage over Georgia without Georgia’s complete repudiation of its Georgia’s Euro-Atlantic aspirations. Furthermore, occasional discussions among expert communities about a potential confederation uniting Abkhazia and South Ossetia with the rest of Georgia under Russian tutelage seem implausible. First, such a hypothetical arrangement would be a major blow to Russia’s great power status internationally, as it has already recognized the sovereignty of Georgia’s breakaway regions and might therefore lose credibility among its strategic partners. Second, the arrangement appears to lack traction among the populations of the breakaway regions. While South Ossetian elites still harbor hopes of joining Russia, the recent political crisis in Abkhazia showed the Kremlin that while the occupied regions’ political and economic dependence on Russia is growing, it is no easy task to subordinate the regions’ future to Russian geopolitical interest. Third, this framework would be a difficult sell for the Georgian public, as it effectively subordinates Georgia to Russia and its breakaway regions rather than reintegrating the latter into the Georgian state, undermining the very notion of sovereignty and territorial integrity. Moreover, while Georgia in December 2023 achieved EU candidate status, this progress has effectively stalled due to concerns in Brussels over democratic backsliding. Notwithstanding this setback, an overwhelming 80% of the Georgian public continues to support European integration—a sentiment that is both undeniable and impossible to ignore (see Figure 1 on p. 4).

As recent protests following the government’s controversial decision to delay the country’s bid to join the European Union confirmed, the GD government cannot explicitly announce a shift away from the EU, as strong public backing underscores the enduring appeal

Figure 1: Support for and Opposition to Georgia Joining the EU

Source: International Republican Institute, "Georgian Survey of Public Opinion, September—October 2023," <https://www.iri.org/resources/georgian-survey-of-public-opinion-september-october-2023/>.

of European values and integration, even amid challenges in aligning its governance with EU expectations.

Nevertheless, Kremlin strategists, encouraged by the Georgian Dream government's increasingly aligned views on foreign policy and the global order, remain hopeful that Georgia's recent drift toward authoritarian governance could create an opening for a more explicitly pro-Russian policy and the continuation of the post-election rapprochement. On the pretext of promising to restore Georgia's territorial integrity, Russian political elites and their allies do not exclude Georgia's integration, in the long term, into Russia-dominated structures within the post-Soviet space and beyond, such as the CIS, the Eurasian Economic Union, or even BRICS.

As Georgian Dream officially adheres to a policy it describes as "strategic patience" toward Russia, the long-term implications of this approach remain uncertain.

While the government emphasizes maintaining peace and stability as a priority, questions persist as to the extent to which it can restore diplomatic relations with the Kremlin without compromising Georgia's security and sovereignty. Any rapprochement with Russia carries significant risks, including the potential erosion of Georgia's Euro-Atlantic aspirations and a weakening of its ties with Western allies. Overall, as Moscow diverts its resources and focus to the ongoing war in Ukraine, the outcome of this conflict will significantly impact Georgia's future and the broader regional security landscape in the South Caucasus.

Conclusion

Georgia's pursuit of a multi-vector foreign policy—balancing alliances with the EU, the US, Russia, China, and regional neighbors—presents a growing strategic chal-

lenge. As Georgia deepens its strategic ties with China and Russia, these relationships risk complicating its engagement with Western partners, making the balancing act increasingly difficult to maintain. This dynamic underscores the tension between fostering economic and strategic partnerships in the East and sustaining Euro-Atlantic aspirations.

The October election results have further weakened Georgia's resilience, as a one-party-dominated parliament lacks both internal and external legitimacy. This instability benefits the Kremlin, as a more divided and polarized Georgian society makes it easier for Moscow to strengthen its strategic influence. It is also true that the more authoritarian, inward-looking, and internationally isolated Georgia becomes, the easier it will be for Russia to keep Georgia within its sphere of influence. If Moscow succeeds in derailing Tbilisi's Euro-Atlantic aspirations, it could not only regain lost influence over Georgian politics, but also undermine Armenia's rapprochement with the European Union.

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Why Have Russian Peacekeepers Left the Karabakh Region Since the Second Karabakh War?

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Abstract

This paper examines the factors that led to Russia's peacekeepers leaving the Karabakh region after Azerbaijan's military operations in September 2023. It analyzes two critical variables: Turkish involvement and Russia's strategic and economic relationship with Azerbaijan. In light of Turkey's military and diplomatic support for Azerbaijan, Russia sought to avoid confrontation with a NATO member and regional power. Simultaneously, Russia's strong political and economic ties with Azerbaijan, particularly in energy and trade, made it a strategic partner that Russia was unwilling to lose—especially in the context of the ongoing war with Ukraine.

The Karabakh conflict between Armenia and Azerbaijan is considered one of the most complex cases of conflict among the post-Soviet states. In the post-Soviet region, Russia has always held an implicit leading role. Russia's foreign policy toward Azerbaijan changed several times during the First Karabakh War in the first half of the 1990s. Even though Russia engaged in the peace process, Moscow had a fundamental interest in the non-resolution of the conflict between Armenia and Azerbaijan. The conflict served as a foreign policy tool for Moscow, enabling Russia to secure a political-military presence in Armenia, and thus leverage over both Armenia and Azerbaijan.

However, unlike the First Karabakh War, in 2020 Russia could not intervene effectively. Furthermore, on November 10, 2020, Azerbaijan, Armenia, and Russia signed a trilateral ceasefire deal that included the deployment of Russian peacekeepers to Karabakh. The main reason for the deployment of the peacekeepers was to maintain the security of both Azerbaijanis and Armenians. "The deployment of Russian peacekeepers represents a key step in maintaining order and providing guarantees for the security of civilians on both sides." (Sergey Lavrov, Russian Foreign Minister, 2023)

The Karabakh dispute witnessed major developments in September 2023. Citing the existence of illegal Armenian military formations and the exploitation of local resources, Azerbaijan began a military incursion that it described as an "anti-terrorist operation" to retake control of the province. As a result, Azerbaijan gained complete sovereignty over the region, reducing the need for outside peacekeeping troops. For its part, Russia was less able and less motivated to maintain a peacekeeping force in Karabakh: Moscow's attention had been diverted to Ukraine; Moscow was not interested in a confrontation with Turkey, which had been a staunch supporter of Azerbaijan during the war and

continued to provide military support; and Baku offered Moscow a strategic political and economic partnership. "Karabakh for Russia, it's a strategic asset in the Caucasus which they don't want to lose" (De Waal 2020).

Turkish Involvement in the Second Karabakh War

Azerbaijan's victory in the Second Karabakh War strengthened Turkey's influence in the South Caucasus. The strong bilateral relationship between the two countries was undeniable: Turkish Foreign Minister Mevlüt Çavuşoğlu stated that "We stand by dear Azerbaijan both in the field and at the table" (Ergun and Valiyev 2020).

The strength of the bilateral relationship between Turkey and Azerbaijan arguably influenced Russia's withdrawal of its peacekeeping forces from Karabakh—in several ways. First, Russia changed its foreign policy to prevent a clash with Turkey, a fellow regional power. Russia understood that with Turkey becoming Azerbaijan's primary ally and military partner, Russia's leverage over Azerbaijan diminished. This geopolitical shift weakened Russia's longstanding influence in the region and signaled a move away from dependence on Russian peacekeeping for security in Karabakh.

Russia's own strategic partnership with Turkey also played a significant role in the Russian decision to withdraw the peacekeepers. According to Russian statistics, "Investment in Russia had reached \$1.5 billion and [...] Russia's investment in Turkey currently stood at \$6.5 billion" (Hurriyet Daily News 2021). Turkish imports of natural gas from Russia, the Akkuyu Nuclear Power Plant project, and the TurkStream natural gas pipeline have forged strong energy ties between Turkey and Russia. Besides energy cooperation, Russia and Turkey cooperate in the tourism and trade sectors. In 2019, 7 million Russian tourists visited Turkey, a significant share

of total tourism to the country (Republic of Turkey, Ministry of Foreign Affairs 2019). Russia did not want to quarrel with Turkish President Recep Tayyip Erdoğan and thereby damage the relationship with Turkey, which had taken significant time and effort to develop.

Overall, after the Second Karabakh War, Russia found itself in a difficult position. The departure of Russian peacekeeping forces from Karabakh demonstrated once again that Russia valued its relationship with Turkey and wanted to protect it.

Azerbaijan as a Strategic Partner of Russia

Compared to the conflicts in Ukraine, Moldova, and Georgia, Russia did not take any specific side in the Second Karabakh War. In this conflict, one side (Azerbaijan) was Russia's strategic partner and the other side (Armenia) was Russia's strategic ally, Russia and Armenia having signed a treaty in 1997 in which they committed to mutual military support.

In the wake of their own conflicts with Russia, Ukraine and Georgia turned westward. They partnered with NATO to ensure the security of the Black Sea region. U.S. Secretary of State Antony Blinken stated that "Russia should stop aggressive actions towards Ukraine, and we are supporting membership of Ukraine and Georgia in NATO" (BBC News 2021). Evidently, therefore, Russian aggression and imperialism produced undesirable consequences.

Faced with renewed conflict in Karabakh in September 2023, therefore, Russia hesitated to repeat the Ukraine scenario. While Azerbaijan clearly understands and accepts Russia's role in the South Caucasus, keeping the peacekeeping forces in Karabakh could have led to the loss of Azerbaijan as well. The loss of Azerbaijan as a valuable partner in the South Caucasus would have been detrimental to Russia's position in the so-called "shared neighborhood."

Azerbaijan's geopolitical location, economy, and energy resources make the country a strong strategic partner for Russia. In 2021, President Vladimir Putin emphasized that "The strategic partnership between Azerbaijan and Russia [was] developing very successfully" (President.az 2021). In terms of economic relations, Russia is the leading importer of Azerbaijan's non-oil products. "More than 1,000 Russian companies operate in Azerbaijan with Russian investments amounting to \$6.2 billion in Azerbaijan's economy, while Azerbaijan invested \$1.2 billion in Russia's economy" (Azprom 2021). Additionally, Azerbaijan has never tried to use its geopolitical location to achieve its military aims toward any country, which shows the balanced nature of Azerbaijan's foreign policy.

Besides trade relationships, energy projects are also considered a major feature of the relationship between

Russia and Azerbaijan. The Baku–Novorossiysk pipeline contributes to the transportation of oil from Azerbaijan to the Black Sea port located in Russia. SOCAR, the main oil company in Azerbaijan, is planning to boost the transportation of oil to Russia in 2022. Statistics show that "Azerbaijan's state energy firm SOCAR submitted an application to the Russian oil pipeline operator Transneft to transport 1.209 million tons of oil via Russia in 2022" (The Tribune 2022).

Additionally, since the 2000s, Azerbaijan has used a bandwagoning strategy to acquire Russia's trust and strategic support. Through this strategy, the Azerbaijani leadership aimed to get Russian support for a solution better than the status quo. In contrast to Georgia, the Azerbaijani government—due to its balanced foreign policy—was eager to enhance bilateral relationships with Russia following the centralization of power and strength in Russia under the presidency of Vladimir Putin. This bandwagoning was given additional impetus by the challenging situation in Georgia. Under Mikheil Saakashvili, attempts to find "a big brother" to counterbalance against Russia destroyed bilateral relations, resulting in a severe defeat for Georgia during the Russian–Georgian War (2008). From this, the Azerbaijani government learned that there was no power to counterbalance Russia.

Bandwagoning kept Azerbaijan in a safe zone, and during the Second Karabakh War Russia's support for Armenia moved toward neutrality. The pro-Western policies and anti-Russian rhetoric of the Pashinyan government tipped the scales of Russian "neutrality" in favor of Azerbaijan. Following the Second Karabakh War, Putin for the first time declared that Karabakh was an integral part of Azerbaijan: "From the international legal point of view, all these territories are an integral part of the Republic of Azerbaijan" (Daily Sabah, 2020).

As a result, maintaining a balanced relationship with Azerbaijan in the Second Karabakh War and removing peacekeepers from the region was critical for Russia's long-term economic and political stability. Azerbaijan is a model of how a multi-vector foreign policy of the kind desired by many post-Soviet countries may succeed without harming Russia.

Conclusion

It is widely believed that Turkish involvement in the Second Karabakh War clashed with the interests of Russia. The South Caucasus is considered Russia's zone of influence and Russia does not accept the involvement of external forces in the region. However, as an economic partner of Russia, particularly in the tourism sector, Turkey plays an important role for Russia. Moreover, Turkey is a NATO member, which means that if Russia were to confront Turkey directly in a conflict, it

could risk provoking a broader response from NATO, which would escalate tensions significantly. Thus, Russia withdrew its forces from Karabakh to avoid any confrontation with Turkey.

The strong economic and political partnership between Azerbaijan and Russia also played a significant role in influencing Russian behavior during the conflict. A strategic partner in energy cooperation, economic

projects, tourism, etc., Azerbaijan had long supported Russia. Additionally, Azerbaijan was not interested in a Western partnership or an anti-Russian orientation, meaning that its interests overlapped with those of the Kremlin. Russia therefore also withdrew its peacekeepers to avoid losing Azerbaijan, a country with a favorable geopolitical location and which offered long-term economic opportunities.

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Armenia's Pivot Away from Russia: Strategic Ambitions Versus Practical Constraints

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Abstract

The paper examines Armenia's evolving foreign policy, highlighting its attempts to pull away from reliance on Russia in favor of diversified security cooperation, especially with Western countries and India. This pivot was catalyzed by Azerbaijan's aggression and the perceived inaction, if not complacency, of the CSTO. However, Armenia remains economically intertwined with Russia, affecting the pace and depth of its geopolitical reorientation. Amid such global trends as rising multipolarity and varying levels of Western support, Armenia's foreign policy trajectory shows signs of returning to a new and modified balancing act: engagement with the West is deeper than ever before, but pragmatic considerations temper aspirations for deeper Western integration. That being said, bilateral relations with Moscow can best be characterized as cold and pragmatic in both capitals, with occasional flare-ups triggered by Moscow's response to Yerevan's attempts to build closer relations with the West.

Over the past few years, Armenia's foreign policy alignments have evolved almost beyond recognition. Western observers have traditionally (if stereotypically) seen Armenia as a Russian stronghold in the South Caucasus. In contrast to Georgia, with its clear Western and democratic trajectory, Armenia was seen as being closely linked to Russia by the two countries' shared authoritarian leadership. In the case of the third country in the region, Azerbaijan, its lack of an explicit alliance with Russia and the stable flow of its hydrocarbons to Europe meant that questions about its foreign policy alignment usually were not even asked, with its extremely consolidated authoritarianism almost completely ignored. Whereas Azerbaijan continues to tread down that path, the foreign-policy courses of Georgia and Armenia have changed dramatically. A more nuanced and closer look at Azerbaijan will not only offer insights into the growth of both its hydrocarbon deliveries and their political instrumentalization in relations with the West, but also the deepening of its relations with Russia to the level of Strategic Alliance (Eurasianet 2022) and much deeper cohesion when it comes to principles of the new world order and international norms. While a nuanced take on Georgia is offered in a different article of this issue, here we delve into the speed, direction, and depth of what has been referred to as Armenia's Western pivot away from Russia.

CSTO: From a Security Alliance to a "Security Threat"

Even though Armenia-Russia relations were seriously shaken by the 2020 Second Karabakh War, the current paradigm shift is rooted in the September 13–14, 2022, Azerbaijani aggression against the sovereign territory of

Armenia. Following the defeat of the Armenian side in 2020, even though relations soured and mutual accusations became commonplace, changes in Armenia's foreign and security policy were too incremental to indicate a shift away from Russia. Indeed, there were attempts to strengthen or at least maintain Russia's central role in Armenia's security needs through new contracts of military technical procurement in 2021 (Azatutyun 2021). Not only was Armenia too vulnerable to engage in geopolitical adventurism following the defeat, but the argument that Russia had no obligations vis-à-vis Nagorno Karabakh (in contrast to its contractual commitments to Armenia) still held weight in political deliberations, keeping the Armenian revolutionary government from seeking to revolutionize relations with Russia.

Instead, the decisive impetus for Armenia's shift away from Russia and toward the West came following the September 2022 aggression and occupation by Azerbaijan, when Armenia did not receive what it considered its due under its mutual defense pacts with Russia and the Collective Security Treaty Organization (CSTO). Discussion of the need to diversify Armenia's security intensified, leading Pashinyan's government to freeze its participation in the CSTO (Armenpress 2024a), which it deemed a security threat (Armenpress 2024b), and entertain the idea of leaving it altogether (Deutsche Welle, 2024). Similar attitudes have also grown among the Armenian public, which has moved from predominantly considering Russia the country's main friend (CRRC 2019) a decade ago to a situation where more Armenians (41%) consider it a political threat than a security partner (26%) (IRI 2024).

Following the September 2022 aggression, at the request of the Armenian authorities, the EU deployed

an unarmed 209-observers-strong civilian monitoring mission to observe and report on the Armenia-Azerbaijan border, with a mandate until early 2025 (EEAS 2024). In parallel, Armenia embarked on its most important military cooperation of recent years: with India. Estimates of the contracts with India exceed US\$1.5 billion (Nersisian and Melkonian 2024), with a military cooperation agreement signed in 2024 (RA Ministry of Defence 2024). Additionally, Armenia has secured military procurement and training from France; potential non-lethal supplies from the US, along with joint drills in Armenia and an American adviser in Armenia's Ministry of Defense to support reforms; 10 million euros of non-lethal support from the EU Peace Facility; and the deepening of military-technical cooperation with Greece, Cyprus, and the Czech Republic (Nersisian and Melkonian 2024). In 2024, this reorientation has been reflected in discussion of joining the EU (Azatutyun 2024a) and, to an even greater degree, in Pashinyan's answer to the question of when he would like Armenia to join the EU: "this year" (Armenpress 2024). Just a year earlier, Pashinyan had expressed a more pragmatic stance before the EU Parliament: "[t]he Republic of Armenia is ready to be closer to the EU, as close as the EU would consider it possible" (Armenpress 2023). That pragmatism was based not only on Armenia's dependence on Russia, but also on the stalling of EU integration processes: countries with much greater geopolitical value and much deeper compliance with *Acquis communautaire* have been waiting in line without a determined date of accession.

While both reorientation toward the West and cooperation with India play crucial roles in Armenia's renewed security architecture, the former has received more media and political attention—particularly from Moscow. Russia has been vocal in its criticism of Armenia's deepening cooperation with the West, diminishing the agency of Yerevan in these processes while emphasizing Western meddling in Armenia's foreign affairs and framing the West as having pressured Armenia into a reorientation of its foreign policy just as it allegedly did to Ukraine (Foreign Intelligence Service of Russian Federation 2024). By contrast, Russia has remained quiet on the much more significant arms deals with India; there have even been reports that a Russian company carried the air cargo shipment from India (Hetq 2024). This exposes Russia's sensitivities and vulnerabilities not just to Armenia's security diversification per se, but specifically concerning the competition with the West in general and in its neighborhood in particular. An important policy implication of this is that Armenia's diversification of its security by turning to non-Western partners may be an attractive option for Yerevan, as it leads to the imposition of few or no costs by Russia.

Nothing Personal, Just Business

When it comes to trade, meanwhile, Armenia has not been able to diversify and decrease its dependence on Russia. Indeed, this dependence has only grown in recent years. Even as Armenia never received all the arms deliveries to which Russia had agreed under a 2021 contract, since Russia was unable (or unwilling) to deliver them due to its own war needs, the war contributed to the increase in trade. Even though the Armenian authorities cooperate closely with EU and U.S. oversight bodies and block sanctioned forms of economic interaction with Russia, legal double exports (medium- to long-term) proved lucrative for both countries and the outflow of capital from Russia in the wake of the war (short-term) acted as a steroid injection for the Armenian economy, which was reeling from the Second Karabakh War and the Covid-19 pandemic. At least in part as a result, Armenia has been registering remarkable GDP growth, while Russia has been able to use Armenia to circumvent its international isolation, even if other countries—like Turkey, Kazakhstan, and Azerbaijan—have been more important to this effort.

These trends have produced a structural change in Armenia's foreign trade structure: the gap between the share of trade with Russia and with the EU has widened in favor of Russia (ArmStat 2024). While prone to exacerbate Armenia's dependence on Russia, it may also give Yerevan some leverage and remind Moscow of Armenia's potential importance to Russia—a fact that the Kremlin seems to have been ignoring in recent years. The key to understanding the potential for diversifying Armenia's foreign trade policy is the structure and geography of its exports. While Armenia relies heavily on the Russian market for its consumer and agricultural goods, the EU market takes Armenia's minerals and raw materials (Arakelyan, Avedissian and Grigoryan 2024). Even though there are exceptions to this rule, these two directions cannot be overturned overnight, since Russia does not need Armenia's copper ore, while the EU's agricultural fortress is hard for Armenian producers to penetrate, as they lack the scale and quality necessary to enter and compete in that market. The signing of a Deep and Comprehensive Free Trade Agreement will not be an immediate remedy for this challenge, as Georgia's experience shows (Topuria and Khundadze 2022), since it is dependent upon the sophistication of the export basket, the quality of products, their competitiveness vis-à-vis products and services successful in the EU market, and many other factors.

The two countries' mutual pragmatic appreciation of these benefits is indicated by the stark contrast between the policy and rhetoric of Pashinyan's government on the security interaction/CSTO, on the one hand, and the economic interaction/Eurasian Economic

Union (EAEU), on the other hand (Lurer 2024). In the latter, not only there is no talk of leaving the organization, but Yerevan is also interested in deepening the normative basis of the organization—importantly, by creating a common energy market. However, Yerevan seeks to keep the organization strictly economic and prevent it from growing into a geopolitical entity (Primeminister.am 2023). This reflects the shared interest of Armenia and Kazakhstan in withstanding Russia's attempts to instrumentalize the EAEU for political dominance and further skew the sovereignty of the member states (Putz 2021).

Against the background of these short-term trade benefits, Armenia remains structurally dependent on Russia in a number of other economic spheres (Sukiasyan 2021, 4–5), which translate into political dependence and limit its strategic room for maneuver in the foreign policy sphere. Specifically, Armenia remains heavily dependent on Russian gas and oil: Gazprom has a monopoly on the country's gas grid, a significant number of electricity-producing enterprises are under Russian ownership, and the sole nuclear power station depends on Russian-origin uranium (Eurasianet 2023), while its modernization has been entrusted to Rosatom (Armeniannpp 2023). Armenian railways and a number of mines of natural resources that predominantly produce Armenia's exports to EU markets are likewise dependent on Russia. These realities demonstrate Armenia's vulnerabilities beyond hard security and explain—even in case of a decisive Western pivot—and call for pragmatic foreign policy choices. While Moscow has shown signs of willingness to use its leverage against Armenia by limiting its imports of a number of Armenian agricultural products, it has to date avoided applying stricter measures against Armenia. This can be explained both by Russia's need of Armenian transit options (however relatively small) and by the fact that Yerevan has not taken such strategically important pro-Western or anti-Russian actions as leaving the CSTO or EAEU or applying for EU or NATO membership. Besides these local factors, regional and global trends, too, seem to be pushing Armenia to tame its European ambitions.

Less Enthusiastic Liberal Internationalism in the World, Less Enthusiastic EU Aspirations in Yerevan

In recent years, especially following the united mobilization of the West in support of Ukraine, it seemed that the window of opportunity for countries with EU accession perspectives was widening. This could be inferred not only from the rhetoric of Western leaders, but also by the fast-tracking of the accession processes of Ukraine, Moldova, and Georgia. Alongside the deterioration of

relations with Russia, these developments could have informed and encouraged Armenia's Western aspirations. However, a number of countervailing trends have slowed this momentum and caused Armenia to reconsider the speed and depth with which it departs from Russia. These include but are not limited to Georgia's accession (and democratic) backsliding, Trump's return to the presidency in the US, fatigue with the war in Ukraine, and signs of the consolidation of the Global South and its institutions.

For Armenia, Georgia's successful EU integration could have facilitated a smoother Western rapprochement. Had Georgia acceded—or at least stayed on that track—Armenia would have gained a gateway to the EU and potentially more immediate interest from Brussels, perhaps extending to a chance to ride the coattails of the same wave of accession, as occurred in previous enlargements. However, the impasse in Georgia's accession path caused by legislative backsliding, irregularities registered during the 2024 Parliamentary elections (OSCE 2024), and—most importantly for Armenia—the rapprochement between Tbilisi and Moscow have broken not only Georgia's wave to EU accession but also Armenia's chance to ride along.

Even if Armenia has received unprecedented interest and support from the West in the last few years, the EU and the US have fallen short of preventing aggression against Armenia, opposing the ethnic cleansing of the Armenians of Nagorno-Karabakh, or sanctioning—or in any other way restraining—Azerbaijan. When one compares Armenia's geopolitical relevance and value to the West with that of Ukraine, and still sees the inadequacy of the support Kyiv receives compared to what it needs, it unavoidably leads to questions about the sustainability of the bids potentially placed in the Western basket. Armenia has already suffered the consequences of attempting to rely on a single ally. Switching from one “savior” to another may bring similar results. At the very least, it calls for caution, considering how the EU and the US warned against aggression on Karabakh as a red line (Civilnet 2023; de Waal 2023), yet not only failed to prevent or punish it, but shortly thereafter returned to business as usual with Azerbaijan and mapped new or deeper directions of cooperation. A ceasefire in Ukraine would be symptomatic of an inability or unwillingness to mobilize more support for countries with similar faiths, discourage the momentum of the EU accession wave, and free Russian military and diplomatic resources to return to the security vacuums in its neighborhood, including in the South Caucasus.

Even though it is early to make definite calls, Donald Trump's victory in the U.S. presidential race signals the return of American isolationism and the further erosion of the Western-centric liberal institutional order. Under

favorable circumstances, this order has been beneficial to small and weak states, serving to compensate for their weaknesses with (however compromised) equality among the members of such institutions (Keohane 1969, 294–296). Additionally, the increased diplomatic efforts invested by U.S. Secretary of State Anthony Blinken in the Armenia–Azerbaijan peace talks and even the Biden administration’s reported political intervention to stop the Azerbaijan aggression (EVN Report 2023) in September 2023 are hard to imagine during the Trump era, even if the latter has called for the return of Armenians to Nagorno-Karabakh (Azatutyun 2024c) while on the campaign trail. This change has relieved an important pressure on Aliyev’s regime to conclude a peace deal, made the sustainability and guarantees of even a signed one questionable, and further emboldened Azerbaijan’s militarism. It has also opened up room for Russia to make a diplomatic and physical return to the region by pushing, together with Azerbaijan and Turkey, the so-called corridor through Armenia, as they insist on the placement of Russian Federal Security Service along the route. Russia may be particularly interested in this return not only to control the East–West route that is a competitor to its North–South priorities, but also to ramp up its physical presence following the departure of the Russian peacekeepers from Karabakh and of its security officers from the Armenia–Azerbaijan border, Yerevan’s airport, and the Armenia–Iran checkpoint.

Last, the slow crystallization of the Global South and its institutions—such as BRICS and the Shanghai Cooperation Organization—as well as the ascendance of Armenia’s regional neighbors into these structures enrich Armenia’s menu of foreign policy tactics, but also create risks of isolation if Yerevan completely dismisses these tendencies. Russia’s role in and Iran’s accession to the BRICS; Azerbaijan and Turkey’s bid to join the bloc; and the backdrop of EU–Georgia disruptions risk making a Western-oriented Armenia an island in a sea of anti-Western alliances. Armenia’s participation at the highest level in the BRICS summit held in Russia in October 2024 is indicative of an appreciation of the opportunities that the organization may bring to Arme-

nia. At the very least, it allows Armenia to sit at the table where its issues may be discussed instead of being on the menu. Iran’s strong opposition to the extraterritorial corridor through Armenia demanded by Azerbaijan, Turkey, and Russia has led to an even greater recognition of Iran’s value among policymakers in Yerevan. Additionally, India’s growing significance for Armenia may push Yerevan to put more effort into the institutions of the Global South that India values. Coupled with the priorities of the Trump administration, Armenia’s democracy may also not be as instrumental in securing international support as it has been.

In Lieu of a Conclusion

The complexity of Armenia’s own constraints, plus rapidly changing interdependencies at the regional and global level, produce difficult foreign policy choices. As the peace talks with Azerbaijan and Turkey seem to be entering another impasse, increasing the risks of military threats, the regionalization, isolation, and fatigue in international politics will likely become even more problematic for Armenia. These considerations serve to tame Armenia’s Western pivot and may lead the government to reconsider the pace of pulling away from Russia. This does not, however, mean giving up on diversifying its foreign and security policies. The Pashinyan government is sending early lukewarm responses to a domestic petition calling for a referendum to give the goal of EU membership legislative approval and asking questions about “how ready is the EU [to accept Armenia]?” (Azatutyun 2024b) when facing domestic pressure against this agenda. The potential risks of a drastic move toward the EU and away from Russia, coupled with unfavorable regional and international developments, as well as the short-term economic advantages of relations with Russia within the format of the EAEU, seem to have tamed Yerevan’s early enthusiasm for a Western pivot—until the next storm. Russia, too, has made its approach to Armenia more pragmatic, even if following the path dependency of policies it has previously applied to Ukraine, Georgia, and Moldova.

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ANALYSIS

Economic Cooperation and Russia’s Geopolitical Strategy in the South Caucasus

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Abstract

In the current geopolitical climate, an analysis of economic cooperation between Russia and the South Caucasus cannot be separated from geopolitics. Contrary to views that Russia is losing influence in the South Caucasus due to the Ukraine war, the authors argue that Russia is pursuing a long-term security and economic strategy that aims to extend Moscow’s control over the region through hybrid warfare, leveraging the Soviet legacy, cultural ties, economic dependencies, and business networks. Russia’s growing influence in Georgia and Azerbaijan, driven by security and economic interests, threatens Western control over the trade corridor from the Caspian Sea to the Black Sea and the Mediterranean. Moscow’s ultimate goal is to push the West out of the region, as none of the three countries have the resilience or political will to oppose Russia in the long term.

Growing Russian Influence in the Region

In the current environment, it is not possible to analyze economic cooperation between Russia and the South Caucasus in isolation from geopolitics. The Russian war against Ukraine and the geopolitical conflict between Russia and the Western community of states—what Russia calls “the Collective West”—has had a significant impact on Georgia, Armenia, and Azerbaijan. In fact, all three countries have seen dynamic growth rates, as well as increasing trade volumes and FDI, since the end of the

Covid-19 pandemic, which coincided with the beginning of Russia’s large-scale war against Ukraine. Neither Azerbaijan, Georgia, nor Armenia has joined the Western sanctions against Russia. A key question is therefore the extent to which sanctioned and non-sanctioned goods are traded with Russia via the three countries.

Beyond that, the South Caucasus itself is currently undergoing a historic geopolitical upheaval with implications for domestic patterns of political and economic cooperation. The key driver is growing Russian influence

in Georgia and Azerbaijan due to Moscow's security and economic interests, which cannot be viewed in isolation from each other. As Moscow gains influence in Georgia, it threatens the West's control of the traditional trade corridor through the South Caucasus—from Baku on the Caspian Sea to the Georgian Black Sea coast and the Turkish Mediterranean coast. Since the 2000s, major energy volumes from the Caspian Sea have been traded to Europe via this route, bypassing Russia. The Middle Corridor of the Chinese Silk Road has since increased the importance of this trade route, while northern and southern routes through Russia and Iran are affected by international sanctions. The relocation of the Russian Black Sea Fleet from Crimea to the Georgian breakaway region of Abkhazia has further increased Russia's strategic interest in the South Caucasus.

There has been a lot of discussion about Russia losing political and economic influence in the South Caucasus as a consequence of the war in Ukraine. The authors do not subscribe to this view, as the constellation is more complex. In the current geopolitical game, Russia is pursuing a holistic, long-term approach that sees security and economic policy as two sides of the same coin. Russia is trying to extend its control over the three countries of the South Caucasus by means of hybrid warfare. The ultimate goal is to push the West out of the region. In this context, Moscow draws on the Soviet legacy, cultural-linguistic connections, economic dependencies, and clientelist business networks. None of the three countries has sufficient resilience and/or political will to oppose Russia in the long term.

As a result, under the political and economic influence of the pro-Russian oligarch Bidzina Ivanishvili, the key economic player in Georgia, Europe is currently losing the country as a strategically important partner in the region. Azerbaijan, which has traditionally sought to balance between Russia, Turkey, the Middle East, and Europe, has moved closer to Russia in exchange for a more neutral stance by Moscow in the Nagorno-Karabakh conflict, which enabled Baku to recapture the territories. Since the beginning of the Ukraine war, strategic cooperation between Moscow and Baku has also deepened, in particular in the field of energy cooperation. The war in Ukraine has made Azerbaijan more important to the European Union as an alternative gas supplier to Russia. It is striking that shortly after Baku concluded an agreement with the EU in the summer of 2022 to increase gas supplies to Europe, a supply agreement was concluded between Moscow and Baku.

Armenia has undergone a reverse transformation. Traditionally pro-Russian, Yerevan has been trying to move closer to Europe since the Velvet Revolution in 2018. However, the country remains vulnerable in terms of both economics and security, with no prospect

of freeing itself from the Russian sphere of influence. From a geostrategic perspective, Armenia is isolated in the region, playing no role in Transcaucasian transport routes. For the West, the country is therefore no substitute for Georgia.

The following section provides an overview of the geoeconomic changes in each of the three countries, with a focus on economic cooperation patterns. Section three presents data on GDP growth rates, trade volumes, and FDI, taking a closer look at bilateral trade relations between Russia and each of Armenia, Azerbaijan, and Georgia, as well as discussing the role of the South Caucasus in the flow of sanctioned goods into Russia. Despite common features across the region, each country has particular characteristics and will therefore be studied individually. After the individual country insights, the shifts since Russia's war of aggression against Ukraine from early 2022 will be analyzed.

Patterns of Economic Cooperation Between the South Caucasus and Russia

Geoeconomic Reorientation of Georgia Toward Russia

Georgia maintains a Comprehensive Free Trade Area with the EU that has been in effect since 2016 in the framework of the EU-Georgia Association Agreement. The agreement stands for the traditional orientation of the country to the West. However, while Tbilisi has officially pursued a policy of European integration, leading to the country being awarded EU candidate status in December 2023, the Georgian Dream government has been pursuing a gradual rapprochement with Russia—in a somewhat covert manner—since taking power in 2012. Since that time, Russia has risen in the ranks of Georgia's trading partners, recently reaching number one. In some areas, this reflects critical dependence on Russia. For example, Georgia today imports 100 percent of its wheat flour from Russia (Badridze 2023).

Tbilisi's economic and political rapprochement with Russia has accelerated significantly since the start of the war in Ukraine. There are strong assumptions that informal agreements between Russia and Bidzina Ivanishvili come into play here. He is the man behind the governing party, Georgian Dream, and the richest man in the country. His wealth is equivalent to approximately one-quarter of Georgia's GDP. Since he made his wealth in Russia in the 1990s, he maintains close informal relations to Kremlin circles.

The high level of interdependence with the Russian economy is now used as the main argument that the country cannot join international sanctions against Russia. Indeed, Russian officials have admitted that Georgia has become its main land bridge to foreign markets (Badridze 2023). Due to this favorable environment,

about 17,000 Russian businesses relocated to Georgia after the beginning of the Russia–Ukraine conflict and Western sanctions in February 2022. Today, the country is a haven for Russian capital and service companies.

Even in the years before the war in Ukraine, Western investors complained to the authors about increasingly opaque practices in the Georgian judiciary and bureaucracy. Those who are politically well-connected have an advantage, and the pro-Russian Ivanishvili acts as a decisive patron. A prime example of this—and Russia’s growing geostrategic influence in Georgia—relates to the Anaklia Deep Sea Port investment project. The initial project, with a U.S. investor, failed in 2019. In this context, the media discussed allegations of government intervention in the form of criminal investigations. The project was retendered and in 2024 a Chinese-led consortium won.

Armenia’s Geo-Economic Trap

Armenia is fully embedded in the economic and security cooperation structures that Russia promotes in the post-Soviet region as counterparts to the EU and NATO, and which Moscow above all uses to secure Russian hegemony in the region: the Collective Security Treaty Organization (CSTO) and the Eurasian Economic Union (EEU). Armenia’s engagement is rooted in the country’s precarious security situation, with closed borders to Turkey and a decades-long conflict with Azerbaijan over Nagorno-Karabakh. In this context, Russia has long acted as Armenia’s protector. Yerevan, for its part, was ready to pay the price of this protection, allowing Russia to maintain its largest military base in the South Caucasus in Gyumri and rejecting the EU’s offer of economic cooperation through an Association Agreement and DCFTA. When Moscow later adopted a more neutral position stance in the conflict between Armenia and Azerbaijan, Baku recaptured Nagorno-Karabakh. This was widely perceived in Armenia as a betrayal and interpreted in the Western media as weakness on the part of Russia, whose troops are tied up in Ukraine. However, background discussions between the authors and sources in the region pointed to a more nuanced picture. First, Moscow wanted to punish Armenia for Pashinyan’s cautious rapprochement with the West. Second, Baku informally agreed to give Russia priority in security policy and economic matters in the future. And third, Baku allegedly purchased this more neutral position with a considerable amount of money.

As a result, Armenia remains highly dependent on Russia, both in terms of security policy and economically. Russia is interested in preventing a peace deal between Armenia and Azerbaijan and appears to be influencing Baku in this regard. As far as trade is concerned, the country is likewise dependent on Russia. As local state

representatives emphasized to the authors in Yerevan in June 2023, rapprochement with the EU sounds good at first glance. In reality, however, the Armenian economy is not competitive, and European products are too expensive for the local population. In the end, the only economic partner available to the isolated country is Russia. In this context, 80 percent of Armenian exports (cognac, textiles, fresh fruits and vegetables) travel via the Georgian Military Highway to Upper Lars in North Ossetia. The rest are traded via the Georgian port of Poti. Meanwhile, the relocation of Russian companies as a result of the war in Ukraine—Russians have been over-represented in the streets of Yerevan ever since—and economic cooperation with Russia-connected business and political elites are causing an economic boom.

Azerbaijan: By Russia’s Side in Business and Energy Cooperation

As outlined above, Azerbaijan has traditionally sought to pursue a balanced foreign policy. As far as the economy is concerned, the country occupies a special position as an oil and gas supplier in the South Caucasus. This wealth has largely been used to strengthen the country’s international sovereignty. Grand international energy projects have been concluded with the West, bypassing Russia. Nevertheless, Baku has recently moved significantly closer to Moscow, for which the country is of great importance not only due to the east-west transport route, but also due to the north-south routes that provide direct access to the Persian Gulf. Examples of this closer cooperation include the Declaration on Allied Interaction signed the day before the start of the full-scale invasion of Ukraine on February 24, 2022, as well as the Russian gas supply, which is important for Azerbaijan to meet the country’s gas export obligations under the memorandum of understanding signed with the EU in July 2022.

Economic Cooperation Between the South Caucasus and Russia: Facts and Figures

Economic ties between Russia and its neighbors in the South Caucasus have undergone major shifts over the last three years. Rather than indicating a disruption or weakening of economic ties, economic relations confirm the high political stakes of the region for Russia.

Armenia’s Economic Relations with Russia Until 2021

Among the countries of the South Caucasus, Armenia holds a special position, as it is part of the Eurasian Economic Union (EEU). However, Armenia’s economic impact on the EEU has never been of any substance given the composition of the organization. In fact, horizontal trade relations between the individ-

ual member states are not very pronounced. Soviet patterns can still be observed in trade flows, which are characterized by a star-shaped orientation of each member country toward Russia. This star-shaped orientation is rooted in the fact that all Soviet logistics and infrastructure were built with Russia as the center, and this “hard infrastructure” has changed only marginally in the past 30 years. Moreover, the economic structures of the individual countries are not particularly compatible: Armenia and Kyrgyzstan, for example, can offer few goods and services that the other needs. This leads to the third explanation for the star-shaped trade structure within the EEU. Russia, as the center of the Soviet Union, was responsible for most of the high-tech production, and with it the corresponding factories, machines, and equipment. These economic structural differences have persisted to this day. Even labor migration is typically oriented from the periphery to the center.

Trade relations between Russia and Armenia have always been characterized by an imbalanced exchange of goods. Russian exports to Armenia have grown from US\$785.1 million in 2010 to US\$1.89 billion in 2021. Meanwhile, Armenian imports to Russia have developed from much lower levels: US\$158.5 million in 2010 to US\$711.9 million in 2021 (WTO 2024; wiiw 2024). These figures show that in 2021 Armenia imported goods from Russia worth almost three times the value of its exports to Russia. Another interesting aspect is the composition of trade between Armenia and Russia: Armenia exports to Russia mainly consumer goods, food products, and raw materials, while importing from Russia fuel, metal, and intermediate goods (GTAI 2024). These figures confirm that trade relations reflect the political imbalance between Russia and Armenia, with Russia exerting much higher influence on Armenia than vice versa. In addition, the historical pattern of Russia as Armenia’s most important trading partner, in both imports and exports, is still true today. In 2023, Russia accounted for 32 percent of all Armenian imports, distantly followed by China, with only 13 percent. Germany, the most important EU country, ranks even further behind, at just four percent. When it comes to export destinations of Armenian goods, Russia accounts for 40 percent and the United Arab Emirates for 27 percent. Again, European Union (EU) countries lag far behind (GTAI 2024).

Foreign Direct Investment (FDI) patterns reflect a similar imbalance, with Russian capital flows into Armenia six times higher in 2021 than Armenian FDI into Russia. However, taking into account the relative size of the two economies, Russia is a much more attractive destination for Armenian capital than Armenia is for Russian capital (wiiw 2024).

Against this background, the effectiveness of programs put forward by the European Union—in particular the Comprehensive and Enhanced Partnership Agreement (CEPA) between Armenia and the EU, which entered into force in early 2021—can be questioned. Armenia’s economic dependence on Russia is unlikely to decline any time soon.

Azerbaijan’s Economic Relations with Russia Until 2021

In contrast to Armenia and Georgia, Azerbaijan is a rich country, and thanks to its oil and gas resources, which it sells on world markets, it is highly independent in economic terms. This puts the country in a privileged position compared to its regional neighbors when it comes to political negotiations with Russia. Certainly, as a resource-dependent economy, Azerbaijan’s economic performance depends heavily on the demand for—and price of—oil and gas. Gas production and sales have risen in 2024, resulting in GDP growth of 4.3 percent for the first half of 2024, up from annual growth of only 1.1 percent in 2023 (EBRD 2024). Given Azerbaijan’s deteriorating oil fields and Europe’s appetite for non-Russian gas, the latter is replacing oil revenues. There are two main problems with this: first, gas prices are lower than oil prices; and second, gas prices have been much more volatile in recent years, with a drop in 2024 leading to lower export revenues during 2024.

The country has been pushing forward with efforts to diversify its industrial base by boosting its digital economy. Azerbaijan is investing in speeding up its digital networks and increasing its cybersecurity.

Due to its gas sales, which are mainly oriented toward Europe, Azerbaijan is much less dependent on Russia as an export market than its two regional peers, Armenia and Georgia. While Russian exports to Azerbaijan grew from US\$1.56 billion in 2010 to US\$2.32 billion in 2021, exports from Azerbaijan to Russia grew from US\$386.3 million to US\$1.03 billion in 2021 (wiiw 2024). This means that Russian imports from Azerbaijan almost tripled over the course of a decade, whereas exports from Russia to Azerbaijan less than doubled. The composition of bilateral trade relations is also interesting: in 2022, Azerbaijan mainly exported crude oil and gas, refined petroleum products, and fertilizers, while importing crude and refined oil and wheat from Russia. This hints at much more balanced trade relations than those of Georgia and Armenia with Russia (GTAI 2024).

Looking at Azerbaijan’s most important trade partners confirms this lower dependence on Russia. In 2023, Russia was the leading import partner, but when considering the country’s exports, Italy is in first place, followed by Turkey, with Russia the destination for only 3.5 percent of exports (GTAI 2024).

FDI statistics for 2021 reveal an almost balanced capital flow, with a marginally higher flow of Azerbaijani capital into Russia than vice versa (wiiw 2024). In conclusion, Azerbaijan is a highly attractive investment destination for Russia. Does Azerbaijan need Europe? It certainly profits enormously from selling its gas to Europe. But the country will not seek an intensified political partnership with Europe; for the time being, relations will be purely transactional, gas for money.

Georgia's Economic Relations with Russia Until 2021

Georgia enjoys special attention from European political observers. Once praised as a role model for democratization, fighting corruption, and transparency initiatives, both the political environment and the business climate have witnessed recent backsliding. Despite these challenging framework conditions, Georgia's economy has performed quite robustly in recent years, with impressive GDP growth of 11 percent in 2022 and 7.5 percent in 2023 (EBRD 2024).

As Georgia cannot just sell oil and gas, its economy relies on a more diversified backbone, yet the country's GDP is much lower: EUR 28 billion in 2023 compared to Azerbaijan's EUR 73 billion (EBRD 2024). Georgia's recent economic growth is based on its financial, IT, construction, and transport sectors. In part, this has been fueled by soaring inflows of capital and labor since Russia embarked on its war in Ukraine—a point that will be addressed in greater depth in the next section. However, Georgia has long been economically dependent on Russia, notwithstanding huge shifts in the last decade.

Between 2010 and 2021, Russia's exports to Georgia grew from US\$210 million to US\$873.3 million. At the same time, Georgia's exports to Russia grew by a factor of fourteen, from US\$38 million in 2010 to US\$567.5 million in 2021 (wiiw 2024). Georgia has successfully diversified its trade partners, and today the EU is the country's most important trade partner (20 percent), followed by Turkey (13.8 percent) and Russia (11 percent). However, if countries are broken out individually, Russia is still the dominant partner in terms of both exports and imports (GTAI 2024).

When examining more closely which products are exported from Georgia, cars rank among the country's top three exports. Georgia has long positioned itself as a hub for importing used cars from Europe and distributing them to the wider Caucasus region. Otherwise, Georgia trades mainly food products, mineral water, and copper. Meanwhile, Georgia primarily imports oil and gas from Russia, as well as pharmaceuticals (GTAI 2024). These trade data show that Georgia is not as dependent on Russia as Armenia, which has been unable to diversify its trade partners. For an economy, of course,

this is a positive development, as being too dependent on a single import or export destination limits a country's flexibility. On the other hand, exactly these indicators made Russia take more intensive measures to maintain its grip on Georgia. The most recent elections have made it even more difficult for the EU to shape Tbilisi's future approximation to Europe.

Russia's FDI flows into Georgia have increased steadily, peaking at EUR106.5 million in 2021. Georgia's capital flows into Russia, meanwhile, have sharply declined and equaled only EUR 2.8 million in 2021 (wiiw 2024). This confirms that Russia does not seem to be a highly attractive destination for Georgian capital, while Russia continues to channel capital into Georgia.

Shifting Trade Patterns Since 2022

In response to Russia's invasion of Ukraine in February 2022, Western economies—to which Russia refers as the “collective West”—surprisingly quickly imposed economic sanctions. Since then, the EU has issued 14 sanction packages, with a 15th package in the works as of December 2024. The US, Canada, and Korea likewise passed sanctions against Russia, making the country the most sanctioned nation worldwide.

The idea of the sanctions regime against Russia was to weaken its military-industrial complex and the country's financial power to sustain the war. Accordingly, high-tech and dual-use goods made up the bulk of the sanctioned products. Western authorities were convinced that once the sanctions came into force, Russia would be cut off from international supply chains and would be deprived of the Western technology needed for its weapons.

At the same time, a huge wave of migration from Russia into neighboring countries—including Georgia, Armenia, and Azerbaijan—channeled massive amounts of capital and labor into these countries' economies. This led to a hike in economic indicators, as the money was often invested in buying property and opening small businesses. In Georgia, for instance, the local IT sector grew because Russian IT experts continued their activities in Georgia.

In addition, there very soon emerged reports of circumvention activities: chains of vendors, suppliers, and intermediate distributors who would take advantage of jurisdictions such as Georgia, Armenia, China, the Central Asian countries, Turkey, and others to ship sanctioned goods into Russia. Since the outbreak of Russia's war against Ukraine, trade flows between the EU and Russia have changed significantly. This is particularly evident when it comes to so-called Common High Priority Items (CHP). CHP goods are dual-use or other technological goods that are necessary for the manufacture of military products or are processed directly into weapons systems. Despite the sanctions, Russia

has been able to continue to ensure the supply of CHP goods; the difference is that they now travel along different transport routes.

Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, and Uzbekistan, as well as Turkey, India, and China, have become the focus of sanctions evasion. Time and again, we see reports of conscious or unconscious sanctions evasion that involve German or Austrian technology. According to one recent media report, products from several German manufacturers were used in Russia to produce weapons; they probably reached Russia via Turkish intermediaries.

European companies must prepare for the fact that an area of trade law that has often been neglected in operational practice, namely export control and sanctions law, is becoming more relevant in order to avoid legal disputes with various stakeholders, high costs, and even reputational risks.

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Conclusions

This article argues that Russia’s influence in the South Caucasus is increasing. Its influence in Armenia may have declined for the time being, but the country remains in a precarious economic and security situation. In Azerbaijan and especially in Georgia, meanwhile, Moscow’s influence is increasing significantly. Moscow’s geostrategic and geoeconomic interests are playing a key role in this context. The war in Ukraine and the international sanctions against Russia have further increased the importance of these three countries, making them important partners for supplying sanctioned goods from Europe. In addition, a significant number of Russian companies have moved to Armenia and Georgia. As a result, Georgia, Armenia and Azerbaijan are showing dynamic growth rates. Russia has a growing interest in maintaining her grip on these nations, as they are vital for her own security, political, and economic interests.

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