

The Political Economy of Azerbaijan–Russia Relations: Intersecting and Overlapping Interests

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Abstract

This article analyzes the political economy of Azerbaijan–Russia relations during the deterioration of bilateral political relations in 2024–2025. It argues that the 2024–2025 conflict exposed the fragility of bilateral political relations and demonstrated how political tensions increasingly spill over into economic, societal, and cultural domains.

Despite growing political tensions, Russia has continued, until recently, to serve as the principal anchor of integration for Azerbaijan’s non-oil economy. An examination of macroeconomic indicators for 2017–2024 shows that the Russian Federation remains the largest destination for Azerbaijan’s non-oil exports, its leading import partner, the primary source of formal remittance inflows from Azerbaijani labor migrants, and the largest source of inbound tourism.

In this context, the article assesses the extent to which escalating political frictions since late 2024 have begun to affect economic relations, focusing on foreign trade, remittances, foreign direct investment (FDI), and tourism. It further evaluates the potential implications of these developments for Azerbaijan’s economic stability, diversification strategy, and evolving geopolitical orientation.

Beyond economic ties, the study also considers the consequences of the post-December 2024 escalation for security cooperation and humanitarian, scientific-technical, and cultural exchanges. The findings suggest that sustained political deterioration may gradually constrain bilateral economic interdependence, while simultaneously pushing Azerbaijan toward a cautious recalibration of its strategic alignments within an increasingly fragmented regional order.

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I. Introduction

Since the collapse of the Soviet Union in 1991, relations between Azerbaijan and Russia have gone through repeated periods of cooperation and tension, with both sides regularly adjusting their policies toward one another. In the years immediately following Azerbaijan's independence, bilateral relations were heavily influenced by the personal views of political leaders. Relations were particularly strained during the presidencies of Boris Yeltsin in Russia (1991-1999) and Abulfaz Elchibey in Azerbaijan (1992-1993), as Baku sought greater independence from Moscow while Russia attempted to maintain its influence in the South Caucasus, especially in the context of the Karabakh conflict.

Tensions eased during the presidency of Heydar Aliyev and later became more stable under Ilham Aliyev, whose time in office overlapped with Vladimir Putin's efforts to restore Russia's regional influence. Although Azerbaijan chose not to join Russian-led organizations such as the Collective Security Treaty Organization, (CSTO)³, the Eurasian Economic Union (EAEU)⁴, or the Customs Union, it nonetheless maintained working political relations with Moscow through the Commonwealth of Independent States and frequently supported Russian positions in international forums, including the United Nations and the Parliamentary Assembly of the Council of Europe.

Economic ties deepened during this period of pragmatic alignment. Russia became an important investor in Azerbaijan, while bilateral trade expanded steadily. Yet Azerbaijan retained a degree of strategic autonomy by cultivating partnerships with Western, Turkish, and regional actors, especially in the energy sector. Despite these asymmetries, the two countries managed to sustain a largely stable relationship made possible by overlapping economic interests, historical interdependence, and a pragmatic approach to regional security.

This period of relative stability was abruptly disrupted on 25 December 2024⁵, when Azerbaijan Airlines Flight 8243 crashed over Kazakhstan en route from Baku to Grozny after being struck by fragments of a Russian air-defense missile, triggering a sharp diplomatic crisis amid disputes over responsibility, transparency, and crisis management.

³ <https://carnegieendowment.org/posts/2018/08/will-azerbaijan-join-the-eurasian-nato?lang=en>

⁴ <https://www.chathamhouse.org/2022/07/what-eurasian-economic-union>

⁵ <https://www.rbc.ru/story/6864f16a9a7947398ac28d1a#maincontent>

The incident, which claimed 38 lives, was widely viewed in Azerbaijan as a profound breach of trust and sovereignty.⁶ Moscow's initial hesitation to acknowledge responsibility – despite a subsequent apology by President Putin on 27 December – triggered a rapid deterioration in bilateral relations. Baku's expectation of accountability, compensation, and punitive measures against those responsible went unmet, deepening public and governmental dissatisfaction.⁷

There has been widespread speculation over whether the incident was an accident or a deliberate act by Russia intended to warn Azerbaijan against departing from a Moscow-centered political course. In the period that followed, however, Azerbaijan adopted policies that increasingly ran counter to Russian interests, as it gradually moved closer to the West. Whether Russian aggression influenced Azerbaijan's policy shift, or whether Azerbaijan's changing orientation provoked Russian actions, remains an open and debated question.

From early 2025 onward, relations entered a period of acute and multidimensional tension as the aviation incident evolved into a broader political dispute over state responsibility, crisis management, and the credibility of bilateral engagement framework. On February 3, 2025, Azerbaijan issued a diplomatic note announcing the termination of the Russian House in Baku, a cultural and informational center operating since 1997. Azerbaijani authorities justified the decision on the grounds that the institution lacked proper legal registration and had violated national legislation; local media further alleged that the center had engaged in espionage activities on behalf of Russian intelligence services. Moscow rejected these accusations as unfounded and part of a broader disinformation campaign.⁸ Shortly thereafter, reports emerged of increased surveillance, detentions, and pressure on leaders of Azerbaijani diaspora organizations in Russia. By June 2025, the Azerbaijani Foreign Ministry summoned the Russian chargé d'affaires following the deaths of Azerbaijani citizens in police custody in Yekaterinburg.⁹

The closure of the Russian House coincided with growing pressure on Azerbaijani diaspora organizations and natives of Azerbaijan in the Russian Federation. Throughout the spring of 2025, reports emerged of intensified surveillance, detentions, and administrative harassment targeting leaders of prominent Azerbaijani community groups. On 28 June 2025, the Azerbaijani Foreign Ministry summoned the Russian chargé d'affaires following the deaths of Azerbaijani nationals in police custody in Yekaterinburg, underscoring the seriousness of the deteriorating situation.

On October 24, 2025, amid escalating tensions between Azerbaijan and Russia, the Arbitration Court of the Krasnodar Territory granted the Prosecutor General's Office petition to transfer the

⁶ <https://www.bbc.com/azeri/articles/cjdn7j3r9o>

⁷ <https://www.pravda.com.ua/eng/news/2024/12/29/7491210/>

⁸ <https://www.bbc.com/azeri/articles/cvg4zrqjlw0o>

⁹ <https://www.mfa.gov.az/az/news/no28225>

assets of Azerbaijani national Shakhlar Novruzov to the ownership of the Russian Federation. The court ordered the seizure of property held by Novruzov in the port of Tuapse. Consequently, the Russian state assumed full ownership of the authorized capital of Tuapse Sea Commercial Port (TMCP) LLC and TMCP Enterprise LLC. The state also acquired the Temryuk Marine Transshipment Terminal and facilities belonging to Dar Fruit LLC, whose Azerbaijani owner has been in custody on charges of large-scale fraud since late September 2025.¹⁰

The information domain soon became a new arena of confrontation. On February 20, 2025, a coordinated cyberattack struck Azerbaijani media platforms. The operation began with an intrusion into the internal servers of the Baku TV channel – one of the outlets that had earlier reported on the alleged intelligence activities of the Russian House – and subsequently spread to several other news websites.¹¹ According to Azerbaijani authorities, the attack aimed to disseminate disinformation, disrupt media infrastructure, and alter or delete archived content. A subsequent investigation attributed the operation to APT29 (Cozy Bear), a group widely linked to Russian military intelligence.

Tensions escalated further in mid-2025 as media and information institutions became directly implicated in the bilateral dispute. On July 1, 2025, Azerbaijani authorities detained seven employees of the Baku branch of Rossiya Segodnya (“Sputnik Azerbaijan”) on security grounds.¹² Earlier that year, the government had already reduced Sputnik Azerbaijan’s staff from roughly forty employees to a single accredited journalist, stating that the measure was intended to “restore balance” between the operating conditions of Azerbaijani state media and foreign news agencies active in the country.¹³

By mid-2025, the political rift began to spill over into the energy domain. On July 24, 2025, BP detected organic chlorine contamination in oil tanks at the Ceyhan terminal, affecting Azeri Light crude. Azerbaijan – followed by Kazakhstan and Turkmenistan – temporarily suspended oil shipments through the Baku–Tbilisi–Ceyhan (BTC) pipeline.¹⁴ A second contamination episode in August 2025, combined with Romania’s decision to declare an energy emergency after receiving tainted crude, fueled Azerbaijani suspicions of Russian sabotage.¹⁵ These concerns intensified when, on August 7–8, drone strikes – attributed to Russian forces – targeted a SOCAR facility in Ukraine, injuring staff and damaging infrastructure. This marked the second attack on SOCAR-owned assets that month, suggesting deliberate targeting of Azerbaijan’s most strategic sector.¹⁶

¹⁰ <https://www.kommersant.ru/doc/8229544>

¹¹ <https://therecord.media/azerbaijan-blames-media-cyberattacks-russia-apt29>

¹² <https://ulusal.az/sputnik-isi-uzre-7-nefer-hebs-olundu-din>

¹³ <https://www.pravda.com.ua/eng/news/2025/05/02/7510315/>

¹⁴ <https://ovqat.com/iqtisadiyyat/76528-neftimiz-zhrlnir-qiymt-itirir-qazaxstan-uz-dondrir-rusiya-izi.html>

¹⁵ <https://kyivindependent.com/romania-suspects-russian-sabotage-behind-azeri-oil-contamination-media-reports/>

¹⁶ <https://www.azernews.az/nation/246175.html>

By autumn 2025, the confrontation had expanded beyond political rhetoric to include diplomatic and infrastructural dimensions. On November 14, 2025, the Azerbaijani embassy building in Kyiv sustained heavy damage during Russian missile strikes,¹⁷ underscoring the extent to which regional tensions were increasingly spilling over into third-country settings. Although the strike was not officially directed at Azerbaijan, the incident carried strong symbolic significance and further strained already fragile relations, reinforcing concerns in Baku about the broader security and diplomatic consequences of the escalating conflict.

Despite the deterioration of political ties, Azerbaijan and Russia retained extensive cultural, educational, and societal interconnections. Azerbaijan is the only South Caucasus state where Russian remains a full medium of instruction from primary to tertiary levels, with more than 300 schools and 16,000 university students studying in Russian. Branches of Lomonosov Moscow State University (est. 2008) and Sechenov First Moscow State Medical University (est. 2015) operate in Baku, while over 7,000 Azerbaijani students pursue higher education in Russia. Moreover, approximately 50 Russian-language print outlets and seven news agencies are active in Azerbaijan, underscoring the depth of linguistic and cultural connectivity embedded in society.¹⁸

These extensive networks of interdependence stood in sharp contrast to the political escalation that unfolded between December 2024 and late 2025. The relationship entered what may be described as a period of “strategic estrangement”: economic and societal ties persisted yet trust eroded and diplomatic signaling became increasingly confrontational.

The stalemate began to ease only on October 9, 2025, when President Putin publicly acknowledged Russia’s responsibility for the Flight 8243 disaster, framing it as the result of a “technical malfunction” during counter-drone operations.¹⁹ His apology, followed by a meeting with President Ilham Aliyev in Dushanbe²⁰, temporarily stabilized relations and re-opened high-level dialogue. Putin promised compensation from Russia for the AZAL plane crash.²¹ Nonetheless, the episode left a lasting imprint on bilateral perceptions. For Azerbaijan, it demonstrated the systemic risks posed by Russia’s militarized regional posture and underscored the need for deeper security diversification, diplomatic resilience, and multilateral engagement.

Following the meeting between Presidents Putin and Aliyev in Dushanbe, bilateral relations between Moscow and Baku appeared to have entered a phase of rapid normalization. In public statements, Kremlin spokesperson Dmitry Peskov emphasized the restoration of constructive dialogue with Baku, even as the detention of Russian citizens in Azerbaijan remained a sensitive

¹⁷ <https://euromaidanpress.com/2025/11/21/frontline-report-2025-11-21/>

¹⁸ https://azertag.az/en/xeber/90000_azerbaijani_students_get_education_in_russian-1014488

¹⁹ <https://www.rbc.ru/politics/09/10/2025/68e79f5b9a794705c33e8377>

²⁰ <https://www.rbc.ru/politics/09/10/2025/68e7b5219a79476b15f1b143>

²¹ <https://www.rbc.ru/politics/09/10/2025/68e7e4d19a7947d16c544f01>

backdrop to the negotiations. As part of the confidence-building measures discussed, President Putin pledged that Russia would provide compensation for the crash of the AZAL aircraft – an issue that had strained public perceptions on both sides.

A series of reciprocal gestures further underscored the de-escalatory dynamic. In Baku, the detained head and editor-in-chief of Sputnik Azerbaijan, Yevgeny Belousov and Igor Kartavykh, were transferred from pre-trial detention to house arrest and subsequently permitted to travel to Moscow. Conversely, Azerbaijan's ambassador publicly called for the release of 11 members of the Azerbaijani diaspora held in pre-trial detention in Voronezh, articulating this as an essential humanitarian and diplomatic step. His appeal, reiterated on November 21, signaled Baku's expectation of reciprocal accommodation from the Russian authorities.

Yet the broader picture remains complex. On December 1, 2025, Russian authorities in Yekaterinburg detained the newly appointed leader of the Azerbaijani community, illustrating the ongoing volatility surrounding diaspora-related prosecutions and the political sensitivities that accompany them. This juxtaposition – selective normalization at the leadership level alongside continued law-enforcement pressures – highlights the fragmented and reactive nature of Russia–Azerbaijan relations. The bilateral relationship thus oscillates between strategic pragmatism and episodic coercion, shaped simultaneously by geopolitical necessity and domestic political calculations.

At the December 9, 2025, political consultations in Baku, Azerbaijan and Russia signaled a clear reduction in the tensions that had strained bilateral relations since late 2024.²² Led by Deputy Foreign Ministers Samir Sharifov and Mikhail Galuzin, the discussions reaffirmed that the agreements reached between Presidents Aliyev and Putin in Dushanbe on October 9 now form the basis of renewed political dialogue.

Russia emphasized the urgent release of 11 Russian citizens detained in Baku²³, while Azerbaijan briefed Moscow on the normalization process with Armenia. Both sides reviewed prospects for cooperation in economic, trade, humanitarian, and regional frameworks, including the 3+3 format²⁴ and the Caspian Five²⁵ - indicating a shared intention to restore functional cooperation mechanisms.

Finally, for the second consecutive year, Azerbaijani President Ilham Aliyev did not attend the informal CIS Summit held in St. Petersburg on December 22, 2025.²⁶ While his absence in 2024 was attributed to the crash of an AZAL aircraft, the decision not to participate in the 2025

²² <https://www.mfa.gov.az/az/news/no46625>

²³ <https://tass.com/politics/1986363>

²⁴ <https://www.aa.com.tr/en/politics/russia-suggests-3-3-format-with-turkey-iran-azerbaijan-armenia-georgia-in-caucasus/2384679>

²⁵ <http://en.kremlin.ru/events/president/news/68779>

²⁶ <https://tass.com/politics/2062531>

meeting was officially explained by a demanding work schedule.²⁷ This repeated absence provides grounds to conclude that tensions between the two countries persist and were not resolved in 2025.

Overall, recent consultations indicate a gradual yet discernible de-escalation of bilateral tensions. Russia has resumed more active diplomatic engagement, while Azerbaijan has signaled its willingness to restore cooperation through established diplomatic and economic mechanisms. Although a number of substantive issues remain unresolved, both parties appear to have adopted a pragmatic approach aimed at managed normalization, one that seeks to reconcile political sensitivities with broader economic considerations and regional strategic interests.

II. Literature Review

The economic cooperation and international relations between Azerbaijan and Russia have been extensively studied in the academic literature, and bilateral trade flows have been identified as the main mechanism shaping these relations. Scholars consistently emphasize that trade dynamics reflect not only economic complementarity, but also broader geopolitical and strategic considerations that shape bilateral relations.

Recent empirical studies show that trade flows between Azerbaijan and Russia have been on a steady upward trajectory over a long period of time. According to Yuniszadeh (2025)²⁸, econometric analyses show that this growth is mainly due to the expansion of GDP and the increase in the economically active population in both countries. Importantly, the study shows that the Western sanctions against Russia in 2014 did not have a statistically significant negative impact on bilateral trade, while the sanctions in 2022 had a positive impact on trade flows. This outcome is associated with Russia's strategic reorientation towards alternative markets and deepening economic cooperation with reliable regional partners such as Azerbaijan.

Complementing this quantitative perspective, Huseynova (2023)²⁹ argues that effective regulation of Azerbaijan-Russia trade has a measurable positive impact on the GDP of both Azerbaijan and Russia. From Russia's perspective, Azerbaijan is a strategically attractive location for investment, while for Azerbaijan, the inflow of Russian capital contributes to the diversification of broader foreign direct investment. The author emphasizes that economic cooperation is part of a broader political dialogue, strategic partnership and alliance-based

²⁷ <https://az.trend.az/azerbaijan/politics/4132832.html>

²⁸ Roya V. Yuniszada, Cointegration Analysis of Trade and Economic Cooperation Between Russia and Azerbaijan Under Sanction Conditions, Статистика и экономика, 2025

²⁹ S Huseynova, Cointegration Analysis of Economic Growth Parameters between R and Azerbaijan, Sciences of Europe, 2023

relationship that jointly strengthens regional stability, security and sustainable development in the South Caucasus.

The political-economic dimension of bilateral relations is further developed by Valiyev (2025)³⁰, who argues that Azerbaijan's strategic importance does not preclude a significant deterioration in relations with Russia. Moscow continues to rely on soft power instruments, including the presence of a large Azerbaijani migrant workforce in Russia and its dependence on Russia as a destination for Azerbaijan's non-oil exports. These structural factors limit confrontation and encourage pragmatic economic relations.

Energy relations constitute an important but complex component of Azerbaijan-Russia economic cooperation. Kjaernet (2010)³¹ emphasizes that since the collapse of the Soviet Union, Russia has actively used its power to advance its foreign policy goals. After 2005, Azerbaijan's significant oil revenues and the commissioning of the Baku-Tbilisi-Ceyhan (BTC) and the South Caucasus Pipeline (SCP) significantly reduced Russia's control over Azerbaijan's hydrocarbon export routes. Azerbaijan used this change to present itself as a more independent and influential actor in the South Caucasus. Although Azerbaijan has achieved a certain degree of energy autonomy without direct retaliation from Russia, the literature notes the risks of conflicts of interest, particularly in the context of Caspian energy transportation and potential competition between Azerbaijani gas exports and Russian energy interests. In addition, logistical and financial constraints, such as credit constraints and the high cost of trans-Caspian tanker transportation, have caused delays in projects such as the Trans-Caspian Pipeline and have indirectly maintained Russia's relative influence.

More recent research by Meissner and Leitner (2024)³² illustrates Azerbaijan's economic position between Russia and Europe. Although Azerbaijan's gas exports are mainly directed to European markets, the country attracts Russia less intensively as an export destination than its regional counterparts Armenia and Georgia. Nevertheless, Azerbaijan remains a highly attractive investment environment for Russia. The authors argue that while Azerbaijan derives significant economic benefits from gas sales to Europe, this does not translate into deep political alignment. Instead, relations with Europe are largely transactional and characterized by the exchange of energy resources for financial returns, while economic cooperation with Russia retains a broader strategic and regional dimension.

In general, the literature emphasizes that Azerbaijan-Russia economic cooperation is sustainable, adaptive, and multifaceted, with trade serving as its central pillar. While energy policy creates structural tensions, mutual economic interests, investment opportunities, and geopolitical pragmatism continue and even deepen bilateral economic ties. Rather than undermining

³⁰ Valiyev, A. Russia-Azerbaijan Tensions and their Impact on Transportation Projects in the South Caucasus. Russian Analytical Digest, 330, 7-10. <https://doi.org/10.3929/ethz-c-000784022>

³¹ Heidi Kjærnet, Azerbaijani-Russian Relations and the Economization of Foreign Policy, Routledge, 2010

³² Meissner, H., & Leitner, J. (2024). Economic Cooperation and Russia's Geopolitical Strategy in the South Caucasus. Russian Analytical Digest, 322, 15-20. <https://doi.org/10.3929/ethz-b-000709021>

cooperation, sanctions-related shocks have accelerated Russia’s engagement with Azerbaijan in certain contexts and strengthened the strategic importance of this partnership in the evolving regional and global economic order.

III. Data and Methodology

This study draws on a comprehensive range of official statistical sources, institutional reports, and secondary materials to analyze the evolution of Azerbaijan–Russia economic relations and their structural transformation amid recent political tensions. The primary empirical base consists of data from the State Statistical Committee of the Republic of Azerbaijan (SSC)³³, the State Customs Committee of the Republic of Azerbaijan (SCC)³⁴, and the Central Bank of Azerbaijan (CBA).³⁵

Based on data obtained from the State Statistical Committee (SSC), the analysis draws on several key statistical series and official reports. These include data on the national accounts system and balance of payments, foreign direct investment activity in the economy, and the official statement on the state of foreign trade of the Republic of Azerbaijan. From the SCC, data were obtained from the Statistical Bulletin on Foreign Trade by Countries and Commodities, which provides detailed bilateral trade statistics disaggregated by partner country, commodity group, and customs regime.

The CBA’s Statistical Bulletin and Foreign Sector Statistics served as complementary sources, particularly the subsections on Balance of Payments, Remittances of Individuals, and Foreign Direct Investment in the Economy of Azerbaijan. In addition, the Monetary Policy Review and Financial Stability Report were used to capture macroeconomic dynamics influencing external transactions. Supplementary data were obtained from the Ministry of Economy and Ministry of Finance of the Republic of Azerbaijan, as well as from the Intergovernmental State Council on Economic Cooperation between the Republic of Azerbaijan and the Russian Federation.

The analysis also relies on materials related to cooperation between the Republic of Azerbaijan and the Russian Federation. These materials include official communiqués, meeting minutes, and resolutions issued by bilateral commissions, such as the Joint Intergovernmental Commission on Cooperation in Trade, Economic, Scientific, Technical, and Cultural Fields between Azerbaijan and Tatarstan, as well as the Intergovernmental Commissions on Cooperation in Economic and Humanitarian Fields between Azerbaijan and Dagestan and between Azerbaijan and St. Petersburg.

International databases and analytical publications from the World Bank, the International Organization for Migration (IOM), the International Centre for Migration Policy Development

³³ <https://www.stat.gov.az/>

³⁴ <https://customs.gov.az/az/faydalı/gomruk-statistikası/xarici-ticaretin-veziyyeti-haqqında>

³⁵ <https://cbar.az/page-43/external-sector-statistics>

(ICMPD), and the Stockholm International Peace Research Institute (SIPRI) were incorporated to contextualize Azerbaijan's bilateral indicators within broader regional and global frameworks. Scholarly articles, policy briefs, and verified media sources were also consulted to trace narrative and discourse dynamics relevant to Azerbaijan–Russia relations.

This study employs a mixed-method approach combining quantitative data analysis with qualitative assessment. Quantitative analysis examines trends in bilateral trade, investment, remittances, and tourism between Azerbaijan and Russia, with particular attention to changes over time and developments following the escalation of political tensions in 2024–2025. Comparative statistics are used to assess Russia's relative importance in Azerbaijan's external economic relations. Qualitative analysis draws on official policy documents, institutional statements, and selected Russian- and Azerbaijani-language media sources to contextualize economic trends and assess shifts in bilateral relations. Using multiple data sources allows for cross-checking of findings and helps identify potential deviations associated with recent political developments.

IV. Institutional and Legal Framework

Following the dissolution of the Soviet Union in 1991, the Republic of Azerbaijan re-established its independence and formally established diplomatic relations with the Russian Federation on April 4, 1992.³⁶ Since that time, bilateral cooperation has evolved on a broad legal-institutional foundation, encompassing more than 170 intergovernmental, interstate, and interagency agreements, nearly 50 of which directly pertain to economic relations.³⁷

This framework rests on several key legal instruments that have shaped the evolution of Azerbaijan–Russia relations over time. The Treaty of Friendship, Cooperation, and Mutual Security, signed on July 3, 1997³⁸, laid the post-Soviet foundations for sustained political and security dialogue. This was followed by the Declaration on Friendship and Strategic Partnership³⁹ of July 3, 2008, which formally elevated bilateral relations to a strategic level. Most recently, the Declaration on Allied Cooperation between the Republic of Azerbaijan and the Russian Federation⁴⁰, signed on February 22, 2022, further institutionalized the relationship by committing both parties to immediate consultations in the event of threats to their security interests and by affirming an intention to pursue military-political cooperation consistent with national sovereignty and not directed against third countries.

To operationalize this legal framework, a network of intergovernmental commissions and bilateral working groups has been established to manage sector-specific cooperation. The

³⁶ <https://www.mid.ru/en/maps/az/1708177/>

³⁷ <https://www.mfa.gov.az/en/category/europe/rusiya-federasiyasi>

³⁸ <https://cis-legislation.com/document.fwx?rgn=3994>

³⁹ <http://en.kremlin.ru/events/president/news/651>

⁴⁰ <https://president.az/en/articles/view/55498>

principal coordinating body, the Intergovernmental State Commission on Economic Cooperation between the Republic of Azerbaijan and the Russian Federation⁴¹, functions as the central institutional mechanism for monitoring the implementation of joint economic projects, trade policy alignment, and investment promotion. Its 23rd session, convened on August 22, 2025, in Astrakhan, reviewed progress in energy, transport, and logistics cooperation, and adopted protocols on expanding bilateral trade and regional connectivity. The 12th Russia–Azerbaijan Interregional Forum (Mineralnye Vody, February 2024) and the 23rd meeting of the Intergovernmental Commission on Economic Cooperation (Astrakhan, August 2025) reaffirmed mutual interest in expanding cooperation in transport, logistics, and industry.

To implement this legal framework, the two states have established a dense network of intergovernmental commissions and bilateral working groups tasked with overseeing sector-specific cooperation. The central coordinating body within this architecture is the Intergovernmental State Commission on Economic Cooperation between the Republic of Azerbaijan and the Russian Federation, which serves as the primary institutional mechanism for monitoring joint economic projects, aligning trade policies, and promoting investment. At its 23rd session, held in Astrakhan on August 22, 2025, the Commission reviewed progress in energy, transport, and logistics cooperation and adopted protocols aimed at expanding bilateral trade and enhancing regional connectivity. These priorities were also reaffirmed at the 12th Russia–Azerbaijan Interregional Forum in Mineralnye Vody in February 2024, reflecting continued mutual interest in deepening cooperation in transport, logistics, and industrial development.

At the sub-federal level, Azerbaijan has institutionalized partnerships with a wide range of regions within the Russian Federation. More than 70 Russian constituent entities – including Dagestan, Tatarstan, Moscow, Saint Petersburg, Astrakhan, Saratov, Sverdlovsk, and Chelyabinsk – maintain active cooperative relationships with Azerbaijan. In support of these ties, the Azerbaijani government has concluded 12 regional cooperation agreements with Russian regions, covering areas such as trade, scientific and technical collaboration, and cultural exchange.

Among the various sub-federal intergovernmental mechanisms established between Azerbaijan and Russia, two commissions are particularly noteworthy. The Joint Intergovernmental Commission on Cooperation in Trade, Economic, Scientific-Technical, and Cultural Fields between Azerbaijan and the Republic of Tatarstan held its fourth meeting on April 17, 2024, in Baku, where discussions centered on industrial localization, technological exchange, and joint participation in international exhibitions.⁴² Similarly, the Intergovernmental Commission on Cooperation in Economic and Humanitarian Fields between Azerbaijan and Saint Petersburg

⁴¹ <https://www.economy.gov.az/en/page/beynelxalq-elaqeler/hokumetlerarasi-komissiyalar>

⁴² <https://realnoevremya.com/articles/7875-a-massive-felling-to-expand-a-highway-in-laishevsky-district>

convened its fourth session on April 2, 2024, also in Baku, addressing cooperation in education, culture, and aspects of municipal governance.⁴³ Although an analogous commission between Azerbaijan and the Republic of Dagestan was established to foster cross-border cooperation, no official meeting has yet been held, reflecting limited institutional engagement at that frontier despite historical and ethnic linkages.

In accordance with the Presidential Decree on the Appointment of Trade Representatives in Embassies and Consulates of the Republic of Azerbaijan (January 26, 2017), a Trade Representation of Azerbaijan in the Russian Federation⁴⁴ was inaugurated to enhance bilateral commercial relations and institutional coordination. Functioning as a specialized arm of economic diplomacy, the Representation facilitates access for Azerbaijani exporters to the Russian market, supports the promotion of the “Made in Azerbaijan” brand⁴⁵, and works to attract Russian investment into non-oil sectors of Azerbaijan’s economy. It also contributes to the creation of a favorable business and investment climate, aligning bilateral trade initiatives with Azerbaijan’s national export diversification strategy and the objectives of its Strategic Roadmap for the National Economy (2016–2025).⁴⁶

On January 22, 2024, Azerbaijan and Russia signed a roadmap for the development of key areas of cooperation for the period 2024–2026. The document outlines specific measures to enhance cooperation across a wide range of sectors, including trade and economic relations, investment, transport, industry, agriculture and food security, energy, tourism, humanitarian and social affairs, as well as innovation and information technology.⁴⁷

High-level bilateral visits have played a central role in shaping Azerbaijan–Russia relations. President Ilham Aliyev of Azerbaijan has made 55 visits to the Russian Federation, including three official visits, 51 working visits, and one visit to attend the funeral of Mstislav Rostropovich; his most recent working visit took place on October 24, 2024. In turn, President Vladimir Putin of the Russian Federation has visited Azerbaijan eight times—comprising one official visit, one state visit, five working visits, and one visit to attend the funeral of national leader Heydar Aliyev—with his most recent state visit occurring on August 18–19, 2024. Over the course of these engagements, the two countries have signed a total of 263 bilateral documents.⁴⁸

⁴³ <https://report.az/en/business/baku-hosts-4th-session-of-azerbaijan-saint-petersburg-intergovernmental-commission>

⁴⁴ <https://www.economy.gov.az/en/page/beynelxalq-elaqeler/ticaret-numayendeleri/azerbaycanin-rusiya-federasiyasinda-ticaret-numayendesi>

⁴⁵ <https://azpromo.az/en/page/made-in-azerbaijan>

⁴⁶ <https://azerbaijan.az/en/information/402>

⁴⁷ https://azerbaijan.az/en/information/402https://azertag.az/en/xeber/azerbaijan_russia_sign_roadmap_on_development_of_key_areas_of_cooperation_for_the_years_2024_2026-2892793

⁴⁸ <https://www.mfa.gov.az/en/category/europe/rusiya-federasiyasi>

V. Economic performance: Strategic Continuity and Shifting Dynamics after the Azerbaijan–Russia Tensions

5.1. Energy Cooperation

Despite the escalation of political tensions between Azerbaijan and Russia since December 2024, energy cooperation has remained the most resilient and least politicized dimension of their bilateral relations. While diplomatic discourse has been shaped by mutual mistrust, rhetorical confrontation, and growing divergence over security architectures in the South Caucasus, the energy sector continues to exhibit both structural inertia and functional continuity, largely insulated from geopolitical turbulence. This resilience stems from a dual-structured interdependence that underpins the Azerbaijani Russian energy nexus – anchored simultaneously in long-term institutional frameworks and pragmatic, adaptive linkages shaped by sanctions, logistics, and market contingencies.

The Azerbaijan–Russia energy relationship thus operates through two mutually reinforcing layers: an institutionally formal sphere, grounded in intergovernmental treaties, production-sharing agreements, and cross-holdings in transnational infrastructure such as the Southern Gas Corridor (SGC); and a functionally flexible sphere, which has expanded since 2022 as both countries have adapted to Western sanctions on Russian hydrocarbons (Ibadoglu, G, 2024 A).⁴⁹

Russia's Lukoil remains the cornerstone of this cooperation. Active in Azerbaijan's hydrocarbon sector since 1993, the company retains a strategically diversified portfolio: a 19.99% stake in the Shah Deniz gas field, a 25% share in the Shallow Water Absheron Peninsula (SWAP) project, and a 19.99% interest in the South Caucasus Pipeline (SCP) – an integral segment of the SGC. These holdings secure Lukoil's continuing influence across Azerbaijan's gas export value chain and attest to Russia's enduring integration in Caspian regional energy governance. Notably, even after the diplomatic rift of December 2024 – precipitated by Baku's criticism of Moscow's policies in the South Caucasus – no energy project was suspended, renegotiated, or delayed. The stability of ongoing ventures underscores what Crude Accountability (Ibadoglu, G, 2025 A)⁵⁰ identifies as the “depoliticization of hydrocarbons,” whereby commercial imperatives and long-term contracts shield the energy domain from the volatility of political relations.

Since the European Union's embargo on Russian oil since December 2022⁵¹, Azerbaijan has quietly emerged as a secondary logistical hub within Russia's adaptive energy network.

⁴⁹ Ibadoglu, Gubad (2024 A), Russia's Energy Interests in Azerbaijan: A Retrospective Analysis and Prospective View, SSRN, Rochester, NY, <https://doi.org/10.2139/ssrn.4943332>

⁵⁰ Ibadoglu, Gubad (2025 A), The Politics of Energy and Climate Commitments: Azerbaijan's Post-COP29 Fossil Fuel Strategy. Available at SSRN: <https://ssrn.com/abstract=5261615> or <http://dx.doi.org/10.2139/ssrn.5261615>

⁵¹ https://commission.europa.eu/topics/eu-solidarity-ukraine/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-energy_en

Evidence from Crude Accountability (Ibadoglu, G, 2025 B)⁵² and Centre for Research on Energy and Clean Air (CREA)⁵³ indicates that the country's infrastructure – particularly the Baku-Tbilisi-Ceyhan (BTC) and Baku-Novorossiysk pipelines, along with SOCAR's STAR Refinery in Turkey – has been utilized for re-routing and blending Russian-origin crude, primarily Urals grade, before export to Mediterranean and European markets. These operations, involving reclassification of cargoes and mixed-origin designations, have allowed Russian crude to reach global buyers despite sanctions-related restrictions. While officially unacknowledged, customs data and tanker tracking suggest that such flows, though limited in scale, have contributed to sustaining regional export liquidity and refining throughput.

Parallel to oil re-routing, Azerkontrakt OJSC⁵⁴ and Gazprom have maintained a seasonal gas-swapping mechanism since 2021.⁵⁵ Under this arrangement, Azerbaijan exports gas northward to Russia during low-demand summer months and imports during winter peaks, enabling both countries to optimize supply management without long-term contractual obligations that might trigger compliance risks under the current sanctions regime. This reciprocal flexibility demonstrates how adaptive market mechanisms allow technical cooperation to persist even when diplomatic relations deteriorate.

President Vladimir Putin's visit to Baku in August 2024⁵⁶ reaffirmed the strategic continuity of this partnership. The two sides agreed to expand cooperation in Caspian offshore field development and energy infrastructure, with the potential inclusion of Rosneft, Tatneft, Sibur, and Novatek, signaling Moscow's intent to deepen its presence in Azerbaijan beyond Lukoil's traditional portfolio⁵⁷. Despite subsequent political frictions, the implementation of these agreements has proceeded without formal revision. In addition, Lukoil's \$1.5 billion loan to SOCAR – reported by Reuters (2023)⁵⁸ – to facilitate the processing of Russian Urals crude at the STAR Refinery in Turkey remains active. According to data from Kpler⁵⁹, in September and October 2025, the refinery was processing a significantly higher volume of Russian crude,

⁵² Ibadoglu, Gubad (2025 B), Azerbaijan in the Gray Zone: Shadow Energy Trade and Russian Sanctions Circumvention (June 15, 2025). Available at SSRN: <https://ssrn.com/abstract=5295947> or <http://dx.doi.org/10.2139/ssrn.5295947>

⁵³ <https://energyandcleanair.org/publication/sanctions-hypocrisy-g7-imports-eur-1-8-bn-of-turkish-oil-products-made-from-russian-crude/>

⁵⁴ Since 2021, Azerkontrakt OJSC began to perform one of the functions of SOCAR for the wholesale purchase and sale of natural gas.

⁵⁵ <https://caspianbarrel.org/en/2021/07/azerbaijan-and-russia-establish-cooperation-on-seasonal-exchange-of-natural-gas/>

⁵⁶ <http://en.kremlin.ru/events/president/trips/74892>

⁵⁷ <https://interfax.com/newsroom/top-stories/103989/>

⁵⁸ <https://www.reuters.com/markets/commodities/russias-lukoil-lends-socar-15-bln-deal-supply-its-turkish-star-refinery-sources-2023-10-05/>

⁵⁹ Kpler provides data and analytics on more than 40 commodities, allowing professionals to better understand current and past trends, drive new opportunities, watch competition and feed their own analysis models.

around 210,000 barrels per day⁶⁰, effectively serving as a conduit for Moscow's reorientation toward non-Western refining systems. The persistence of this cooperation, even amid Baku's growing caution toward Russia's regional behavior, illustrates a rational form of energy pragmatism that prioritizes economic benefit, infrastructural stability, and market diversification over symbolic political alignment.

Since December 2024, no recorded disruptions have occurred in Azerbaijani Russian energy relations, with energy cooperation remaining largely insulated from high-level political tensions. As noted in a report by Crude Accountability (2024)⁶¹, Azerbaijan has continued to function as a mediator between sanctioned and non-sanctioned energy systems during this period. This intermediary role enables Baku to maintain economic autonomy, preserve export liquidity, and capture transit rents while avoiding overt violations of Western sanctions regimes. At the same time, it generates a form of asymmetric interdependence: Azerbaijan benefits from capital inflows and diversified trade routes, while Russia retains indirect logistical access to global markets through Azerbaijani-controlled transport and processing infrastructure.

Against this backdrop, the practical steps undertaken following the progress achieved at the Washington meeting on August 8, 2025⁶², as well as the November 2025 agreement between the governments of Azerbaijan and Armenia⁶³, represented a significant advance toward the normalization of bilateral economic relations. The political momentum generated in Washington was swiftly translated into concrete economic action. On December 18, 2025, Azerbaijan transported petroleum products to Armenia by rail for the first time in 34 years, delivering 22 rail tank cars carrying 1,210 tonnes of AI-95 gasoline produced by the State Oil Company of the Republic of Azerbaijan (SOCAR).⁶⁴ The transit of this shipment through Georgian territory underscored the ongoing reconfiguration of regional trade and energy flows and further highlighted Azerbaijan's expanding role as a connective hub in the South Caucasus.⁶⁵

At the same time, the restoration of direct Azerbaijani Armenian ties and the prospect of a durable peace have generated new concerns among other regional actors, particularly Russia, Iran, and Georgia. Georgian officials have expressed apprehension that the proposed TRIPP trade corridor – one of the central economic pillars of the peace framework – could marginalize existing transit routes across Georgian territory and weaken the country's position as a regional

⁶⁰ <https://www.reuters.com/business/energy/turkey-buys-more-non-russian-oil-after-latest-western-sanctions-sources-say-2025-11-02/>

⁶¹ <https://crudeaccountability.org/wp-content/uploads/western-complacency-cop29-azerbaijan-authoritarian-petro-regime-propelled-up-greenwashed-western-investment-web.pdf>

⁶² <https://www.state.gov/releases/office-of-the-spokesperson/2025/08/united-states-publishes-documents-from-historic-armenia-and-azerbaijan-meeting/>

⁶³ <https://oc-media.org/armenia-and-azerbaijan-hold-border-delimitation-talks-in-azerbaijan/>

⁶⁴ <https://www.euronews.com/2025/12/18/azerbaijan-begins-fuel-exports-to-armenia-by-rail-for-first-time-in-decades>

⁶⁵ <https://oilprice.com/Geopolitics/Asia/Azerbaijan-Accuses-Georgia-of-Undermining-a-Fragile-South-Caucasus-Peace.html>

logistics hub. Russia and Iran, by contrast, view the deepening of Azerbaijani Armenian energy cooperation and the broader normalization process as potentially constraining their strategic influence in the South Caucasus. In this sense, the peace process has extended beyond bilateral reconciliation, prompting a broader recalibration of regional political and economic alignments. Despite these shifting dynamics, the Azerbaijani Russian energy partnership has remained functionally stable amid periods of political tension—a pragmatic equilibrium sustained by commercial incentives and the geopolitical imperative of preserving regional connectivity. The absence of disruptions to energy projects since the December 2024 escalation underscores the durability of institutionalized cooperation and highlights the role of energy diplomacy as a stabilizing mechanism in bilateral relations, even as political disagreements with other regional actors intensify.

5.2. Economic cooperation: trade and investment

These developments should be understood as a short-term assessment of longer-standing structural trends. Concerns arising from the restoration of economic relations between Azerbaijan and Armenia, combined with the persistence of unresolved political tensions, may complicate—or potentially delay—the implementation of the Trans-Caspian energy project⁶⁶, which carries significant regional and global importance. In this context, Russia and Iran, both of which occupy hegemonic positions in the Caspian Sea basin, are likely to perceive the project as a strategic challenge to their influence, thereby further constraining prospects for its realization.

Over the past three decades, Russia has remained one of Azerbaijan's key strategic partners, with bilateral relations anchored primarily in trade and investment cooperation. Until 2005—before Azerbaijan began exporting crude oil through its main export corridor—Russia was Baku's largest trading partner.⁶⁷ During the subsequent two decades, although no longer dominant, Russia consistently remained among Azerbaijan's top five trade partners.⁶⁸ By contrast, Russia's role in investment cooperation has been more modest: while Russian firms were present in Azerbaijan's economy, the Russian Federation typically ranked within the top ten rather than the top five sources of foreign direct investment. As of 2025, more than 1,800 Russia-affiliated companies were registered in Azerbaijan, of which approximately 300 were wholly Russian-owned, with the remainder operating as joint ventures. Major Russian corporations and financial institutions—including Gazprom, Lukoil, VTB Bank, AvtoVAZ, and Rosselkhozbank—maintain a commercial presence, and joint industrial projects, such as the assembly of KAMAZ and Ural trucks and GAZelle vehicles, further illustrate the continuity of cooperation, particularly in the non-oil sector (Ibadoglu, G, 2024 B).⁶⁹

⁶⁶ https://www.gem.wiki/Trans-Caspian_Gas_Pipeline

⁶⁷ <https://www.stat.gov.az/source/trade/>

⁶⁸ <https://customs.gov.az/en/faydalı/gomruk-statistikası/xarici-ticaretin-veziyyəti-haqqında>

⁶⁹ Ibadoglu, Gubad (2024 B), Russia's Economic Interests in Azerbaijan: Geopolitics and Geostrategic Views.

Available at SSRN: <https://ssrn.com/abstract=4948489> or <http://dx.doi.org/10.2139/ssrn.4948489>

Trade and investment ties have therefore constituted mutually reinforcing pillars of Azerbaijan–Russia economic engagement. In 2024, bilateral trade turnover reached USD 4.8 billion, placing Russia at the lower end of Azerbaijan’s top three trade partners and accounting for 10.8 percent of the country’s total trade volume. Of this turnover, imports from Russia constituted 75.45 percent, while exports accounted for 24.55 percent, making Russia Azerbaijan’s second-largest import partner and its third-largest export destination.⁷⁰ Russian Deputy Prime Minister Alexei Overchuk underscored this upward trajectory at the 2024 “Russia–Islamic World: KazanForum⁷¹,” noting that bilateral trade expanded to USD 4.17 billion in 2022, representing an annual increase of approximately 24.5 percent, and projecting that trade could reach USD 5 billion in the near term.

However, discrepancies between the trade statistics reported by Rosstat and Azerbaijan’s State Statistical Committee raise questions about the transparency and methodological consistency of bilateral trade accounting. For example, whereas Rosstat reported bilateral turnover of USD 4.170 billion in 2022, Azerbaijan’s official figures recorded only USD 3.710 billion for the same period.⁷² A similar pattern persists in subsequent years: according to Azerbaijan’s customs-based reporting, bilateral trade did not reach USD 5 billion even in 2024, although trends suggest that this threshold may be achieved in 2025, especially given a 5.3 percent year-on-year increase recorded in the first ten months.⁷³ According to the Russian Federation’s Ambassador to Azerbaijan, Mikhail Evdokimov, Moscow and Baku are expected to raise their bilateral trade turnover to \$5 billion this year. Evdokimov made this statement during the international roundtable “Benefits for Business from Participation in Eurasian Economic Integration” held in Baku.⁷⁴

During the 22nd session of the Interparliamentary Commission held in Baku in March 2025, the Chairwoman of the Federation Council, Valentina Matvienko, articulated an ambitious objective⁷⁵: increasing bilateral trade turnover to USD 8 billion. Matvienko emphasized that both countries already possess the institutional architecture and infrastructural capacity required to realize this target, suggesting that the preconditions for accelerated economic cooperation are firmly in place.

At the 12th Russia–Azerbaijan Interregional Forum held in February 2024, Azerbaijan’s Deputy Prime Minister Shahin Mustafayev reported that cumulative Russian investment in Azerbaijan had exceeded USD 8.7 billion, while Azerbaijani investment in the Russian economy surpassed USD 1 billion.⁷⁶ According to the Central Bank of Azerbaijan, direct investment inflows from

⁷⁰ https://customs.gov.az/uploads/foreign/2024/2024_12.pdf?v=1737520142

⁷¹ <https://sitat.info/news/25087/azerbaycanla-rusiya-arasinda-ticaret-dovriyyesi-5-milyard-dollar-a-cata-biler>

⁷² https://customs.gov.az/uploads/foreign/2022/2022_12.pdf?v=1674644815

⁷³ https://customs.gov.az/uploads/foreign/2025/2025_10.pdf?v=1763367090

⁷⁴ <https://tass.ru/ekonomika/25746403>

⁷⁵ <https://caspianpost.com/opinion/baku-and-moscow-set-ambitious-goal-to-reach-8-billion-trade-turnover>

⁷⁶ <https://interfax.com/newsroom/top-stories/99907/>

Russia amounted to USD 617.3 million in 2023, representing 9.3 percent of all foreign direct investment that year⁷⁷. Meanwhile, trade data from the Russian Federal Customs Service⁷⁸ indicate that Azerbaijan accounted for 0.4 percent of Russia's total foreign trade in 2023, while Azerbaijani customs statistics continue to list Russia as one of the country's leading overall trade partners and its principal source of imports after Italy and Turkey.⁷⁹

5.2.1. Trade

Economic relations between Russia and Azerbaijan have developed within a complex institutional framework shaped by early post-Soviet arrangements and subsequent pragmatic adaptations. Although the bilateral free trade framework is often attributed to a September 30, 1992 agreement, the foundations of their trade regime lie primarily in Azerbaijan's accession to the 1994 CIS Agreement on the Establishment of a Free Trade Area⁸⁰, which was further consolidated by the 1999 protocol and complemented by the 2000 Protocol amending earlier commitments. While no standalone bilateral Free Trade Agreement from 1992 exists in publicly available documentation, Russia and Azerbaijan have nonetheless constructed a functional free-trade regime through CIS mechanisms and a series of sector-specific arrangements. Notably, despite Russia's accession to the WTO in 2012⁸¹ and Azerbaijan's continued non-membership, the two states have maintained a flexible trade relationship, even as Moscow has intermittently imposed and lifted unilateral restrictions—such as the 2021 bans on tomato and apple imports from Azerbaijani producers.⁸²

Despite recurrent diplomatic frictions – most recently the heightened tensions of December 2024 – bilateral trade has demonstrated remarkable resilience. The relationship has evolved into a compartmentalized interdependence, in which pragmatic economic incentives frequently outweigh political volatility. This dynamic reflects the persistence of institutional continuity and market pragmatism, enabling both countries to sustain one of the most durable economic partnerships in the post-Soviet space. Statistical trends confirm the steady expansion of bilateral trade, underscoring the robustness of economic ties even amid fluctuating geopolitical conditions. These developments are illustrated in Table 1.

⁷⁷ <https://cbar.az/page-43/external-sector-statistics?language=en>

⁷⁸ <https://eng.customs.gov.ru/>

⁷⁹ <https://customs.gov.az/en/faydalı/gomruk-statistikası/xarici-ticaretin-veziyyəti-haqqında>

⁸⁰ <https://rtais.wto.org/UI/PublicShowRTAIDCard.aspx?rtaid=99>

⁸¹ https://www.wto.org/english/thewto_e/countries_e/russia_e.htm

⁸² <https://www.azernews.az/business/186569.html>

Table 1. Azerbaijan–Russia Trade Turnover and Structure

Year	Total Trade Turnover (USD bn)	of which: Russia (USD bn)	Russia's Share in Total Trade (%)	Total Exports (USD bn)	Exports to Russia (USD bn)	Russia's Share in Exports (%)	Total Imports (USD bn)	Imports from Russia (USD bn)	Russia's Share in Imports (%)
2017	22.6	2.141	9.5	13.8	0.587	4.3	8.78	1.554	17.7
2018	30.9	2.550	8.3	19.4	0.665	3.4	11.4	1.885	16.6
2019	33.3	3.022	9.1	19.6	0.731	3.7	13.6	2.290	16.8
2020	24.4	2.671	10.9	13.7	0.709	5.2	10.7	1.962	18.9
2021	33.9	2.995	8.8	22.2	0.920	4.2	11.7	2.074	17.7
2022	52.6	3.710	7.0	38.1	0.975	2.6	14.5	2.734	18.8
2023	51.1	4.358	8.5	33.9	1.196	3.5	17.3	3.162	18.3
2024	47.6	4.799	10.1	26.5	1.178	4.4	21.1	3.621	17.2
2025	49.4	4.920	9.96	25.0	1.183	4.7	24.3	3.736	15.33

Sources: State Customs Committee (SCC) of Azerbaijan; author's calculations.

Azerbaijan's import structure from the Russian Federation remains heavily weighted toward energy and agricultural staples – notably consumer and interim products, crude and refined petroleum products, natural gas, and grain – all of which are essential to Azerbaijan's industrial production and food-security requirements (Ibadoglu, G, 2024 C).⁸³

According to data from the Stockholm International Peace Research Institute (SIPRI)⁸⁴, despite Russia's role as a leading mediator in the ongoing conflict between the two countries, Baku has continued to procure major conventional weapons from Moscow: over the period 2011–2020, approximately 60 percent of Azerbaijan's major arms imports originated in Russia. These transactions – often classified and encrypted – typically do not appear in public customs-trade accounts.

Mirror-trade comparisons between the State Statistical Committee of Azerbaijan (SSC)⁸⁵ and the Federal Service for State Statistics (Rosstat)⁸⁶ reveal persistent statistical discrepancies that

⁸³ Ibadoglu, Gubad (2024 C) : Russia's Energy Interests in Azerbaijan: A Retrospective Analysis and Prospective View, SSRN, Rochester, NY, <https://doi.org/10.2139/ssrn.4943332>

⁸⁴ https://www.sipri.org/commentary/topical-backgrounder/2021/arms-transfers-conflict-zones-case-nagorno-karabakh?utm_source=chatgpt.com

⁸⁵ <https://www.stat.gov.az/>

⁸⁶ <https://eng.rosstat.gov.ru/>

stem primarily from differences in valuation methods, customs-recording procedures, and reporting timelines (Ibadoglu, G, et al, 2010).⁸⁷ For instance, Rosstat data indicate that Russia's exports to Azerbaijan in 2021 totaled USD 2.323 billion⁸⁸, while SSC figures report corresponding imports at USD 2.074 billion, yielding a discrepancy of USD 249 million between the two datasets. As noted above, Rosstat reported Russia–Azerbaijan trade turnover of USD 4.170 billion in 2022, whereas Azerbaijan's official statistics recorded only USD 3.710 billion for the same period. This again reveals a substantial discrepancy of USD 460 million between the two data sources.

Table 1 shows that in the 2025, bilateral trade reached USD 4.920 billion – equivalent to 9.96 percent of Azerbaijan's total foreign trade – up from USD 3.942 billion (10.01 percent) during the same period of the previous year.⁸⁹ Exports to Russia amounted to USD 1.183 billion (4.7 percent), while imports from Russia totaled USD 3.736 billion (16.33 percent) in 2025.⁹⁰

Trend analysis indicates that in 2025, compared with 2017, Azerbaijan's exports to Russia – particularly non-oil exports – increased more than 2.0 times, while imports from Russia expanded by about 2.4 times. This comparison demonstrates that imports from Russia have grown at a faster pace than exports to Russia. As a result, Azerbaijan's negative trade balance with Russia has widened further.

Crucially, these positive economic indicators persisted despite the political rift that emerged in late 2024, demonstrating that diplomatic frictions did not translate into economic disengagement. On the contrary, bilateral trade continued to expand, underscoring both governments' commitment to a deliberate strategy of economic depoliticization and functional continuity. Overall, the data indicate that Azerbaijan–Russia trade has remained structurally resilient, anchored in mutual dependence on energy supplies, food products, and industrial inputs.

Although hydrocarbons still constitute the backbone of bilateral trade, the non-oil sector has increasingly become a pillar of Azerbaijan's economic diversification agenda and a relatively autonomous domain of cooperation with Russia. Non-oil exports – including agriculture, food processing, metallurgy, and light manufacturing – have not only grown in volume but have also demonstrated a notable degree of insulation from political volatility.

⁸⁷ Ibadoglu, Gubad, Huseynov, Rasim and Bayramov, Galib (2010), 'Mirror Statistics' and Defining Foreign Trade Indicators in the Republic of Azerbaijan. Available at SSRN: <https://ssrn.com/abstract=3103396>

⁸⁸

<https://wits.worldbank.org/CountryProfile/en/Country/RUS/Year/2021/TradeFlow/Export/Partner/AZE/Product/All-Groups#>

⁸⁹ https://customs.gov.az/uploads/foreign/2024/2024_10.pdf?v=1732169210

⁹⁰ https://customs.gov.az/uploads/foreign/2025/2025_10.pdf?v=1763367090

Accordingly, Table 2 presents the dynamics of Azerbaijan's non-oil exports to the Russian Federation, illustrating the scale, composition, and growth trajectory of this segment of bilateral trade.

Table 2. Azerbaijan's Non-Oil Exports to Russia, (USD billion)

Year	Total Exports	Non-Oil Exports	Non-Oil Exports to Russia	Russia's Share in Non-Oil Exports (%)
2017	13.8	1.538	0.553	35.9
2018	19.5	1.689	0.619	36.6
2019	19.6	1.954	0.691	35.4
2020	13.7	1.900	0.691	36.4
2021	22.2	2.700	0.878	32.5
2022	38.1	3.050	0.929	30.4
2023	33.9	3.300	1.114	33.8
2024	26.5	3.400	1.162	34.2
2025	25.0	3.628	1.183	32.6

Sources: State Customs Committee of Azerbaijan; author's calculations.

Table 2 demonstrates the resilience and diversification of Azerbaijan's non-oil exports to Russia from 2017 to 2025. A close examination of the data in Table 2 yields three notable observations:

First, over the past eight years, Russia's share of Azerbaijan's non-oil exports has remained remarkably stable, fluctuating within a narrow band of 30–36 percent. This indicates that approximately one out of every three dollars Azerbaijan earns from non-oil exports originates from the Russian market. Such stability underscores both the entrenched structure of bilateral trade and Russia's sustained consumer demand for Azerbaijani agricultural goods, beverages, and processed food products.

Second, after Western sanctions were imposed on Russia in 2022, Azerbaijan increasingly assumed the role of a secondary supply hub for non-sanctioned goods, partly compensating for reduced European imports into the Russian market. This adjustment in regional trade flows supported the growth of Azerbaijan's non-oil exports, which reached a historical peak of USD 1.183 billion in 2025 – despite a simultaneous decline in total exports driven by lower global

hydrocarbon prices. The data therefore illustrate Azerbaijan's capacity to leverage geopolitical disruptions into economic opportunity.

Third, despite the sharp diplomatic tensions of late 2024, bilateral non-oil trade continued without interruption. No new tariffs, sectoral restrictions, or logistical barriers – such as those imposed during the 2021 tomato and apple bans – were introduced. This continuity reflects a deliberate strategy of selective depoliticization, whereby both governments compartmentalize political disputes and preserve functional economic cooperation. In this sense, non-oil trade operates within a relatively insulated sphere, buffered from broader geopolitical volatility.

Taken together, these patterns demonstrate that non-oil trade has become a structural pillar of Azerbaijan's pragmatic engagement with Russia, sustaining employment and income – particularly in rural regions – while ensuring Russia's uninterrupted access to fruits, vegetables, and other essential goods.

5.2.2. Foreign Direct Investment (FDI)

Russia remains an important – though not dominant – source of foreign direct investment (FDI) in Azerbaijan. While it continues to lag significantly behind major Western investors, particularly the United Kingdom, EU and USA Russian capital maintains a notable presence across several sectors of the Azerbaijani economy.⁹¹ Cumulative Russian direct investment in Azerbaijan has now surpassed USD 4 billion, whereas Azerbaijani investment in the Russian economy has exceeded USD 1 billion⁹², indicating a meaningful, though asymmetrical, pattern of reciprocal economic engagement. Despite this, Russia's overall share in Azerbaijan's FDI inflows remains relatively limited; in 2024, Russian-origin investment accounted for just 4.2 percent of total FDI, underscoring that Azerbaijan's investment landscape remains primarily shaped by Western and multinational actors.

During January–September 2025, foreign direct investment (FDI) from the Russian Federation to Azerbaijan totaled USD 181.208 million, representing an increase of USD 83.316 million, or approximately 1.8 times, compared with the corresponding period of the previous year. Despite this notable growth, Russian investments accounted for a relatively modest 3.8 percent of Azerbaijan's total FDI inflows during the reporting period.

Conversely, Azerbaijan invested USD 38.923 million in the Russian economy over the first nine months of 2025, an increase of USD 11.563 million, or 42.3 percent, year on year. Azerbaijani

⁹¹ <https://cbar.az/page-43/external-sector-statistics>

⁹² <https://www.rbgmedia.ru/post.php?id=20585>

investments constituted 1.9 percent of the total volume of foreign direct investment received by the Russian Federation in the same period.⁹³

Although smaller in absolute terms, this accelerated outward investment reflects the deepening economic interdependence between the two countries and the continued resilience of bilateral ties even in the face of political tensions.

Overall, despite recurrent diplomatic frictions – particularly those arising after the political tensions of December 2024 – Russian investment flows into Azerbaijan have remained relatively stable. This continuity suggests that commercial logic and sectoral cooperation continue to outweigh short-term political turbulence. In this context, business actors appear to operate according to pragmatic economic incentives rather than geopolitical alignments.

Meanwhile, Russian FDI – although secondary to that of Western and Asian investors – continues to play a substantive role in energy cooperation, transport and logistics, and segments of the financial sector. The dynamics of Russian FDI flows to Azerbaijan over the period 2017–2025 are summarized in Table 3.

Table 3. Foreign Direct Investment in the Economy of Azerbaijan (USD million)

Year	Total FDI in Azerbaijan	FDI from the Russian Federation	Share of Russia in Total FDI (%)
2017	5,713.8	179.0	3.1
2018	4,109.1	153.5	3.7
2019	4,275.2	156.8	3.7
2020	4,527.7	158.6	3.5
2021	4,795.2	50.7	1.1
2022	6,275.8	517.9	8.3
2023	6,658.0	617.3	9.3
2024	7,046.2	234.3	3.3
2025 first 9 months	4,736.1	181.2	3.8

Sources: State Statistical Committee of the Republic of Azerbaijan (SSC); author's calculations.

Note: The data are drawn from the Balance of Payments statistics of the Central Bank of Azerbaijan.

The figures represent inflows of foreign direct investment (FDI) into the Azerbaijani economy by country of origin.

⁹³ <https://az.trend.az/business/4130233.html>

As shown in Table 3, Russian FDI in Azerbaijan followed a cyclical but upward trajectory between 2017 and 2023, with a sharp surge during 2022–2023 before contracting in 2024. This trend mirrors broader regional capital reallocation patterns driven by sanctions, currency volatility, and corporate restructuring inside Russia.

The analysis of the data in the table indicates that during the pre-2022 period, Russian participation remained stable but modest. From 2017 to 2020, Russian investment in Azerbaijan remained relatively steady, averaging around USD 160 million annually and accounting for approximately 3–4 percent of total FDI inflows. Most of these investments were concentrated in banking, retail, and small industrial enterprises.

The years 2022–2023 can be characterized as a period of surge driven by sanctions-induced diversification. Following the imposition of Western sanctions, Russian corporations and private investors increasingly redirected capital to “friendly jurisdictions,” including Azerbaijan. In 2022, Russian-origin FDI reached USD 517.9 million, rising further to USD 617.3 million in 2023, accounting for more than 9 percent of Azerbaijan’s total FDI inflows – the highest level on record. Much of this inflow was associated with corporate relocation, logistics, and financial intermediation rather than new energy projects.

The year 2024 can be described as a period of adjustment and partial withdrawal. In 2024, Russian FDI declined to USD 234.3 million (3.3%), reflecting both macroeconomic tightening in Russia and Azerbaijan’s increased scrutiny of cross-border capital flows amid emerging political tensions at the end of the year. Nevertheless, this contraction did not erase earlier gains – cumulative Russian FDI remained structurally embedded in Azerbaijan’s financial and energy ecosystem.

Finally, the interim data characterizing the first nine months of 2025 indicates continued engagement despite political strain. Preliminary figures for the first nine months of 2025 confirm that FDI inflows into Azerbaijan totaled USD 4,736 billion, of which USD 181.2 million originated from Russia. Compared with USD 978 million (2.2%) in the same period of 2024, this represents a doubling in both absolute and relative terms, even as bilateral relations experienced diplomatic tension. This outcome suggests that the political rift has not translated into economic disengagement; on the contrary, Russian investors continue to seek stable, non-sanctioned outlets in Azerbaijan.

Overall, the sectoral distribution of foreign investments in Azerbaijan remains heavily concentrated in extractive industries. Between 2000 and 2017, more than 85 percent of total FDI (USD 66.8 billion out of USD 77.8 billion) was directed toward the oil and gas sector. According to SSC data, in 2015–2024, the mining industry accounted for 73.6 percent (AZN 41.3 billion) of total FDI, with 99 percent of that attributed specifically to hydrocarbons. For the first half of

2025, FDI inflows reached USD 3.2 billion, while outward Azerbaijani investment abroad amounted to USD 1.3 billion, leaving a net FDI deficit of USD 712.1 million. Within this total, the oil and gas sector represented 77.2 percent of all foreign investment, reaffirming its dominance despite ongoing diversification rhetoric.

In February 2022, Azerbaijani Deputy Minister of Economy Niyazi Safarov stated, at an event presenting the export and investment potential of the Udmurt Republic, that up to 80 percent of Russian investment in Azerbaijan was concentrated in the oil sector, with slightly more than 20 percent allocated to non-oil industries. By contrast, Azerbaijan's investment in the Russian Federation was directed almost entirely toward the non-oil sector.⁹⁴

The FDI trends reveal three interrelated dynamics that reinforce the broader argument of economic resilience through compartmentalization. First, the dominance of hydrocarbons limits Azerbaijan's capacity for full diversification, yet simultaneously ensures continuity of foreign capital inflows, including from Russia, irrespective of political circumstances. Second, post-2022 shifts in the geography of Russian capital demonstrate that Azerbaijan has become a safe intermediary node within the sanctions environment – neither a Western-aligned financial center nor an isolated economy. This “middle corridor of capital” mirrors Azerbaijan's role in regional trade logistics and underscores its significance as a geoeconomic bridge. Third, the persistence of Russian FDI growth through nine months – 2025, even amid diplomatic tensions, confirms that both sides continue to treat investment as a depoliticized domain of mutual benefit.

The Azerbaijani government's pragmatic approach – maintaining open channels for compliant investment while avoiding overt political alignment – has helped sustain functional economic interdependence. The evolution of FDI between Azerbaijan and Russia consolidates the broader finding that economic pragmatism consistently overrides political volatility. While official rhetoric has hardened since late 2024, investment and trade flows remain governed by market logic and institutional continuity, reflecting a shared interest in stability and connectivity.

5.3. Personal Remittance Inflows

Labor migration remains a key, yet understudied, dimension of Azerbaijani Russian economic interdependence. Historically, Russia has been one of the primary destinations for Azerbaijani workers. Many Azerbaijanis who participated in large-scale construction projects during the Soviet period or served in the military on Russian territory ultimately settled there. Since the early 1990s, following the collapse of the USSR, Russia has also been the dominant source of remittances to Azerbaijan – reflecting both the scale of migration and the structural integration of the two economies.

⁹⁴https://azertag.az/xeber/rusiya_bu_gunedek_azerbaycan_iqtisadiyyatina_63_milyard_abs_dollari_investisiya_qoyub-2021849

Although the overall macroeconomic impact of remittances on Azerbaijan's GDP is smaller than in other post-Soviet economies such as Tajikistan, Armenia, or Kyrgyzstan, the social and distributive significance of these flows remains broad and substantial. Remittances help stabilize the national currency and play a critical role in supporting household consumption – particularly in rural regions – thereby contributing to social stability. According to World Bank estimates⁹⁵, remittances to Azerbaijan stabilized at around USD 1.1 billion in 2020–2021, accounting for roughly 2.8 percent of GDP, considerably lower than Georgia (10.4 percent) or Armenia (13.1 percent). In contrast, remittances to the Kyrgyz Republic and Tajikistan exceeded 25 percent of GDP in 2021.⁹⁶ According to the recent report of World Bank, in 2024, remittances from labor migrants accounted for 45% of Tajikistan's GDP (the highest share in the world in relative terms), 24% of Kyrgyzstan's GDP, and 14% of Uzbekistan's GDP.⁹⁷ In 2023, over 80% of migration flows from Tajikistan and Kyrgyzstan were directed toward Russia. Migration from Uzbekistan was slightly more diversified, with 57% of Uzbek migrants residing in Russia, 15% in Kazakhstan, and 10% in Ukraine.⁹⁸

These figures indicate that, unlike some Central Asian states, Azerbaijan's economy is not heavily dependent on remittance inflows. However, a significant share of remittances to Azerbaijan – approximately 57 percent in 2021 – originates from the Russian Federation. In this respect, Azerbaijan is comparable to Central Asian economies such as Tajikistan (58 percent) and Uzbekistan (56 percent), where Russia remains the dominant source of migrant remittances. Data from 2022 show an extraordinary increase in remittances to USD 3.62 billion, with Russia accounting for 82 percent of that amount.⁹⁹

Remittance inflows to Azerbaijan previously peaked in 2012, reaching USD 1.99 billion. A notable decline occurred during 2014–2016, driven by the sharp depreciation of the Russian ruble and the devaluation of the Azerbaijani manat. A decade later, in 2022, remittances from Russia reached a new record high, exceeding USD 3.6 billion. According to statistics from the Central Bank of Azerbaijan, the principal countries of origin for remittances in 2021–2022 were the Russian Federation, Turkey, and the United States.¹⁰⁰

Accordingly, Table 4 presents the dynamics of personal remittance inflows to Azerbaijan from Abroad and from Russia.

⁹⁵ <https://www.vsemirnyjbank.org/ru/news/press-release/2021/11/17/remittance-flows-register-robust-7-3-percent-growth-in-2021>

⁹⁶ <https://azerbaijan.iom.int/sites/g/files/tmzbd11581/files/documents/2023-04/ASSESSMENT%20REPORT%20%28AZE%29.pdf>

⁹⁷ <https://blogs.worldbank.org/en/peoplemove/in-2024--remittance-flows-to-low--and-middle-income-countries-are>

⁹⁸ <https://www.gazeta.uz/en/2025/03/14/migrants/>

⁹⁹ <https://cbar.az/page-43/external-sector-statistics?language=en>

¹⁰⁰ <https://cbar.az/page-43/external-sector-statistics?language=en>

Table 4. Personal Remittance Inflows to Azerbaijan from Abroad and from Russia (USD million)

Year	Total Remittance Inflows	From the Russian Federation	Share of Russia in Total (%)
2017	1,020.0	531.3	52.1
2018	1,300.0	778.7	59.9
2019	934.2	564.7	60.4
2020	1,094.0	606.0	55.4
2021	1,133.3	623.0	55.0
2022	3,620.1	2,969.4	82.0
2023	1,654.8	1,047.5	63.3
2024	1,082.8	496.7	45.9
2025 first 9 Months	0,849.9	343.8	40.5

Sources: Central Bank of the Republic of Azerbaijan; World Bank Remittance Database; author's calculations.

The data in Table 4 demonstrate the cyclical but structurally resilient nature of remittance flows from Russia to Azerbaijan. During the years 2017-2025, despite major economic shocks – including currency devaluations, sanctions, and war-related instability – remittance channels have continued to function as a parallel financial artery linking the two societies.

This increase coincided with the outbreak of the Russia–Ukraine war, the imposition of Western sanctions, and a massive capital outflow from Russia, much of which was transferred by Russian citizens and expatriate communities – including Azerbaijani workers – seeking to safeguard savings mainly in 2022.

In the months following the February 2022 invasion of Ukraine, the Russian government temporarily restricted foreign currency transfers.¹⁰¹ These limits were gradually eased by April–May 2022, triggering a surge in outbound remittances.

¹⁰¹ <https://www.skadden.com/insights/publications/2022/03/russia-restricts-transactions-with-sanctioning>

According to Russian payment system data (e.g., VTB, Unistream)¹⁰², outward personal transfers from Russia to neighboring states increased four- to tenfold during mid-2022. Azerbaijan was among the top destinations, alongside Georgia, Armenia, and Central Asian republics.

The Central Bank of Azerbaijan recorded that transfers from Russia rose fivefold year-on-year, from USD 261 million in the first half of 2021 to USD 1.283 billion in the first half of 2022.¹⁰³ Following the 2022 peak, remittance inflows normalized but remained substantial: USD 1.65 billion in 2023 and USD 1.08 billion in 2024, with Russia's share declining to 45.9%.

Preliminary data for the first nine months of 2025 indicate total remittances of USD 849.9 million, of which USD 343.8 million originated from Russia – down from USD 410.7 million or 16.3 % during the same period of 2024.¹⁰⁴

This reduction reflects both sanctions-related transaction constraints and slower wage growth in Russia's war economy. Nevertheless, transfers remain robust relative to pre-2022 levels, underscoring the durability of informal financial ties between the two populations.

Unofficial estimates suggest that up to two million able-bodied Azerbaijani citizens currently live and work in the Russian Federation. They transfer part of their earnings to their families and relatives in Azerbaijan through three main channels: formal banking systems, informal cash transfers, and trade-based settlement mechanisms. Each method reflects varying degrees of regulation, monitoring, and integration into official financial statistics. Official statistics capture only part of the remittance reality.

In addition to formal bank-based transfers, three major informal channels sustain monetary flows from Russia to Azerbaijan:

Official Bank Transfers. The first and most transparent remittance channel consists of bank-based money transfer systems, including international money transfer operators and electronic payment platforms. Transfers routed through these formal mechanisms are recorded by the Central Bank of Azerbaijan and Russian financial institutions based on officially reported data. However, large-value transactions are rarely conducted through these channels. According to Russian statistics, the average value of an individual transfer from Russia is approximately USD 617, indicating that official remittance flows primarily consist of small, routine household transactions. This remains the dominant formal method of transferring funds, reflected directly in banking-sector statistics.

It should be noted that the Central Bank of Russia (CBR) imposed restrictive measures on international money transfers shortly after Russia's full-scale invasion of Ukraine and the

¹⁰² <https://www.cbr.ru/eng/psystem/>

¹⁰³ <https://cbar.az/page-43/external-sector-statistics?language=en>

¹⁰⁴ <https://cbar.az/page-43/external-sector-statistics?language=en>

introduction of international sanctions in March 2022. Initially, monthly transfers exceeding USD 5,000 were prohibited, though these restrictions were subsequently eased. Under current regulations, Russian citizens and citizens of “friendly” countries may transfer up to USD 1 million abroad, while transfers through money transfer systems are capped at USD 10,000 per month (or its equivalent in other currencies). These measures were formally justified as necessary to prevent excessive foreign-currency outflows and to mitigate downward pressure on the ruble.

As of December 8, 2025, the CBR has lifted foreign-currency transfer restrictions for Russian citizens and non-residents from “friendly” countries. Nonetheless, certain controls will remain in force until June 7, 2026. Non-residents from “unfriendly” countries working in Russia may remit abroad only up to the value of their salaries, while unemployed individuals and legal entities remain prohibited from transferring funds abroad. There is no doubt that these CBR-imposed restrictions on cross-border payments adversely affected the level of remittances sent by Azerbaijani migrant workers during 2023–2025.

Travelers’ Cash Transfers. The second channel consists of physical cash remittances by individuals traveling from Russia to Azerbaijan. When migrant workers return home or when acquaintances travel between the two countries, they typically hand-carry cash amounts ranging from USD 1,000 to USD 20,000. Because these transactions bypass the formal financial sector and are not recorded in remittance databases, the exact volume is difficult to quantify. Nonetheless, expert assessments suggest that the aggregate value of such cash transfers may approximate that of formal banking transfers. This informal circulation of cash contributes to the expansion of the shadow economy and reduces the transparency of household income flows.

Exchange-Based Compensation. The third and least formal mechanism involves exchange-based settlement arrangements. Many Azerbaijani entrepreneurs residing in Russia operate in agricultural production, forestry goods, small-scale commerce, and service activities, and they remit part of their income to Azerbaijan through these informal channels.

Such transactions typically function through parallel settlement networks. An Azerbaijani entrepreneur in Russia transfers the amount intended for remittance—usually in rubles—to a trusted Azerbaijani intermediary. That intermediary then provides the equivalent amount in manats to the designated recipient in Azerbaijan. In this system, no actual movement of money occurs across borders; the ruble-denominated payment in Russia is matched domestically by a manat-denominated payout in Azerbaijan. Thus, the transaction is effectively settled through internal offsetting rather than cross-border financial flows.

Currency Settlements. In the context of sanctions, some transfers are processed through parallel import schemes or intermediary accounts in neighboring states. These mechanisms blur the line

between trade financing and personal remittances. Together, these unofficial channels mean that the true scale of remittance inflows may exceed official figures by a considerable margin.

Politically, the continued rise in remittances during periods of bilateral tension (late 2024–mid-2025) demonstrates that grassroots economic linkages remain largely insulated from high-level diplomacy. Migration-based financial ties persist even when official relations experience friction, suggesting that societal interdependence functions as an informal stabilizer of bilateral relations. The evolution of remittance dynamics highlights three key analytical insights:

Economic Asymmetry with Social Embeddedness: While Azerbaijan’s GDP is not structurally dependent on remittances, the livelihoods of hundreds of thousands of households are. This duality creates a bottom-up dimension of interdependence that extends beyond formal state policy.

Sustained Continuity under Sanctions: As with trade and investment, remittance flows illustrate the compartmentalization of Azerbaijan–Russia relations, whereby economic channels remain operational even amid heightened political or security tensions.

Remittance-Based Informal Integration: Russia’s labor market effectively functions as a social extension of Azerbaijan’s economy. Migrant earnings and remittances sustain financial connectivity and people-to-people ties at the sub-state level.

Remittance flows from Russia to Azerbaijan therefore represent a vital but underexplored dimension of bilateral interdependence. Even under sanctions and political strain, these transfers persist as micro-level evidence of macro-level economic resilience.

In essence, while state diplomacy oscillates between competition and cooperation, the economic lives of ordinary citizens continue to bind the two countries together. This enduring connectivity underscores a core feature of Azerbaijan–Russia relations in the post-2022 geopolitical landscape: economic pragmatism and social interdependence persist where political alignment falters.

The diversity and persistence of remittance channels further underline the depth of socioeconomic linkages between Azerbaijani labor migrants in Russia and households in Azerbaijan. Migrant earnings constitute a major source of income, particularly for low-income and rural families. Consequently, remittances function as an important social stabilizer, providing liquidity to local economies, facilitating consumption smoothing, and supporting micro-entrepreneurship.

5.4. Tourism

Tourism has become a significant and resilient component of Azerbaijan–Russia socio-economic interaction, functioning both as an economic driver and a mechanism of soft connectivity that endures despite episodic political tensions. Beyond well-established cooperation in trade, energy, and transport, tourist exchanges reflect deeper people-to-people linkages, cultural familiarity, and the shared mobility patterns inherited from the post-Soviet space. These dynamics illuminate how societal-level interactions can remain robust even where geopolitical relations fluctuate.

The Russian Federation consistently ranks as Azerbaijan’s largest single source of foreign visitors, typically accounting for between one-quarter and one-third of all international arrivals. This makes tourism not only a key dimension of bilateral engagement but also a strategically important sector for Azerbaijan’s broader efforts to diversify its economy in the post-oil era. Russian tourist inflows contribute to the expansion of the service economy, support regional development, and strengthen transnational social ties that are less vulnerable to diplomatic turbulence.

Despite the strategic relevance of this sector, bilateral tourism patterns have been affected by infrastructural constraints and broader regional developments. Notably, the closure of land and sea borders between Azerbaijan and Russia in March 2020 halted road and rail access, leaving air travel as the sole mode of entry from the northern neighbor. This shift reduced low-cost mobility options but did not diminish overall demand. According to the State Statistics Committee, 74.1% of the 840,618 Russian visitors in 2019 – roughly 622,898 people – had entered via land. Yet, paradoxically, Russian arrivals grew despite the closure of land borders.

In 2019, Azerbaijan hosted 840,618 visitors from Russia. By 2024, this figure increased by 67.4% to approximately 1.407 million, even as total tourist arrivals declined by 8.3% relative to 2019¹⁰⁵. This divergence suggests that a substantial share of Russian entrants are long-term labor migrants or circular visitors who continue traveling regardless of transport disruptions, thereby maintaining stable inflows even when global or bilateral conditions deteriorate. Table 5 illustrates the cyclical but resilient pattern of Azerbaijan’s inbound tourism and the share attributable to Russian citizens between 2017 and 2024.

Table 5. Inbound Tourism to Azerbaijan and Visitors from the Russian Federation (thousands)

Year	Total Tourists	Tourists from Russia	Share (%)
2017	2 696.7	854.3	31.7
2018	2 849.6	880.0	30.9

¹⁰⁵ https://www.stat.gov.az/menu/6/statistical_yearbooks/source/tourism_2025.pdf

Year	Total Tourists	Tourists from Russia	Share (%)
2019	3 170.3	932.9	29.4
2020	795.7	225.2	28.3
2021	791.7	258.3	32.6
2022	1 602.3	446.7	27.9
2023	2 085.8	624.7	29.9
2024	2 626.7	730.9	27.8
2025	2 570.2	614.2	23.9

Source: State Border Service of the Republic of Azerbaijan; author's calculations

The data reveal several key trends. First, tourism flows are highly sensitive to global shocks – particularly the COVID-19 pandemic, which reduced total arrivals by more than two-thirds in 2020. Second, recovery has been rapid among Russian visitors, who numbered up to 731,000, by 2024, approaching pre-pandemic levels. Third, the relative stability of Russian arrivals highlights the endurance of societal-level interactions even as high-level political relations come under strain.

According to the State Border Service, 2,570.2 million foreign citizens entered Azerbaijan in the 2025, representing a 2.2% year-on-year decline.¹⁰⁶ Among these visitors, 23.9% were from Russia, 17.7 from Turkey, 8.1% from Iran, and 6.5 % from India. Although Azerbaijan's land and sea borders have been closed since March 2020, the top three countries remain its neighbors. Opening the borders would allow for greater exploitation of tourism potential, particularly with Russia and Iran.

Although Azerbaijan's land and sea borders have been closed since March 2020, the top three are still neighboring countries. Open borders would allow for greater exploitation of the tourism potential, especially between Azerbaijan and Russia and Azerbaijan and Iran (Ibadoglu, G, 2025 C).¹⁰⁷

Despite heightened political frictions between Baku and Moscow since late 2024, Russian citizens continue to constitute the single largest group of foreign visitors. When compared regionally, Azerbaijan's inbound tourism (2 570.2 million visitors in the 2025) is like Armenia but significantly below Georgia's 6.1 million arrivals. This contrast underscores both Azerbaijan's considerable untapped tourism potential and the structural importance of the Russian market in sustaining current levels of demand.

¹⁰⁶ <https://www.stat.gov.az/news/index.php?lang=az&id=6531>

¹⁰⁷ Ibadoglu, Gubad (2025 C), Tourism and the Border-Closure Effect in Azerbaijan: Post-Pandemic Recovery, Structural Constraints, and Regional Competitiveness, Available at SSRN: <https://ssrn.com/abstract=5700023> or <http://dx.doi.org/10.2139/ssrn.5700023>

The sustained flow of Russian visitors to Azerbaijan during periods of diplomatic cooling, pandemic-era disruptions, and economic sanctions illustrates the extent to which tourism has become a “depolitized” sphere of bilateral engagement. Unlike energy or security cooperation – sectors often shaped by geopolitical considerations – tourism is embedded within long-standing social networks, labor mobility patterns, and cultural familiarity. These attributes shield it from short-term political volatility and reinforce broader societal interdependence.

At a conceptual level, the Azerbaijani Russian tourism relationship embodies a distinct paradox: formal interstate relations may fluctuate in response to geopolitical realignments, yet everyday mobility, interpersonal ties, and cultural exchange persist as stabilizing forces in an otherwise uncertain environment. These dynamics make tourism a uniquely durable connector and a potential tool of soft power.

For Azerbaijan, enhancing this sector through improved marketing, streamlined visa procedures, and deeper regional integration offers dual benefits. Economically, it contributes to diversification beyond hydrocarbons; diplomatically, it strengthens the soft infrastructure of societal connectivity across the post-Soviet space. In this sense, tourism both reflects and reinforces the long-term resilience of Azerbaijan-Russia relations, anchoring bilateral engagement in patterns of everyday mobility that persist regardless of political shifts.

5.5. Logistics

Amid escalating political tensions between Azerbaijan and Russia, which has been going on for a year, bilateral cooperation in the fields of logistics and transportation has become increasingly uneven and fragmented. On the one hand, dialogue between the two governments on prospective transport and infrastructure projects has formally continued, accompanied by negotiations and the signing of official documents. On the other hand, Russia has simultaneously begun redirecting north-south cargo flows through alternative routes that bypass Azerbaijani territory, revealing a growing gap between diplomatic engagement and operational practice.

According to agreements reached during negotiations held in Makhachkala on 6–7 November 2025 – attended by senior government officials and representatives of major Russian and Iranian transport and logistics companies – Iran and Russia agreed to establish a joint maritime shipping consortium¹⁰⁸. This initiative is designed to operationalize the central maritime branch of the North–South International Transport Corridor (INSTC) by expanding freight capacity across the Caspian Sea. The INSTC, with an estimated length of approximately 7,200 kilometers, connects Russian ports and inland industrial centers with Iran, the Persian Gulf, and onward to the Indian Ocean, serving as a critical axis of Eurasian connectivity.¹⁰⁹

¹⁰⁸ <https://en.pmo.ir/en/news/66550/Iran-and-Russia-to-Establish-Joint-Maritime-Consortium-in-Makhachkala>

¹⁰⁹ <https://valdaiclub.com/a/highlights/international-north-south-transport-corridor/>

This development should be interpreted within the broader context of Russia's evolving logistics strategy following the deterioration of political relations with Azerbaijan in late 2024 and throughout 2025. Amid sustained diplomatic frictions, Moscow has increasingly prioritized transit routes that reduce its dependence on Azerbaijani territory. In this regard, Russia has accelerated the development of both the eastern branch of the INSTC (via Kazakhstan and Turkmenistan) and the central maritime route across the Caspian Sea, signaling a strategic reorientation away from the traditional western corridor that passes through Azerbaijan.¹¹⁰

By mid-November 2025, Russia had begun systematically redirecting significant volumes of cargo to Iran via the eastern route of the corridor, effectively circumventing Azerbaijan. The Eastern Corridor was officially launched in 2022 with the first train establishing a direct link between Russia and Iran, crossing Kazakhstan and Turkmenistan. In 2023– 2024, the corridor delivered approximately 1.8 to 2 million tonnes of goods to Iran, nearly tripling the amount from the previous year. In 2023, Russia, Turkmenistan, and Kazakhstan established a new joint venture for operations on this corridor, granting transit tariff discounts of up to 20-40 percent, depending on the type of goods and route sections. The route also connects to the Trans-Caspian railways of the Tsarist era, providing access to Uzbekistan and Tajikistan.¹¹¹

Such results indicate that this shift is not merely tactical or short-term but constitutes a structural recalibration of Eurasian transport logistics, with long-term consequences for Azerbaijan's role as a transit hub and its strategic leverage within regional connectivity frameworks.

Despite this, parallel diplomatic and technical efforts have sought to preserve Azerbaijan's relevance within the INSTC architecture. On 25–26 November 2025, during the 83rd meeting of the Commonwealth of Independent States (CIS) Transport Council in Baku, the heads of the railway administrations of Iran, Russia, and Azerbaijan signed a memorandum of understanding aimed at strengthening long-term cooperation and revitalizing the western route of the North–South Corridor. The agreement emphasizes the establishment of a stable and predictable pricing regime, the introduction of competitive through-rates for cargo transportation, and the expansion of integrated logistical services along the western corridor.¹¹²

Within this framework, Azerbaijan has announced plans to increase freight turnover along the INSTC to 5 million tons annually by 2028, defining this target as a first-stage objective, with longer-term ambitions to expand capacity to 15 million tons per year.¹¹³ In addition, Azerbaijan and Russia have agreed to modernize cross-border rail freight operations through the

¹¹⁰ <https://www.orfonline.org/expert-speak/instituted-eastern-corridor-india-s-gateway-to-central-asia>

¹¹¹ <https://www.orfonline.org/expert-speak/instituted-eastern-corridor-india-s-gateway-to-central-asia>

¹¹² <https://www.tehrantimes.com/news/520951/Iran-Russia-Azerbaijan-expand-railway-co-op-in-North-South>

¹¹³ <https://caspiannews.com/news-detail/azerbaijan-targets-5-million-tons-of-freight-annually-on-north-south-transport-corridor-2025-11-28-0/>

implementation of an electronic data exchange system, aimed at improving efficiency, transparency, and operational safety across their interconnected transport networks.¹¹⁴

Simultaneously, Russia and Iran continue to advance cooperation on large-scale energy infrastructure projects that are closely intertwined with regional transit arrangements. In early 2025, Moscow and Tehran reached a preliminary agreement on routing a new gas pipeline from Russia to Iran, with transit envisaged through Azerbaijani territory. Initially, the pipeline would have a capacity of 2 billion cubic meters per year, with a provisional understanding to increase capacity to 55 billion cubic meters annually, as stated by Russian Energy Minister Sergei Tsivilev.¹¹⁵ However, against the backdrop of ongoing political tensions, the implementation of such transit-dependent projects remains uncertain and increasingly contingent on the broader trajectory of Russia–Azerbaijan relations.

Taken together, these developments reveal a clear dual-track dynamic in regional transport politics. Russia’s systematic diversification of southbound transit routes has expanded its strategic maneuverability and reduced reliance on any single transit state. While Moscow increasingly seeks to limit political exposure to Azerbaijan by developing alternative corridors, pragmatic economic interests continue to underpin selective, functional cooperation within multilateral frameworks such as the International North–South Transport Corridor (INSTC).

This tension between strategic bypass and operational engagement highlights the fragile and highly contingent character of Azerbaijan’s position within Eurasian transport and energy networks under conditions of shifting geopolitical alignments.

In this context, the lifting of the transport blockade between Azerbaijan and Armenia¹¹⁶ -- together with the potential opening of the TRIPP route¹¹⁷ -- would likely diminish Russian and Iranian strategic incentives in the South Caucasus. Paradoxically, such developments could accelerate Moscow’s and Tehran’s investment in alternative transit configurations that bypass Azerbaijan altogether, thereby intensifying efforts to reorient regional logistics away from Azerbaijani-controlled routes rather than enhancing Azerbaijan’s long-term transit significance.

5.6. Finance

¹¹⁴ <https://interfax.com/newsroom/top-stories/115010/>

¹¹⁵ <https://interfax.com/newsroom/top-stories/111186/>

¹¹⁶ <https://www.osw.waw.pl/en/publikacje/analyses/2025-10-22/azerbaijan-lifts-transit-blockade-to-armenia-a-step-towards-lasting>

¹¹⁷ <https://eurasianet.org/armenian-pm-says-tripp-construction-to-start-in-2026>

The State Oil Fund of the Republic of Azerbaijan (SOFAZ)¹¹⁸, established in 2000 as a sovereign wealth fund to manage hydrocarbon revenues, initiated formal investment cooperation with the Russian Federation in 2012. SOFAZ’s entry into the Russian market began with a major real estate acquisition: the purchase and management of the “Gallery Actor” business and retail center, located at Tverskaya 16 in Moscow’s Central Administrative District. The acquisition, valued at USD 133 million, was completed in December 2012 through SOFAZ’s wholly owned subsidiary, JSC Tverskaya 16, which continues to manage the property.¹¹⁹

The same year marked SOFAZ’s strategic diversification into new asset classes, including global public equities, gold, and international real estate. As part of its broader currency diversification strategy within the fixed-income portfolio, SOFAZ added exposure to the Australian Dollar, Turkish Lira, and the Russian Ruble (RUB). The Ruble-denominated share of SOFAZ’s investment portfolio increased modestly over time – 0.31 percent in 2012, 1.1 percent in 2017, 0.8 percent in 2019, and 0.7 percent in 2021-- reflecting a cautious but sustained engagement with Russian financial instruments.¹²⁰

In 2013, SOFAZ deepened its investment presence in Russia by allocating USD 500 million into VTB Bank, one of the country’s largest state-controlled financial institutions. SOFAZ maintains this equity stake despite geopolitical and sanctions-related risks. Notably, VTB delivered exceptionally high returns to SOFAZ in 2019: 39.01 percent in local currency terms (55.47 percent in USD terms), underscoring the financial attractiveness of the investment before the onset of recent geopolitical shocks.¹²¹

Beyond its direct investments, SOFAZ operates through a network of subsidiaries registered in multiple jurisdictions – including Russia, Jersey, the United Kingdom, France, and Luxembourg – illustrating the institutional globalization of Azerbaijan’s sovereign wealth management infrastructure.

Additionally, under the State Program to support education abroad (2008–2017), SOFAZ financed the studies of 3,454 Azerbaijani students, allocating a total of AZN 205.4 million during the program period. While the majority were placed in the United Kingdom (29.1 percent), Türkiye (22.1 percent), Germany (12.4 percent), Canada (7.2 percent), and the Netherlands (5.2 percent), a smaller share – 3.8 percent – pursued studies in the Russian Federation.¹²²

SOFAZ’s principal investments include a three percent equity stake in VTB Bank, acquired in 2013 as part of SOFAZ’s broader portfolio diversification strategy. At the time of purchase, VTB was among Russia’s most systemically important financial institutions, with assets valued at

¹¹⁸ <https://www.oilfund.az/en>

¹¹⁹ <https://www.oilfund.az/en/investments/real-estate>

¹²⁰ <https://www.oilfund.az/en/report-and-statistics/report-archive>

¹²¹ <https://www.oilfund.az/en/report-and-statistics/report-archive>

¹²² <https://www.oilfund.az/en/projects/7>

approximately 26 trillion rubles. The Fund also owns the “Gallery Actor” mixed-use commercial and office center in central Moscow, purchased in 2012 for USD 133 million. Together with additional financial placements, SOFAZ’s total investments in the Russian market have exceeded USD 903 million, including USD 540 million in VTB Bank shares – equivalent to roughly 1.4 percent of the Fund’s total portfolio at the time of reporting.

SOFAZ has received 3.9 billion rubles in dividends from its VTB investment since 2013. However, the sharp deterioration of Russia’s financial environment, combined with expanding sanctions and heightened geopolitical risk, has placed these assets in a vulnerable position. Azerbaijani analysts warn that the Fund now faces heightened exposure to exchange-rate volatility, asset devaluation, and potential liquidity constraints, raising the prospect of increased extra-budgetary expenditures to offset losses. Some experts argue that SOFAZ and other Azerbaijani state entities should consider a timely divestment from Russian markets to preempt what they describe as a possible “economic catastrophe” and to safeguard the Fund’s long-term foreign-exchange income and fiscal stability (Ibadoglu, G, 2025 D).¹²³

Table 6 presents the dynamics and structure of SOFAZ’s financial assets in rubles to the Russian Federation over the period 2012-2023.

Table 6. SOFAZ's Financial Assets in the Russian Federation, 2012–2023 (thousand AZN)

Year	Cash & Cash Equivalents	Financial Assets at FVTPL	Other Financial Assets	Total Financial Assets
2012	78,815	–	–	78,815
2013	79,593	471,365	–	550,958
2014	4,714	340,018	–	344,732
2015	8,345	654,832	–	663,177
2016	4,492	816,875	–	821,367
2017	3,352	532,002	681	536,035
2018	2,543	316,871	1,379	320,793
2019	398	480,631	8,917	489,946
2020	5,958	334,141	1,519	341,618
2021	118	421,548	412	422,078
2022	11	143,926	468	171,609
2023	2	162,734	631	150,775

¹²³ Ibadoglu, Gubad (2025 D), A Financial Review of the State Oil Fund of Azerbaijan under Shifting Global Dynamics. Available at SSRN: <https://ssrn.com/abstract=5134264> or <http://dx.doi.org/10.2139/ssrn.5134264>

Source: SOFAZ Annual Reports¹²⁴

Data for 2024 are not reflected in the table because the ruble was excluded from the breakdown of financial assets by currency in SOFAZ's annual report and included in a different category. The data from Table 6 captures three key categories of SOFAZ's Russian-linked holdings: (1) cash and cash equivalents, (2) financial assets measured at fair value through profit or loss, and (3) other financial assets.

Several important trends emerge from the table: As can be seen from the table, SOFAZ's presence in Russia began in 2012 with modest liquidity positions. The substantial increase in 2013 – driven largely by the USD 500 million investment in VTB Bank – marks the Fund's strategic entry into Russia's financial sector. From 2014 onwards, fair-value assets expanded sharply, reflecting both portfolio performance and reinvestment decisions. The 2014–2016 period coincides with heightened ruble volatility and sanctions against Russia, which partially explains fluctuations in the valuation of SOFAZ's holdings. Between 2018 and 2021, SOFAZ maintained a diversified footprint in Russian markets, with fair-value assets ranging between 316 million and 421 million AZN. Despite geopolitical uncertainty, the Fund preserved its equity stake in VTB Bank, which delivered exceptionally high returns in 2019. Following Russia's full-scale invasion of Ukraine and the resulting intensification of sanctions, SOFAZ's financial assets in Russia contracted significantly – declining from 422 million AZN in 2021 to 171 million AZN in 2022. By 2023, total assets had fallen further to approximately 151 million AZN, indicating reassessments of risk exposure, valuation losses, or reduced reinvestment.

Thus, SOFAZ's investment trajectory in Russia demonstrates a clear pattern: initial expansion followed by cautious consolidation and eventual contraction in response to escalating geopolitical and financial risks. While the Fund has retained certain strategic assets – most notably its long-standing equity position in VTB Bank – the overall trend reflects a deliberate reduction of exposure to the Russian market and devaluation of the ruble and the depreciation of stocks.

VI. Results

To synthesize the findings derived from the detailed analyses and assessments, Figure 1 and Table 7 present the dynamics of key indicators shaping Azerbaijan's economic relations with Russia over the period 2017–2025.

¹²⁴ <https://www.oilfund.az/en/report-and-statistics/report-archive>

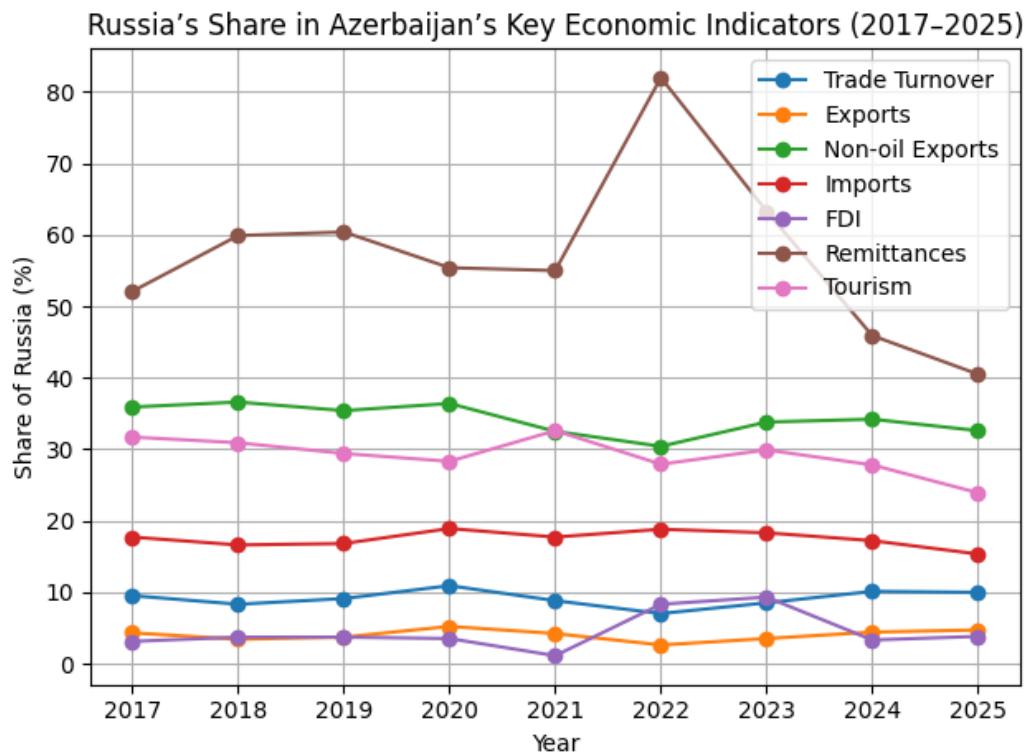


Figure 1. Russia's share in Azerbaijan's key economic indicators (%)—including trade, non-oil exports, FDI, remittances, and tourism.

Table 7. Russia's Share in Azerbaijan's Economic Indicators, 2017–2025

Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average (2017–2025)
Trade Turnover	9.5	8.3	9.1	10.9	8.8	7.0	8.5	10.1	10.0	9.1
Exports	4.3	3.4	3.7	5.2	4.2	2.6	3.5	4.4	4.7	4.0
Non-oil Exports	35.9	36.6	35.4	36.4	32.5	30.4	33.8	34.2	32.6	34.2
Imports	17.7	16.6	16.8	18.9	17.7	18.8	18.3	17.2	15.3	17.5
FDI	3.1	3.7	3.7	3.5	1.1	8.3	9.3	3.3	3.8	4.4
Remittances	52.1	59.9	60.4	55.4	55.0	82.0	63.3	45.9	40.5	57.2
Tourism	31.7	30.9	29.4	28.3	32.6	27.9	29.9	27.8	23.9	29.2

Sources: State Statistical Committee of the Republic of Azerbaijan (SSC); author's calculations.

Figure 1 depicts the trajectory of Russia's share across several of Azerbaijan's major economic indicators—trade turnover, non-oil exports, imports, FDI, remittances, and tourism – over the period 2017–2025. Taken together, these trends highlight both the persistence of structural interdependence and the differentiated sensitivity of specific economic channels to geopolitical shocks, particularly the post-2022 sanctions regime and episodic political tensions between Baku and Moscow.

Russia consistently occupies a leading position in Azerbaijan's bilateral trade structure. Although total trade turnover exhibits moderate year-to-year variation, a pronounced surge occurred in 2022, corresponding to Russia's wartime economic reorientation and heightened reliance on regional partners amid sanctions. Non-oil exports to Russia remained relatively stable throughout the period, reflecting deeply entrenched supply-chain linkages in foodstuffs, agriculture, and light manufacturing. Despite geopolitical disruptions, the limited volatility in Russia's share of Azerbaijan's non-oil exports underscores the durability of sectoral integration.

Imports from Russia represent one of the most stable pillars of bilateral economic relations. Across the observation period, Russia consistently supplied approximately one-sixth of Azerbaijan's total imports – primarily grain, wood products, metals, chemicals, and machinery components. This stability indicates ongoing dependence on Russian-origin intermediate goods, even as Azerbaijan formally pursues diversification toward European and regional markets. On average, Russia accounted for approximately nine percent of Azerbaijan's total trade turnover, maintaining a steady share despite shifts toward Türkiye and the EU.

While Russia absorbs only 4 percent of Azerbaijan's overall exports, it plays a disproportionately important role in non-oil exports, where its average share exceeds 34.2 percent. This highlights Russia's significance as an outlet for Azerbaijan's manufacturing and agricultural production.

In contrast, Russia's share of FDI in Azerbaijan remains limited and highly volatile. The sharp rise in 2022 reflects exceptional, sanctions-induced capital movements – rather than structural deepening of investment ties – followed by a rapid decline in 2023–2024. These fluctuations confirm that Russian FDI is opportunistic and reactive to external constraints, not a stable driver of Azerbaijan's capital formation. Overall, Russia trails far behind Western partners in cumulative FDI inflows during the period.

The remittance series displays significant swings, with a particularly sharp rise in 2022–2023. This increase corresponds to Russia's partial mobilization, heightened labor-market uncertainty, expectations of ruble depreciation, and increased use of remittances as a hedge against domestic instability. The subsequent reduction in 2023–2025 correlates with Russia's deteriorating economic conditions, tightening financial-transfer regulations, and adjustments in migration and employment policies. Despite these fluctuations, Russia remained the dominant source of remittances to Azerbaijan, averaging around 57.2 percent of total inflows and peaking at 82 percent in 2022.

Tourism flows follow a cyclical pattern shaped by external shocks. The steep decline in 2020 reflects pandemic-era mobility restrictions, while the recovery in subsequent years indicates a return of demand. The modest decline in 2025 likely reflects both political tensions and Azerbaijan's prolonged closure of land borders, which constrained travel options for Russian

visitors. Nevertheless, Russian nationals consistently account for around 30 percent of all foreign visitors, underscoring enduring social and cultural ties.

The radar chart – Figure 2 highlights the asymmetric and sector-specific nature of Azerbaijan–Russia economic interdependence.



Figure 2. Average Share of Russia in Azerbaijan's Economic Indicators (2017–2025)

Figure 2 provides a comparative snapshot of Russia's average share across six major dimensions of Azerbaijan's economy over the 2017–2025 period: trade turnover, exports, non-oil exports, imports, FDI, remittances, and tourism.

The most striking features of the chart are the exceptionally high shares of remittances (57.2 percent) and non-oil exports (34.2 percent). These two categories illustrate the deep social and production-chain integration between the two countries. Russia remains the primary destination for Azerbaijani migrant workers and a central market for processed foods, agricultural commodities, and light industrial exports. These channels represent bottom-up forms of interdependence that persist regardless of periodic political tensions.

Russia's share of Azerbaijan's export (4.0 %) and overall trade turnover (9.1%) is relatively limited, reflecting Azerbaijan's ongoing diversification toward European and Turkish markets. By contrast, the higher share of imports (17.5%) underscores Azerbaijan's structural dependence on Russian-origin intermediate goods such as grain, metals, chemicals, and machinery. Meanwhile, Russian FDI (4.4%) remains modest and volatile, indicating a limited and largely opportunistic investment presence compared with more established Western investors.

Finally, tourism (29.2 percent) reflects enduring people-to-people linkages and cultural connectivity. Although sensitive to external shocks—such as the COVID-19 pandemic and political frictions—Russia consistently accounts for a significant portion of inbound travel to Azerbaijan.

Taken together, Figure 2 demonstrates that Azerbaijan's economic ties with Russia are deep but unevenly distributed. Socially driven flows (remittances), sector-specific trade (non-oil exports), and import dependence form the backbone of bilateral interdependence, whereas investment and overall export integration remain comparatively limited. The pattern underscores a structural reality: Azerbaijan's exposure to Russia is strongest in labor mobility, supply chains, and consumer markets, rather than in capital flows or high-value trade, making the relationship resilient yet vulnerable to geopolitical disruptions.

VI. Political and Security Performance and Evaluation

6.1. De-coordination of Foreign Policies and Strategic Priorities

Political relations between Azerbaijan and Russia have steadily deteriorated since early 2022, as Azerbaijan began pursuing a more autonomous foreign policy following the outbreak of the war in Ukraine. This shift was driven by several interrelated factors, including Azerbaijan's enhanced military capabilities, closer strategic cooperation with Türkiye, Pakistan, and Israel, and increased confidence after the Second Karabakh War. The signing of the Shusha Declaration with Türkiye and the deepening of Azerbaijani Israeli relations symbolized this growing strategic diversification.

At the same time, Russia's ability to project influence in the South Caucasus weakened as its military and political resources were increasingly absorbed by the war in Ukraine. This constraint reduced Moscow's leverage over Azerbaijan and created space for Baku to limit external dependence. While Azerbaijan viewed this process as a necessary assertion of sovereignty, the Kremlin perceived it as a challenge to its traditional role in the region.

As political trust eroded, coordination between Moscow and Baku declined even in areas that had previously been insulated from tension. Divergences became visible in approaches to regional security, diplomatic signaling, and multilateral engagement. Azerbaijan's voting behavior in the United Nations and other international organizations increasingly reflected an

independent stance, particularly on issues related to sovereignty, sanctions, and territorial integrity.

In response, Russia signaled closer diplomatic alignment with Armenia in selected statements and votes, while several regional cooperation frameworks – including CIS mechanisms, CSTO-related engagement, and economic coordination platforms – lost relevance as Azerbaijan reduced its participation. The CSTO’s credibility further eroded as Armenia openly questioned its effectiveness, underscoring the broader weakening of Russia-centered regional institutions.¹²⁵

6.2. Diminishing Russian Role in the Azerbaijan–Armenia Peacemaking Process

From the early 1990s until 2020, Russia played a central role in managing the unresolved Armenia–Azerbaijan conflict, using its position to shape regional outcomes and maintain leverage over both states. While Moscow supplied arms to both sides, it also served as Armenia’s primary security guarantor and border protector, creating a structural imbalance. Simultaneously, Russia acted as a co-chair of the OSCE Minsk Group, a role that formally required neutrality but conflicted with its strategic interests.¹²⁶

This arrangement began to unravel in the late 2010s as Armenia sought to reduce its dependence on Moscow and Azerbaijan aimed to overturn the territorial status quo. The Second Karabakh War in September 2020 exposed the limits of Russia’s control. Moscow initially refrained from intervening, a decision widely interpreted as an attempt to discipline Armenia’s leadership. However, this restraint reflected a misjudgment of Azerbaijan’s military preparedness and external support, leading to outcomes that significantly reduced Russia’s influence over both parties.

Although Russia brokered the November 2020 ceasefire and deployed peacekeeping forces to Karabakh, its authority continued to decline. Azerbaijan increasingly viewed Russia as a biased and unreliable mediator, while Moscow’s focus on Ukraine further limited its capacity to enforce agreements. Russian peacekeepers were widely perceived in Baku as exceeding their mandate, reinforcing skepticism toward Russia’s role.

As a result, Azerbaijan gradually shifted toward EU- and U.S.-mediated diplomatic formats, which gained legitimacy as alternatives to Russian-led mechanisms. The eventual withdrawal of Russian peacekeeping forces before the expiration of their mandate marked a decisive reduction of Moscow’s role in the regional peacemaking process.

¹²⁵ Scott, T. C., & Askerov, A. (2024). A Post-Mortem of the Collective Security Treaty Organization (CSTO).

¹²⁶ Askerov, A., & Matyok, T. (2015). The Upper Karabakh predicament from the UN resolutions to the mediated negotiations: Resolution or hibernation? *European Journal of Interdisciplinary Studies*, 2(1), 154-164.

6.3. Reassertion of Russia's Strategic Posture in the Caspian Sea

Russia spent much of the 1990s challenging Azerbaijan's activities in the Caspian Sea by disputing the legal status of the basin.¹²⁷ Although tensions eased once Azerbaijan aligned more closely with Russian interests, the cooling of relations in recent years has prompted Moscow to reassert itself militarily. Russia has begun reinforcing its naval assets, surveillance capabilities, and logistics infrastructure in the Caspian, aiming to retain strategic depth and curb both Western and Turkish influence. This trend has been relatively quiet in public discourse, not due to insignificance, but because its implications are unfolding gradually and involve sensitive strategic calculations.

Traditionally, Russia and Iran have cooperated on Caspian issues in ways that have often constrained Azerbaijani economic and security interests. Moscow's recent expansion of joint military exercises with Iran signals a renewed form of coordinated pressure, implicitly reminding Baku of the limits of its strategic autonomy. As Azerbaijan continues to diversify its geopolitical alignments, this cooperation has contributed to intensified dynamics in the Caspian Sea basin. Although these developments may also create limited opportunities for pragmatic cooperation,¹²⁸ they primarily point to the potential for renewed friction, particularly if Azerbaijan's regional policies increasingly diverge from the strategic preferences of Russia and Iran.

A stronger Russian military presence reduces Azerbaijan's flexibility in energy export routes, complicates offshore infrastructure security, and narrows Baku's ability to maneuver diplomatically. It increases the likelihood that Moscow could obstruct or slow down projects involving Western, Turkish, or Central Asian partners. Russia's expanded footprint also allows it to monitor Azerbaijani maritime activity more closely, subtly shaping Baku's risk calculus.

Moscow's recurring use of "shipping security" and "counterterrorism" narratives provides political cover for this buildup. By framing reinforcement as defensive, Russia positions itself as a guarantor of regional stability while implicitly signaling that it can tighten or loosen pressure depending on Azerbaijan's behavior. These narratives also enable Russia to justify deeper coordination with Iran and discourage outside actors – especially Türkiye – from expanding their influence in the Caspian basin.

6.4. Reorientation toward Alternative Security Partnerships

New regional realities present both opportunities and challenges for Azerbaijan. The clearest opportunity lies in reducing dependence on Russia, something that seemed unattainable for decades. Another is the potential for a durable peace with Armenia, which – even if difficult –

¹²⁷ Askerov, et al. *Post-Soviet Conflicts: The Thirty Years' Crisis*. Bloomsbury Publishing USA, 2020.

¹²⁸ Aydinly, A. (2025). Moscow Meeting Could Define Future of Azerbaijan-Iran-Russia Cooperation, 29 September 2025. *The Caspian Post*.

could reshape regional security patterns and open space for cooperation. Yet these developments also create challenges, since they directly undermine Russia’s strategic interests, ensuring that Moscow remains Azerbaijan’s primary external security concern.

Azerbaijan has responded by strengthening cooperation with Türkiye through defense industrial ties, joint exercises, and enhanced interoperability under the Shusha Declaration. Since 2020, joint security planning between Baku and Ankara has deepened significantly. With the withdrawal of Russian forces from Karabakh, Türkiye’s regional role has grown further. Ankara is also pursuing normalization with Armenia, hoping to reduce tensions and promote economic cooperation –an approach that, if successful, would naturally limit Russia’s future leverage.

Beyond Türkiye, Azerbaijan has diversified its security engagement with NATO members, focusing on training, cyber defense, and peacekeeping. While NATO membership remains unrealistic in the near term, Baku’s continued modernization of its armed forces along NATO standards and its efforts to cultivate stable relations with Western partners increase its strategic resilience and broaden its diplomatic avenues.

Azerbaijan has expanded its outreach to eastern partners as well. The emerging 5+1 format (Central Asia + Azerbaijan) gives Baku new diplomatic and security depth independent of Moscow. Central Asian states, facing similar risks from Russia, see Azerbaijan as a natural strategic partner. Shared linguistic ties (except for Tajikistan) further strengthen this cooperation and encourage long-term discussions about broader regional integration that will include Türkiye.

Azerbaijan’s engagement with China also reflects its effort to diversify foreign policy priorities. Cooperation in transport corridors, digital infrastructure, and defense-related dialogue within Shanghai Cooperation Organization frameworks offers Baku a balancing tool against Russia. China views Azerbaijan as a key link in its Middle Corridor strategy, while Baku sees Beijing as an important counterweight that does not impose political preconditions. These interactions expand Azerbaijan’s strategic options without forcing alignment in any single direction.

Taken together, these developments create a diversified security portfolio that limits Russia’s ability to exert pressure through traditional channels and increases Azerbaijan’s capacity to navigate a rapidly changing regional environment. They also signal Baku’s intent to balance major powers without becoming overly dependent on any single external actor. This growing flexibility allows Azerbaijan to pursue strategic opportunities more confidently while mitigating vulnerabilities that previously constrained its foreign policy choices.

VII. Conclusion

Azerbaijan and Russia were constituent republics of the Soviet Union until its dissolution in 1991. In the aftermath of independence, Azerbaijan emerged as a fragile state facing severe security challenges, including territorial losses resulting from Armenia’s military actions, which

were indirectly supported by Russia. By May 1994, when a ceasefire agreement was reached, Azerbaijan had lost significant portions of its internationally recognized territory. This unresolved conflict served Moscow's strategic interests by reinforcing Armenia's and Azerbaijan's dependence on Russia. Armenia relied on Russia for security, economic support, and political backing, while Azerbaijan was compelled to engage with Moscow to preserve its remaining territorial integrity and prevent further escalation.

The ceasefire regime endured – albeit with periodic violations – until late 2020. The most notable escalation occurred in April 2016 during the four-day war, which Russia again played a central role in halting.¹²⁹ This “negative peace” ended in September 2020 with the outbreak of the Second Karabakh War.¹³⁰ By that time, Armenia under Prime Minister Nikol Pashinyan had begun pursuing a more independent foreign policy, straining relations with Moscow. Russia's response reflected its declining capacity to control regional outcomes. Although Azerbaijan could have regained full control over its occupied territories, Russia intervened diplomatically in November 2020, ending the war after 44 days and deploying peacekeeping forces in the region. Subsequent developments, however, increasingly favored Azerbaijan, particularly as Russia's invasion of Ukraine in 2022 diverted Moscow's attention and resources.

In the years that followed, both Armenia and Azerbaijan demonstrated growing aspirations to reduce their dependence on Russia, a development that Moscow viewed with dissatisfaction.¹³¹ Russia's responses toward the two states differed in form but were increasingly coercive in nature. In Azerbaijan's case, this tension began to spill over into economic relations, albeit in a gradual and uneven manner. Against this shifting geopolitical backdrop, the evolution of Azerbaijan–Russia economic relations provides a critical lens through which to assess the practical consequences of political change.

The research demonstrates that Azerbaijan–Russia economic cooperation has produced substantial outcomes over the past decade. These include the development of an extensive legal framework, modernization of transport and energy infrastructure, and growth in trade, investment, remittances, and tourism. Together, these achievements highlight the depth and institutionalization of bilateral economic engagement.

At the same time, the analysis reveals a pattern of asymmetric and sector-specific interdependence. While Russia maintains a favorable balance in bilateral trade, this imbalance has widened over time. Between 2017 and 2025, Azerbaijan's non-oil exports to Russia

¹²⁹ Askerov, A. (2019). Shadows of the April 2016 war: Armenia and Azerbaijan back in a deadlock. *Eurasia Daily Monitor*, 16(45).

¹³⁰ Askerov, A., & Ibadoglu, G. (2022). The causes and consequences of the second Karabakh War: September 27, 2021–November 10, 2020. In *the Nagorno-Karabakh Conflict* (pp. 245–271). Routledge.

¹³¹ Askerov, A. (2023). Charting a course between independence and semi-colonialism: Armenia at a crossroads. *Caucasus Strategic Perspectives* 4 (1), 63-83

increased approximately twofold, yet imports from Russia grew even faster – by about 2.4 times. This trend presents challenges for Azerbaijan’s transition toward a post-oil economic model, despite some diversification in import composition. Continued concentration of non-oil exports in the Russian market increases exposure to geopolitical and demand-related risks, particularly in the medium to long term.

In the energy sector, Azerbaijan has significantly reduced dependence on Russia through diversification of export routes and the involvement of Western investors. Nevertheless, Russia’s continued participation – most notably through Lukoil’s role in projects such as Shah Deniz, the South Caucasus Pipeline, and the Shallow Water Absheron Peninsula – preserves a residual channel of influence. Although this presence does not currently translate into direct leverage, it underscores the incomplete nature of energy decoupling.

Investment trends further illustrate the asymmetry in bilateral relations. Azerbaijani investments in Russia have expanded more rapidly than Russian investments in Azerbaijan, reflecting Baku’s cautious capital strategy and Russia’s declining attractiveness as an investment destination amid sanctions, regulatory uncertainty, and elevated political risk. As a result, investment cooperation appears increasingly driven by risk management rather than long-term strategic deepening.

Labor migration and remittance flows – traditionally among the most stable components of bilateral interdependence – have contracted notably in recent years. Declining remittances from Azerbaijani workers in Russia reflect economic slowdown, regulatory constraints, and the spillover effects of sanctions and political tensions. This decline weakens grassroots economic ties that have historically contributed to stability in bilateral relations. Tourism trends display a similar pattern: although relatively resilient, pre-pandemic growth levels have not been fully restored, suggesting increased sensitivity to political uncertainty, border closures, and transport constraints.

Overall, the effects of recent political tensions on economic relations remain uneven across sectors. Trade – particularly in non-oil goods – continues to show structural resilience, while Russian FDI, remittances, tourism, SOFAZ financial flows, and transport routes are significantly more vulnerable to geopolitical disruptions. Although the political frictions that intensified in late 2024 have not yet caused a systemic breakdown of economic ties, early indicators from 2025 suggest the beginning of a cautious strategic recalibration on both sides.

Taken together, these findings indicate that Azerbaijan–Russia economic relations are entering a new phase. Trade remains robust but increasingly concentrated; energy cooperation is stable yet constrained; investment flows are asymmetric and cautious; and people-centered channels such as migration, remittances, and tourism are steadily weakening. While the economic relationship remains substantial and multidimensional, its future trajectory will depend on the ability of both

states to manage political tensions without undermining the economic foundations of cooperation in an increasingly volatile regional and global environment.

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