

Armenia's Involvement in Russia's Efforts to Bypass Western Sanctions

Orkhan Baghirov

Following the start of the Russia-Ukraine war, Western states responded with a series of severe sanctions and export restrictions aimed at undermining Russia's economic capacity to fund the war. These sanctions primarily focused on Russia's vital oil and gas industry, which serves as a major revenue source. Sanctions were also targeted at other sectors, like engineering, construction, manufacturing, and transportation. These measures effectively restricted Russia's ability to import various products essential for its defense industry, including electrical and transportation equipment, technological components, machinery, and vehicle parts.

As the sanctions began to exert a tangible effect—resulting in shortages of crucial components and products for the country's defense industry—Russia took measures to import these items from third-party countries, thereby involving them in re-export schemes that ran afoul of Western policy preferences. Several post-Soviet states that have close economic and military relations with Russia became active participants in these schemes. Among them is Armenia, which has become quite an active re-exporter to Russia—a policy choice that has resulted in a significant increase in revenue. This is related to the fact that Armenia is both a member of the Russia-led Eurasian Economic Union and is able to enjoy the benefits of its Comprehensive and Enhanced Partnership Agreement (CEPA) that was signed with the European Union. The resulting situation enables Armenia to trade with both Russia and the EU under favorable conditions, but also to maximize its benefit from re-export activities.

The unusual foreign trade dynamics of Armenia in recent years shows that Armenia is effectively using this advantageous position and is actively involved in Russia's efforts to bypass Western sanctions.

Orkhan Baghirov is Senior Research Fellow at the Baku-based Center for Studies of the South Caucasus (CSSC). He is an expert on regional economic relations in South Caucasus and holds a PhD in public finance and fiscal policy from Azerbaijan State University of Economics. The views and opinions expressed herein are solely those of the author.

Unusual Trade Dynamics

Despite predictions of an economic downturn in Armenia due to its reliance on the Russian economy amid the Russian-Ukrainian war, the country saw significant growth in 2022. Such rapid economic growth in a country closely linked to Russia could not have occurred naturally but was rather artificially stimulated. Several factors contributed to the emergence of this artificial economic activity, with the most prominent being Armenia's active participation in the re-export of Western sanctioned products to Russia.

According to the Statistical Committee of Armenia, in 2022, Armenia's total foreign trade turnover surged by 69 percent compared to the previous year, reaching a total of \$14.1 billion. During this period, exports from Armenia witnessed a substantial increase of 78 percent, while imports rose about 63.5 percent. In 2022, Armenia also experienced a significant rise in its trade with Russia—its primary trade partner—with a remarkable increase of 92 percent, surpassing a total trade turnover of \$5 billion. During this period, Armenia's exports to Russia surged by 2.4 times, while imports from Russia saw an increase of over 40 percent. Consequently, Russia's share in Armenia's exports increased from 23.5 percent to 45 percent in 2022, compared to the previous year.

The surge in Armenia's foreign trade activity and in its trade with Russia during the Russia-Ukraine war lacks a substantial economic foundation and is unlikely to be solely attributable to the natural development of economic ties. Rather, it seems more likely that artificial elements or external factors contribute to this surge, including the re-exporting of sanctioned products.

Significant Boost in Imports

It is also worth analyzing Armenia's trade relations with individual countries in order to justify Armenia's assistance to Russia in evading sanctions. We should take into consideration that the increase of exports from Armenia to Russia is several times greater than imports from Russia, which suggests that Armenia mostly helps Russia to import products from foreign countries rather than exporting to them. Therefore, it is important to determine the countries whose exports to Armenia have increased sharply in 2022.

According to data from the Statistical Committee of Armenia on trade in 2022, there were significant increases in exports to Armenia from various countries. For instance, exports from Vietnam to Armenia surged by 380 percent, exports from Mexico by 324 percent, exports from Japan by 252 percent, exports from the Philippines by 181 percent, exports from Thailand by 131 percent, and exports from South Korea by 102 percent. The sharp increase in exports from countries like Japan and South Korea also suggests that this constitutes a successful attempt by Armenia to become a commercial bridge between those countries and Russia. This is particularly concerning since Japan and South Korea specialize in the production of various types of computer chips, which are vital for the

functioning of all sorts of electronic devices, including those used in the defense industry, and thus their increased exports to Armenia might indeed be related to the export of chips to Russia. Also, it is very likely that many of the other countries mentioned above are using Armenia for the re-export of sanctioned products, since these countries had well-established trade relationships with Russia.

It is also interesting to note that there has been a significant rise in exports to Armenia from Western countries—i.e., countries that are part of the U.S.-led and EU-led sanctions and export restrictions regime against Russia. In 2022, total exports from the EU to Armenia doubled in comparison to 2021, reaching \$1.9 billion. In this period, exports from Serbia to Armenia increased sixfold. If we take into account that Serbia has not joined the West’s sanctions and export restrictions regime (as well as the fact that Serbian appointed its first-ever resident ambassador to Armenia in the first half of 2022), then a quite reasonable conclusion can be drawn that this increase is related to the circumvention of sanctions in support of the continuation of trade with Russia. Additionally, EU and NATO member state Greece recorded a remarkable 273 percent increase, NATO member states the UK saw a 132 percent rise, EU and NATO member state Spain experienced a 121 percent boost, and NATO member state Canada had a 108 percent increase in exports to Armenia. Moreover, exports to Armenia from countries like Sweden (an EU member state and NATO aspirant), Czechia (an EU and NATO member state), and Austria (an EU member state) doubled during the 2022.

In 2022, exports from the United States (a NATO member state) to Armenia increased about fourfold and exports from Germany (an EU and NATO member state) doubled. At the same time, the exports from Germany to Russia decreased by 45 percent and large reductions were observed in the volume of exports from the U.S. to Russia. The foregoing indicates that these reductions were almost wholly compensated by re-exports from Armenia. These countries had traditionally been exporting products such as electronics, machinery, aircraft, vehicles, and optical instruments to Russia, with many of these items being actively used in the defense industry.

All this data demonstrates that exports to Armenia from those Western countries that have traditionally had close economic relations with Russia have increased abnormally. This unusual increase in exports very much suggests that many of those Western countries, in collusion with Armenia, tried to compensate their declining export volumes to Russia by channeling their goods through Armenia.

Armenia’s participation in re-exports to Russia is also confirmed by the fact that Armenia does not have a large production capacity. The data presented in official statistics for 2022 indicates that Armenia experienced a 13.5 percent rise in manufacturing production, a 9 percent increase in agricultural production, and a 10 percent growth in industrial production. These incremental increases can neither account for a 78 percent overall increase in exports from Armenia nor a 2.4-fold surge in exports to Russia.

All in all, it seems convincing that the majority of Armenia's exports to Russia in 2022 were actually re-exported products.

The Structure of Trade by Product Groups

An examination of the structure of Armenia's foreign trade in 2022 (i.e., based on products groups) provides further evidence that Armenia is serving as an intermediary in bypassing the West-led sanctions and export restrictions regime against Russia. Statistical figures indicate that in 2022 there were seven main product groups with a large share in Armenia's imports, the volume of which have sharply increased in 2022 compared to the previous year. According to the UN's COMTRADE database, the import of electronics more than doubled, machinery and mechanical device imports rose by 52 percent, the imports of vehicles increased by 2.7 times, precious metals and stones imports tripled, imports of iron, steel, and related products increased by 76 percent, plastic product imports grew by 46 percent, and imports of optical, technical, and medical equipment increased by 42 percent. It should be clear that the rapid increase in the imports of the aforementioned categories of products cannot be solely attributed to increased domestic demand within Armenia.

The key point related to the structure of Armenia's foreign trade is the fact that six of the seven types of import product groups that have sharply increased in 2022 are included on the list of Top Ten products exported by Armenia to Russia in the same year—all of which sharply increased in 2022 compared to 2021.

According to the UN's same COMTRADE database, the export of electronic products to Russia increased 37 times compared to 2021, the export of vehicles increased about 30 times, the export of machinery and mechanical devices increased more than 10 times, the export of precious metals and stones tripled, and the export of optical, technical, and medical equipment increased up to 5 times.

Obviously, a sudden surge in production of these categories of products in Armenia is unlikely; rather, the reported growth in their export mainly stems from their re-exportation to Russia. It is worth emphasizing that the aforementioned product categories are subjected to the West-led sanctions and export restrictions regime against Russia, and that these same categories hold significant importance in the Russian defense industry's manufacturing processes.

In general, the significant increase in both the import and export of same product groups to Russia proves that Armenia is engaged in the re-export of these products to Russia.

Record Level of Remittances

Another noteworthy indicator pointing to Armenia's likely involvement in assisting Russia in circumventing the West's sanctions and export restrictions regime is the significant surge in remittances from Russia to Armenia. According to Armenian statistical data, the total amount of money transferred from Russia to Armenia in 2022 experienced a fourfold increase from the year before, reaching an unprecedented level of \$3.6 billion. Consequently, the proportion of funds transferred from Russia in relation to the total remittances to Armenia reached 69 percent, a stark contrast to the 41 percent recorded in 2021.

Interestingly, this increase in remittances from Russia to Armenia contradicted expectations, given the economic crisis in Russia. This unexpected trend suggests that the growth in remittances is artificial and possibly facilitated by sanctions-busting re-exports. This dynamic implies that those seeking to export products to Russia without penalty found Armenia to be a safe-haven.

Trade Dynamics in 2023

The circumvention dynamic observed in Armenia's foreign trade figures in 2022 shows no sign of coming to an end in 2023. Quite the contrary: the latest numbers seem to indicate even further growth.

According to figures published by the Statistical Committee of Armenia, the country's exports to Russia grew by 93.3 percent, and its imports increased by 83.3 percent, in the first five months of 2023 when compared to the same period in 2022. In the first five months of 2023, trade between Russia and Armenia saw a remarkable surge, with an 86 percent increase compared to the same period in 2022. In this same period, Armenian exports to Russia experienced an extraordinary growth, surging by 3.3 times. Remarkably, due to the re-export of products sanctioned by the West, Armenia managed to achieve a positive trade balance with Russia for the first time in the past two decades. In parallel, in the first five months of 2023, total imports to Armenia from the EU (in total) increased by 93.5 percent (from Germany, imports increased by 2.3 times; from Italy, imports increased by 70 percent; and from the Netherlands, imports increased by 84.4 percent).

The structure of traded products also suggests that Armenia continues to re-export sanctioned products to Russia in 2023. During the first five months of the year, the second-largest category of products exported by Armenia comprised machinery, equipment, and mechanical devices. Notably, the total export of these products surged by approximately 12.3 times, while their importation increased by roughly 2.6 times. During this same period, the export of vehicles saw a remarkable increase of 16.7 times, with imports also growing by about 5 times. These figures strongly imply that Armenia

imports the aforementioned products from the EU (and other countries) and re-exports them to Russia.

In short, Armenia doubled down on its very lucrative sanctions circumvention scheme in 2023. However much Yerevan may seem to be moving away from Moscow politically, Armenia seems to be further increasing its ties to Russia economically.

Conclusion

Almost from the beginning of the Russia-Ukraine war, Armenia has been assisting Russia in circumventing sanctions by engaging in the re-export of goods to Russia from other countries. This assistance has grown the longer the war has dragged on. Thus, from the perspective of the West and its “rules-based international liberal order,” this puts (or should put) Armenia on the wrong side of history.

Surprisingly, Armenian complicity in sanctions-busting has been largely penalty-free, with only a limited number of Armenian companies facing sanctions. The sanctions primarily target subsidiaries of Russian and other non-Armenian companies operating in Armenia (e.g., Areximbank-Gazprombank Group, VTB Bank Armenia, Bank Mellat, Flight Travel LLC and Milur Electronics LLC). Also, the Armenian company Taco LLC (or Tako LLC) has been subjected to sanctions for its role in supplying various products to the Russian military industry. In general, as of early August 2023, less than ten Armenia-registered companies have been sanctioned. This implies that Western countries are consciously turning a blind eye to Armenia’s illicit activities. In contrast, Kyrgyzstan is facing significant pressure in this regard, and the imposition of Western sanctions against the country is being discussed in various chanceries and hallways of power in the EU, some of its member states, and the United States. It should be noted that this discrepancy is even stranger given Armenia’s close economic (not to mention political and security) ties to Iran—a country that is subjected not only to a Western sanctions and export restrictions regime, but also to a UN one.