

# Russia's Economic Interests in Azerbaijan: Geopolitics and Geostrategic Views

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## Abstract

The paper comprehensively analyzes Russia's economic interests in Azerbaijan, both retrospectively and prospectively. It covers trade relations, investment cooperation, regulations between the two countries, and the trade structure and arms supply from Russia to Azerbaijan. The paper also evaluates the dynamics of Russian-origin capital invested in Azerbaijan's economy and the liberated territories. Notably, it underscores the crucial role of the North-South International Transport Corridor in shaping trade relations.

**Keywords:** Russia, Azerbaijan, trade turnover, import, export, military equipment and goods, investment, FDI, North-South International Transport Corridor

## **Introduction**

The legal basis of cooperation between the Russian Federation and the Republic of Azerbaijan consists of more than 170 interstate, intergovernmental, and interdepartmental agreements, including nearly 50 documents in the economic sector. Key agreements include the Treaty on Friendship, Cooperation, and Mutual Security signed on July 3, 1997, the Declaration on Friendship and Strategic Partnership on July 3, 2008, the Declaration<sup>1</sup> on Allied Cooperation between the Russian Federation and the Republic of Azerbaijan on February 22, 2022, and the "Roadmap for the Development of Cooperation in Key Areas for 2024-2026,"<sup>2</sup> signed on January 22, 2024.

One of Russia's interests in Azerbaijan is establishing relations between its regional entities and the Republic of Azerbaijan. Therefore, numerous agreements have been signed between the subjects of the Russian Federation and the Republic of Azerbaijan in a bilateral format. Additionally, there are 12 agreements on trade, economic, scientific-technical, and cultural cooperation between Russian regions and Azerbaijani partners. Over 70 Russian regions, including Dagestan, Tatarstan, Moscow, Saint Petersburg, Astrakhan, Moscow, Saratov, Sverdlovsk, and Chelyabinsk, maintain cooperation with Azerbaijan. In 2023, more than 20 business missions from over 20 diverse regions of the Russian Federation visited Azerbaijan.

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<sup>1</sup> <https://president.az/az/articles/view/55498>

<sup>2</sup> <https://interfax.az/view/908147>

## **Trade relations and arms supply from Russia to Azerbaijan**

Trade cooperation occupies a special place in the trade relations formed between Azerbaijan and Russia. According to the State Customs Committee of the Republic of Azerbaijan<sup>3</sup>, the volume of mutual trade between Russia and Azerbaijan in 2023 increased by 17.5% compared to the previous year, reaching \$4.358 billion, which accounted for 8.52% of Azerbaijan's trade turnover. Azerbaijan's exports to Russia amounted to \$1.196 billion, representing 3.53% of total exports, while imports from Russia were \$3.162 billion, accounting for 18.29% of total imports.

In the first seven months of 2024<sup>4</sup>, trade turnover between Azerbaijan and Russia increased by 5.2%, reaching \$2.573 billion, with a 9.57% share in Azerbaijan's trade turnover. Exports from Azerbaijan to Russia totaled \$656.1 million, representing 4.08% of total exports, while imports from Russia amounted to \$1.916 billion, or 17.76% of total imports.

Russia exports food products, agricultural raw materials (wheat and other grains), processed industrial products (confectionery, vegetable oils, tea, alcoholic beverages, cigarettes), machinery, ferrous and non-ferrous metals, equipment, transport vehicles, military equipment, wood, pulp, and paper products to Azerbaijan. In return, Azerbaijan exports textiles, cotton, and agricultural products (vegetables, fruits, potatoes, etc.) to Russia.

Military equipment and goods imports from Russia to Azerbaijan are not reflected in trade statistics between the two countries, which is consistent with customs practices in other countries as well. Besides Russia, Azerbaijan imports weapons from Turkey, Israel, Ukraine, the Czech Republic, Belarus, and other countries. Between 2010 and 2015, Russia was Azerbaijan's primary arms supplier, Israel took over in 2015-2019, and Turkey became the primary supplier after 2020<sup>5</sup>.

Since the dissolution of the USSR in 1991, Russia did not sell weapons to Azerbaijan until 2005. Currently, Azerbaijan is a major partner for Russia in the arms market. According

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<sup>3</sup> [https://customs.gov.az/uploads/foreign/2023/2023\\_12.pdf?v=1705581222](https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222)

<sup>4</sup> [https://customs.gov.az/uploads/foreign/2024/2024\\_7.pdf?v=1723795359](https://customs.gov.az/uploads/foreign/2024/2024_7.pdf?v=1723795359)

<sup>5</sup> [https://www.researchgate.net/publication/349305116\\_Why\\_Azerbaijan\\_Won](https://www.researchgate.net/publication/349305116_Why_Azerbaijan_Won)

to the Stockholm International Peace Research Institute (SIPRI), between 2006 and 2016, Russian arms accounted for about 22% of Azerbaijan's total defense imports. A weapons deal between Russia and Azerbaijan in 2010-2011 was valued at \$300 million, with 55% of Azerbaijan's imported arms coming from Russia, 34% from Ukraine, and 5% from Belarus<sup>6</sup>. In subsequent years, particularly between 2013 and 2018, Azerbaijan procured large quantities of newly manufactured weapons for its ground forces from Russia, with the total value estimated in the multi-billion of dollars<sup>7</sup>.

Since Russia's military intervention in Ukraine, trade between Russia and Azerbaijan has accelerated, increasing by more than double from 2017, reaching \$4.4 billion in 2023. This represented a 17.5% rise from 2022, and in 2022, trade had increased by 23.9% compared to 2021. Thus, compared to 2021, trade between Russia and Azerbaijan in 2023 grew by \$1.4 billion or 47%, from \$3 billion to \$4.4 billion.

A similar trend has been observed in Russia's trade relations with Georgia and Armenia. Between 2021 and 2023, trade turnover between Russia and Georgia grew from \$1.6 billion to \$2.4 billion, while trade between Russia and Armenia increased from \$2.85 billion to \$7.41 billion. As a result, Russia's trade with Azerbaijan grew by 47%, with Georgia by 1.5 times, and with Armenia by 2.6 times. The primary factor driving this increase is the rise in imports from Russia due to sanctions and embargoes imposed on Russia following the start of the Russia-Ukraine war<sup>8</sup>.

According to the Russian Federal Customs Service<sup>9</sup>, Azerbaijan accounts for 0.4% of Russia's total foreign trade turnover. While trade with Azerbaijan may not be significant for the Russian economy, Russia is a crucial market for Azerbaijan's non-oil and gas exports. In 2023, 33% of Azerbaijan's \$3 billion in non-oil exports went to Russia, 23% to Turkey, and 10% to Georgia, meaning that 66% of Azerbaijan's non-oil exports are sent to these three neighboring countries.

In 2023, Russia ranked third among Azerbaijan's trade partners, after Italy and Turkey, first in terms of imports to Azerbaijan, and sixth in terms of exports from Azerbaijan.

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<sup>6</sup> <https://www.sipri.org/sites/default/files/SIPRIYB12c06sIV.pdf>

<sup>7</sup> <https://www.sipri.org/sites/default/files/Trends-in-international-arms-transfers-2016.pdf>

<sup>8</sup> [https://cssc.az/az/view/2/64/cenubi\\_qafqazda\\_kimin\\_rusiya\\_ile\\_ticaret\\_i\\_daha\\_cox\\_artib?](https://cssc.az/az/view/2/64/cenubi_qafqazda_kimin_rusiya_ile_ticaret_i_daha_cox_artib?)

<sup>9</sup> <https://customs.gov.ru>

Settlements in national currencies dominate trade between Russia and Azerbaijan. According to Russian Deputy Prime Minister Alexey Overchuk, more than 73% of trade between the two countries in January-May 2024 was conducted in national currencies<sup>10</sup>, up from 57.8% at the end of 2023. This shift can be attributed to sanctions imposed on Russia following the Ukraine war. The positive trade dynamic has also affected cargo volumes, with the volume of cargo transported between the two countries in 2023 increasing by 87% compared to 2017.

**The North-South International Transport Corridor**, launched on September 12, 2000, plays a vital role in connecting Russia with global markets. Stretching over 7,000 kilometers, the corridor links Russia's Baltic ports with Iranian ports in the Persian Gulf, with a significant portion passing through Russia and Azerbaijan<sup>11</sup>. When completed, the corridor is expected to reduce shipping times from India to Russia and Europe from 45-60 days via the Suez Canal to 14-20 days. The Rasht-Astara railway segment, currently under construction, is key to the project, and the total volume of goods transported by rail is projected to reach at least 15 million tons annually<sup>12</sup>.

On September 12, we will mark 24 years since the foundation of the North-South International Transport Corridor was laid. During this time, the main problem preventing the launch of the North-South transport corridor has been the need for more investment. After Russia's military intervention in Ukraine, sanctions imposed on Russia and Iran have led to construction work on this corridor being carried out primarily through the internal financing of transit countries, and this process has been ongoing for a long time. However, the commissioning of the North-South International Transport Corridor holds great promise. It could significantly increase the volume of transit cargo through Azerbaijan, thereby boosting its revenues from this source.

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<sup>10</sup> <https://report.az/maliyye-xeberleri/rusiya-ile-azerbaycan-arasinda-milli-valyutada-hesablasmlarin-payi-70-i-otub/>

<sup>11</sup> <https://vergiler.az/news/economy/27742.html>

<sup>12</sup> <https://aircenter.az/ru/single/ekonomiceskoe-torgovoe-i-transportnoe-sotrudnicestvo-azerbaydjana-i-rossii-1413>

## **Investment cooperation**

The outcome of the 44-day Second Karabakh War in 2020 has also influenced the geography of foreign direct investments directed at Azerbaijan's economy. According to recent statistics, after the Second Karabakh War, investments from the Russian Federation, Turkey, and the People's Republic of China into Azerbaijan's economy, particularly in the liberated territories, began to grow. However, the attraction of Western-origin foreign investments continues to face significant hurdles. The Azerbaijani government's classification of states as friendly or unfriendly is a factor, but traditional problems such as monopolies dominating the national economy, as well as the lack of an independent judiciary and legal system, are ongoing challenges that need to be addressed. During a visit to Jabrayil and Zangilan on April 26, 2021, President Ilham Aliyev announced that, "as I have repeatedly emphasized after the war and our victory, we will invite companies from friendly countries to work with us. I am pleased that today Israeli and Italian companies, from two friendly countries, are joining this important project, and we have international cooperation. There are companies from Turkey, China, Israel, and Italy, all from friendly countries."<sup>13</sup> As a result, foreign investments from these countries into Azerbaijan's economy were given the "green light," and soon after, Russian companies also began actively operating in the liberated territories. Undoubtedly, the documents signed between the two countries during Russian President Vladimir Putin's visit to Azerbaijan on August 18-19, 2024<sup>14</sup>, will have a positive impact on the volume of investments and mutual trade from Russia.

Since 2006, the Russian Federation's trade representation has operated in Baku, aiming to develop and simplify bilateral trade and economic relations between Russia and Azerbaijan. In 2017, Azerbaijan's trade representation was opened in Moscow at the initiative of the Azerbaijani government to expand and optimize trade and economic cooperation between Azerbaijan and Russia.

Currently, Russian companies are showing interest in projects in the liberated territories of Azerbaijan in sectors such as construction, trade, agriculture, industry, and services.

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<sup>13</sup> <https://president.az/az/articles/view/51295>

<sup>14</sup> [https://respublika-news.az/uploads/files/pdf\\_archive/eba9d3882b-20240820.pdf](https://respublika-news.az/uploads/files/pdf_archive/eba9d3882b-20240820.pdf)

The Ministry of Economy of Azerbaijan has received applications from Russian companies for 24 projects to operate in Karabakh and Eastern Zangazur. In the “Araz Valley Economic Zone” industrial park in Jabrayil, a joint venture for automobile maintenance between Azerbaijan and the Russian Federation operates with the participation of the Russian automobile giant KAMAZ<sup>15</sup>. It should be noted that companies operating in Azerbaijan’s liberated territories are granted several benefits and tax exemptions<sup>16</sup>.

According to the data from the Central Bank of Azerbaijan (CBA), Russia, which did not rank among the top ten countries in terms of foreign direct investments into Azerbaijan's economy in 2021, was among the top five in 2022 and 2023. The rapid increase in investments from Russia has also positively affected the overall dynamics of foreign direct investments in Azerbaijan's economy over the last two years.

It is worth noting that, alongside foreign investments, there has been a significant and impactful rise in remittances from Russia to Azerbaijan following Russia's military intervention in Ukraine. According to the CBA, the amount of remittances sent by individuals from Russia to Azerbaijan was \$564.7 million in 2019, \$606.1 million in 2020, \$623.1 million in 2021, but sharply increased to \$2.969 billion in 2022, and \$1.047 billion in 2023<sup>17</sup>.

From my perspective, the sharp increase in remittances from Russia to Azerbaijan in 2022 is a strategic response to the Western sanctions imposed on Russia's financial system and banks. These sanctions were a consequence of Russia's military intervention in Ukraine. In anticipation of the potential impact, Azerbaijanis living in Russia proactively transferred their capital to Azerbaijan, demonstrating their foresight and planning in the face of economic challenges.

One of the key factors contributing to the changes in the structure of foreign investments by country in 2022 is the notable decline in investments from Japan, the US, and Norway.

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<sup>15</sup> <https://az.sputniknews.ru/20240819/rossiyskie-kompanii-v-karabakhe-i-vostochnom-zangezure-466762115.html>

<sup>16</sup> <https://www.taxes.gov.az/az/post/2266>

<sup>17</sup> <https://cbar.az/page-43/external-sector-statistics>

These countries, which held prominent positions in the top ten in 2021, have seen a significant reduction in their investments compared to previous years.

According to the Central Bank of Azerbaijan (CBA)<sup>18</sup>, in 2023, the leading source of foreign direct investment (FDI) into Azerbaijan's economy was the United Kingdom, with \$1.9 billion, followed by Turkey (\$1.3 billion), Cyprus (\$792 million), Russia (\$617 million), and Iran (\$396 million). As can be seen, Russian investments in Azerbaijan's economy increased by 19.1% compared to 2022. This growth trend continues in the current year as well. According to the latest data from the CBA for the first quarter of 2024, \$55.5 million of investments were made from Russia into Azerbaijan's economy, maintaining Russia's position among the top ten investors.

Cumulatively, from 1995 to 2023, Russia's direct investments in Azerbaijan amounted to \$9.1 billion, while Azerbaijan's investments in the Russian Federation totaled \$1.2 billion. According to Azerbaijan's Ministry of Economy, the country has implemented several investment projects in Russia. For example, "Azersun Holding" has established a fruit and vegetable canning plant and a tea factory in Krasnodar through private investments. By comparison, from 1995 to 2023, China invested \$930.8 million in Azerbaijan, with \$754.1 million directed toward the oil and gas sector and \$176.7 million in non-oil and gas sectors<sup>19</sup>. Currently, 245 Chinese companies are actively operating in sectors such as industry, agriculture, transportation, construction, trade, and services in Azerbaijan.

Some sources state<sup>20</sup> that there are 1,270 commercial enterprises with Russian participation registered in Azerbaijan, while other sources<sup>21</sup> claim that the number is 1,742. Of these, 1,247 are actively engaged in economic activity, with nearly 300 being fully Russian-owned, while the rest are joint ventures. Among the major Russian manufacturers, companies, and banks represented in Azerbaijan are Gazprom, Lukoil, VTB Bank, AvtoVAZ, and Rosselkhozbank. Projects such as the production and assembly of KAMAZ and Ural trucks are underway, and a plant for assembling Gazel-branded vehicles has been launched. Over the years, business associations and ties between small

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<sup>18</sup> <https://cbar.az/page-43/external-sector-statistics>

<sup>19</sup> <https://cbar.az/page-43/external-sector-statistics>

<sup>20</sup> [https://respublika-news.az/uploads/files/pdf\\_archive/eba9d3882b-20240820.pdf](https://respublika-news.az/uploads/files/pdf_archive/eba9d3882b-20240820.pdf)

<sup>21</sup> <https://anspress.com/rusiya-azerbaycan-munasibetleri-haqqinda-ne-melumdur>



and medium-sized enterprises have rapidly expanded. Russia's "R-Farm" company signed a memorandum with Azerbaijan's "VITA-A" company and the Azerbaijan Investment Company to establish a pharmaceutical plant in Azerbaijan. Major companies such as "AzRosPromInvest," "Baltika-Baku," and "Khazar-Lada" are also operating in the country.

Russia's military intervention in Ukraine has led to an increase in the number of people traveling from Russia to Azerbaijan. According to the State Border Service (SBS), 27.9% of all people arriving in Azerbaijan in 2022 were Russian citizens, representing a 1.7-fold increase<sup>22</sup> compared to 2021. In 2023, Russian citizens accounted for 30% of all arrivals in Azerbaijan, a 39.9% increase<sup>23</sup> compared to the previous year. As for the current year, in the period from January to July 2024, 29.2% of all visitors to Azerbaijan were Russian citizens, marking a 16.9% increase<sup>24</sup> compared to the same period last year. Clearly, the number of visitors from Russia has steadily increased since its military intervention in Ukraine.

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<sup>22</sup> <https://www.stat.gov.az/news/index.php?lang=az&id=5406>

<sup>23</sup> <https://www.stat.gov.az/news/index.php?lang=az&id=5763>

<sup>24</sup> <https://www.stat.gov.az/news/index.php?lang=az&id=5978>

## **Conclusion**

Russia remains one of Azerbaijan's key trading partners. In recent years, Russia has become the primary market for Azerbaijan's non-oil export products. Since the Second Karabakh War and Russia's military intervention in Ukraine, the number of trips, investments, and remittances from Russia to Azerbaijan has increased sharply. The Russian capital has also found its way into Azerbaijan's liberated Karabakh and Eastern Zangazur economic regions. Furthermore, there has been an increase in the transit of Russian-origin goods to Iran via Azerbaijan. In short, Azerbaijan's anti-Western stance has facilitated the entry of Russian, Turkish, and Chinese capital into the country, expanding trade relations and increasing mutual settlements in national currencies with these countries. Azerbaijan's potential membership in BRICS and the Shanghai Cooperation Organization (SCO) is expected to expand this trend further.

Recently, a process has begun to remove certain Turkish companies, which are part of the "Five-Coalition" close to the Erdogan family, from projects in Karabakh. Notably, more than 20 Turkish companies are implementing around 50 projects in Azerbaijan's liberated territories. According to the World Bank's "Private Participation in Infrastructure Database,"<sup>25</sup> companies like "Kolin Group," "Cengiz Holding," and "Kalyon Group," which are among the top ten companies globally winning public tenders, have been involved in building road infrastructure in Karabakh. The total value of their projects is \$4 billion. Restricting these companies' activities in the Karabakh and Eastern Zangazur economic regions will likely expand the opportunities for Russian and Chinese companies in the liberated territories. Given the declining resource revenues in Azerbaijan, it is inevitable that Russian and Chinese capital will expand further in the country in the coming years.

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<sup>25</sup> <https://ppi.worldbank.org/en/ppi>