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HIDDEN TRADE ROUTES: THE RISE OF ILLICIT NETWORKS AND ALTERNATIVE MARKETS IN SANCTIONS CIRCUMVENTION

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Findings and Policy Implications

IFFs across Armenia, the Western Balkans, and the Black Sea region surged to USD 31 billion in 2023 (estimated via M1), **a sharp escalation, reaching twice the average pre-war levels.**

Ukraine, Kosovo, and **Armenia** saw the **highest IFF outflows** (money leaving the country) in 2022-2023**,** coinciding with **intensified sanctions on Russia.**

The **largest IFF inflows** occurred during **two distinct periods - 2012 to 2014** and **2021 to 2023 -** highlighting a **strong connection between sanctions evasion** and **IFFs.**

Georgia, Ukraine, Moldova, Albania, Bosnia and Herzegovina, Montenegro, and **Serbia** experienced the most **significant increases in IFF inflows** (money entering the country) after 2022**.**

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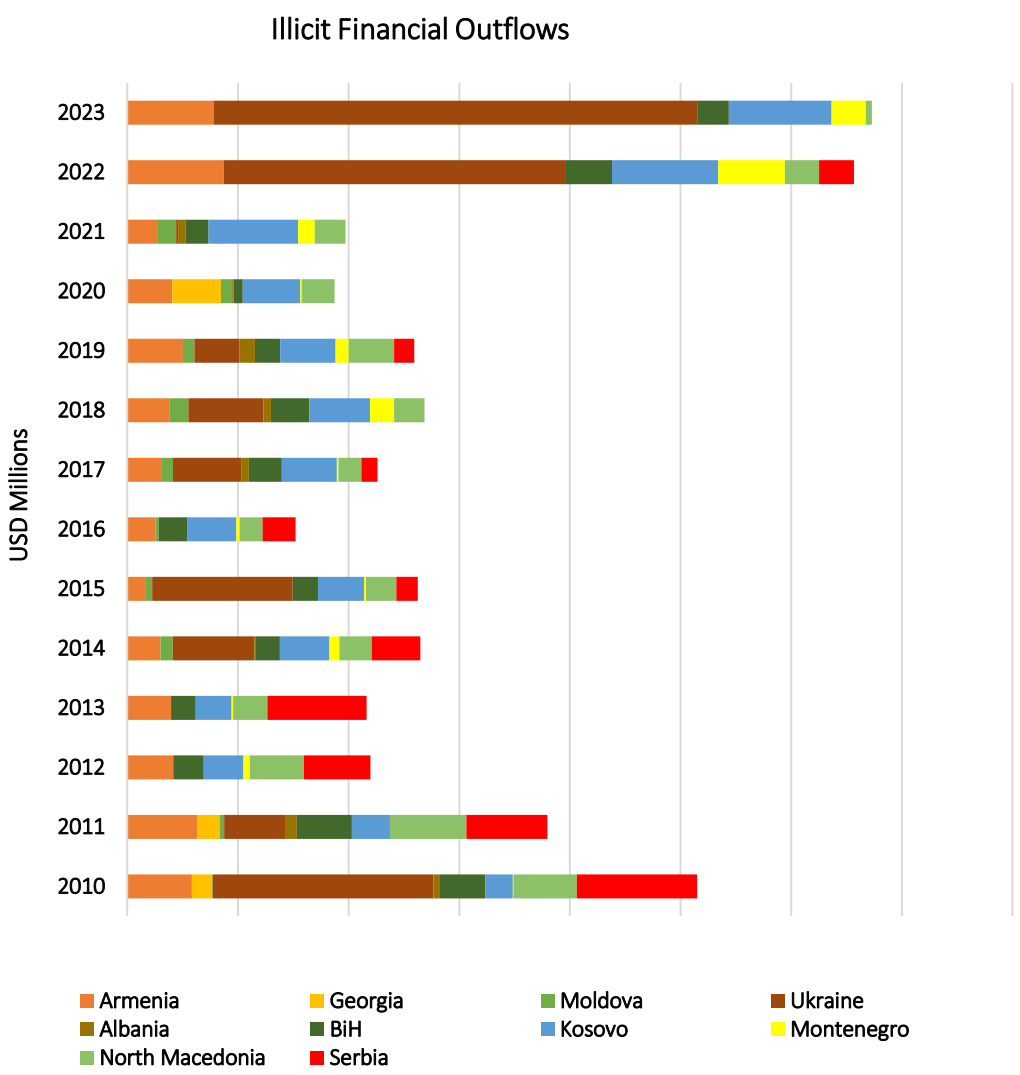
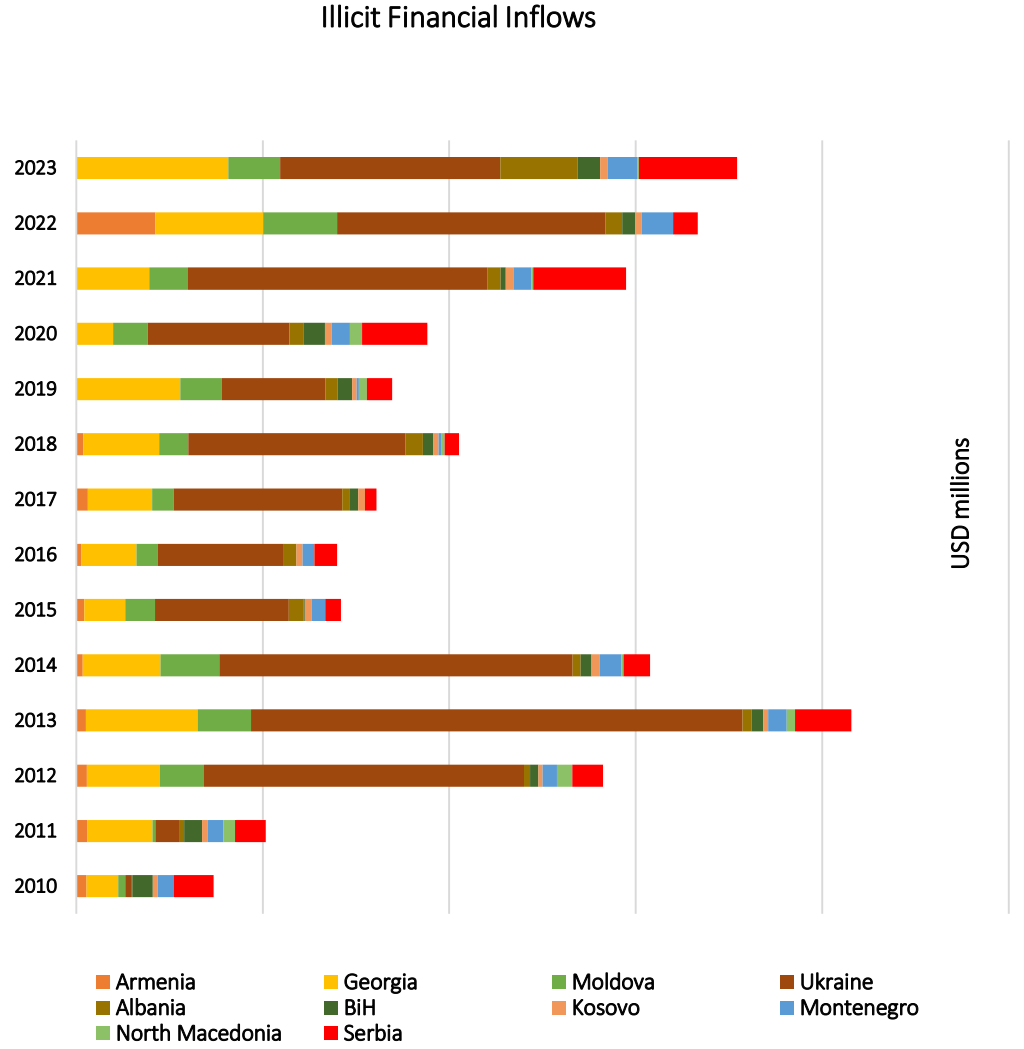
Findings and Policy Implications





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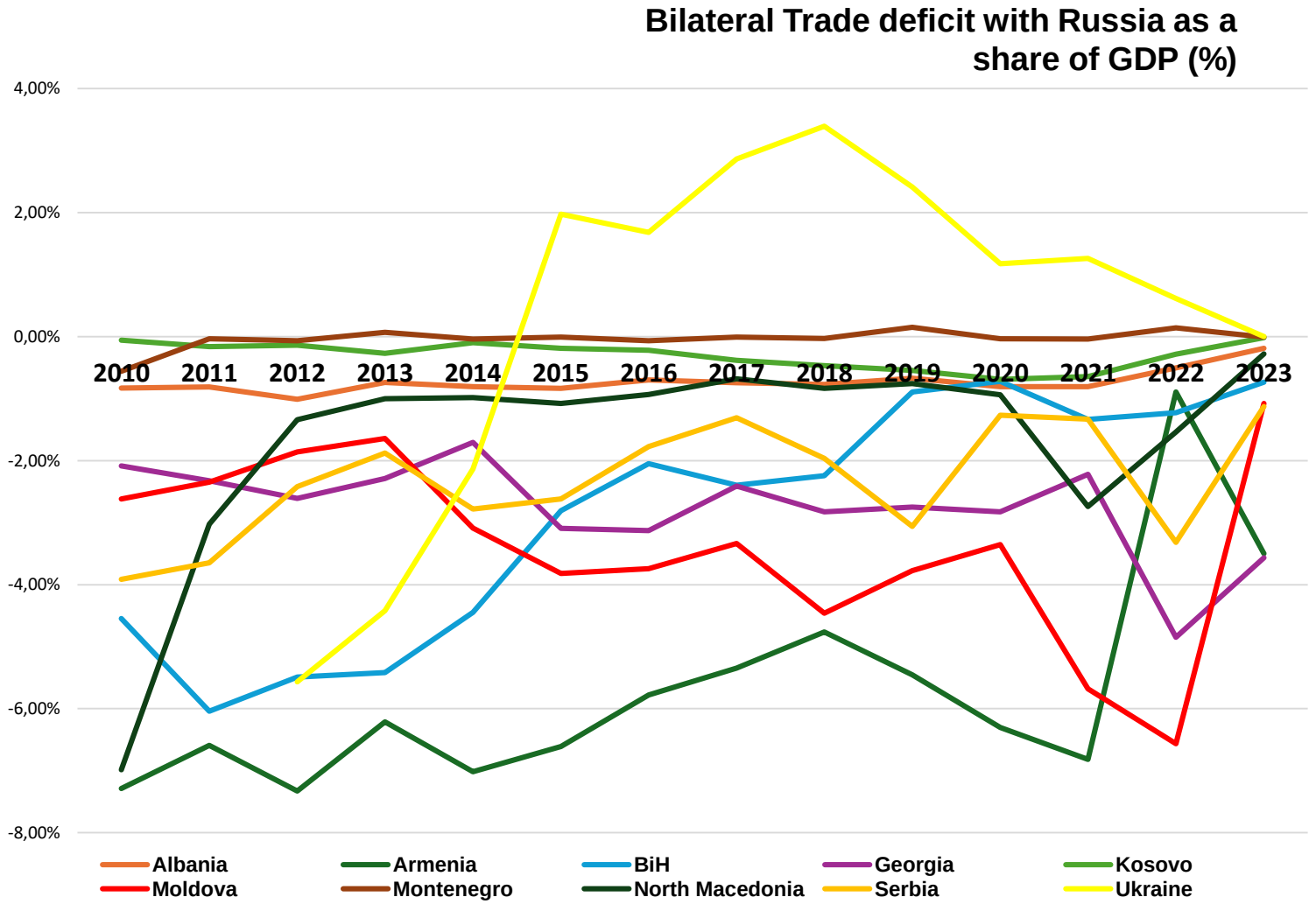
Findings and Policy Implications

In 2023, **Armenia** has the largest trade deficit relative to its GDP, followed by **Georgia.** However, all countries remain heavily reliant on **Russian energy** and **key supplies**, which Moscow **weaponizes** for **political** and **economic leverage**.

Additional key issues making them **preferred destinations for trade with sanctioned goods** amid Russia's rising demand for weapons and dual-use items: 1) entrenched Illicit trade networks (drug and arms trafficking); 2) historically weak governance and oversight; 3) poor alignment/enforcement of EU sanctions.

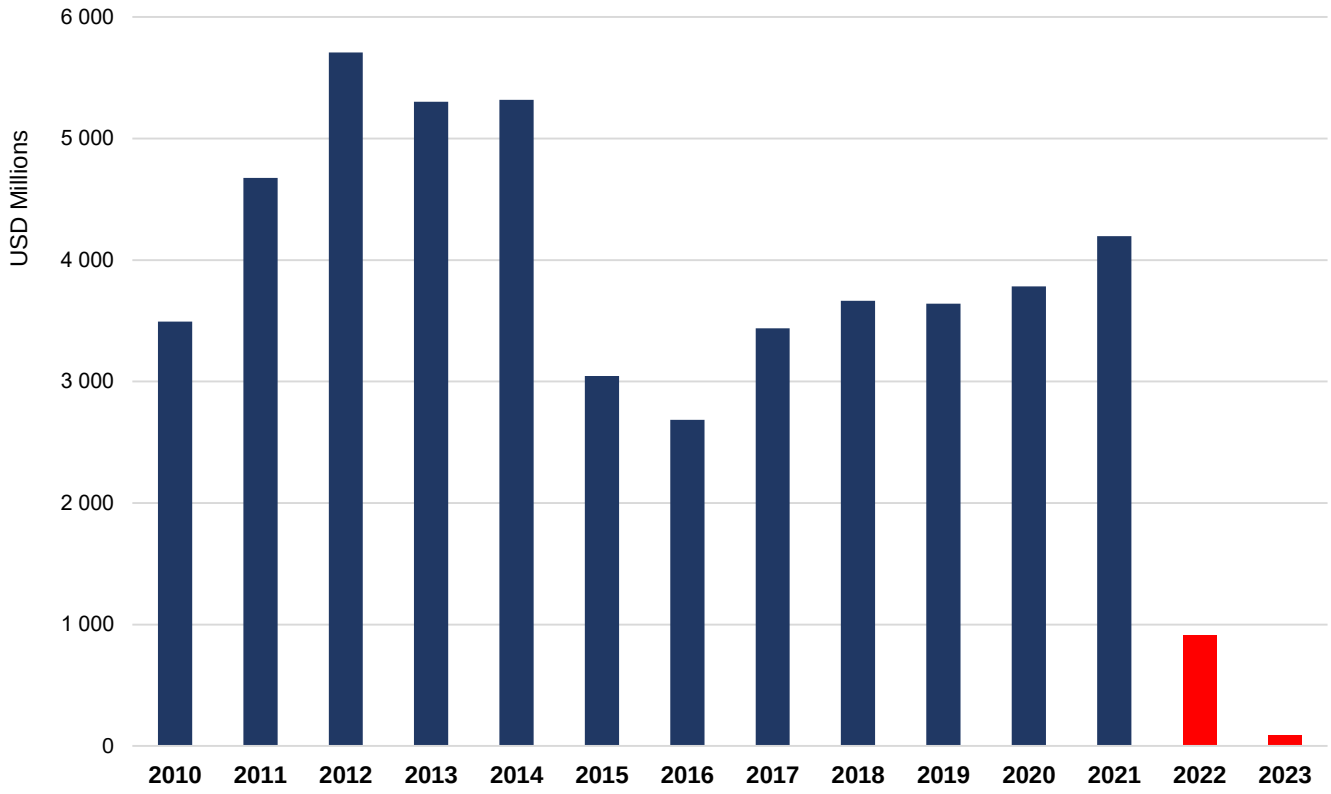


Findings and Policy Implications

The EU Export of Dual-Use Goods to Russia **dropped significantly after 2021** and **has been replaced by export to third-country companies**, fueling this surge.

All 10 countries increased EU dual-use imports by **over 50%** compared to average pre-war levels (2010-2021). Together, imports from CA countries, the Western Balkans, and the Black Sea region in 2023 account for **about 82% of pre-war EU exports to Russia** (USD 4,2 billion, 2021)

EU Export of Dual-Use Goods to Russia – before and after the Invasion of Ukraine

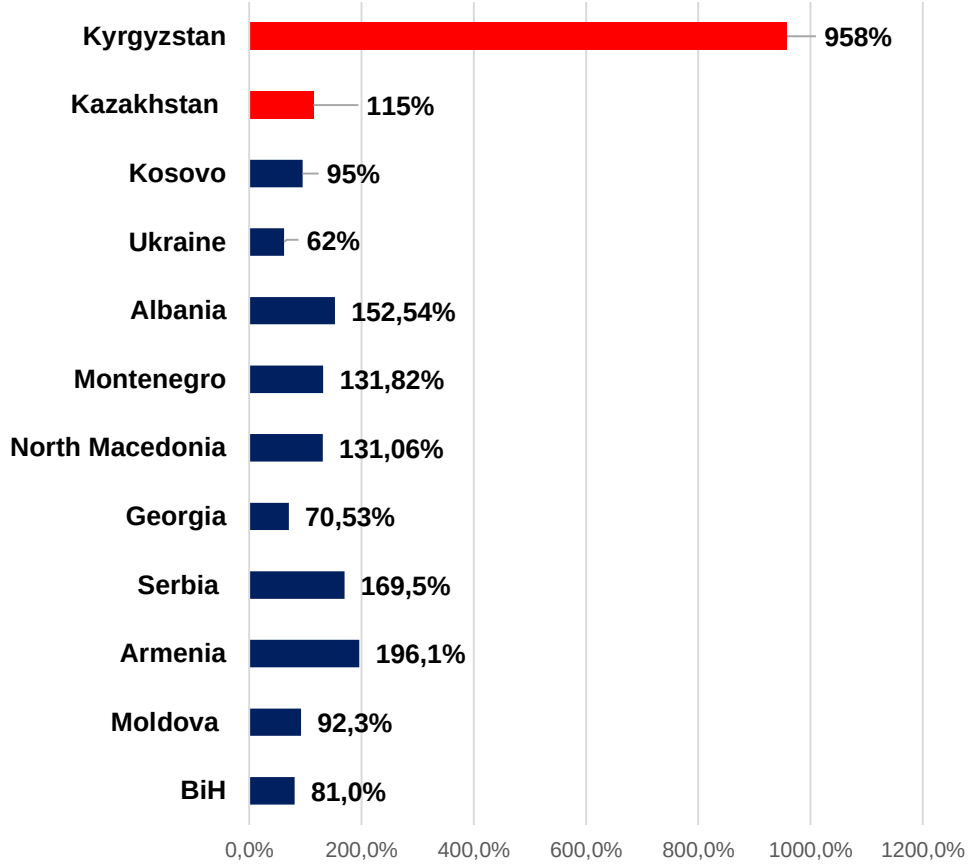


Findings and Policy Implications

Fastest-growing importers (compared to *pre-war levels*): **Armenia** (196% increase), followed by **Serbia** (169%) and **Albania** (152%). The trend is even more dramatic in Central Asia, with Kyrgyzstan soaring 958%.

These increases far exceed domestic demand, signaling growing sanctions evasion and **potential re-exports to Russia**.

Percentage Increase in EU's Dual-Use Export to Western Balkans, Black Sea and Armenia in 2023 vs. pre-war average (2010-2021)



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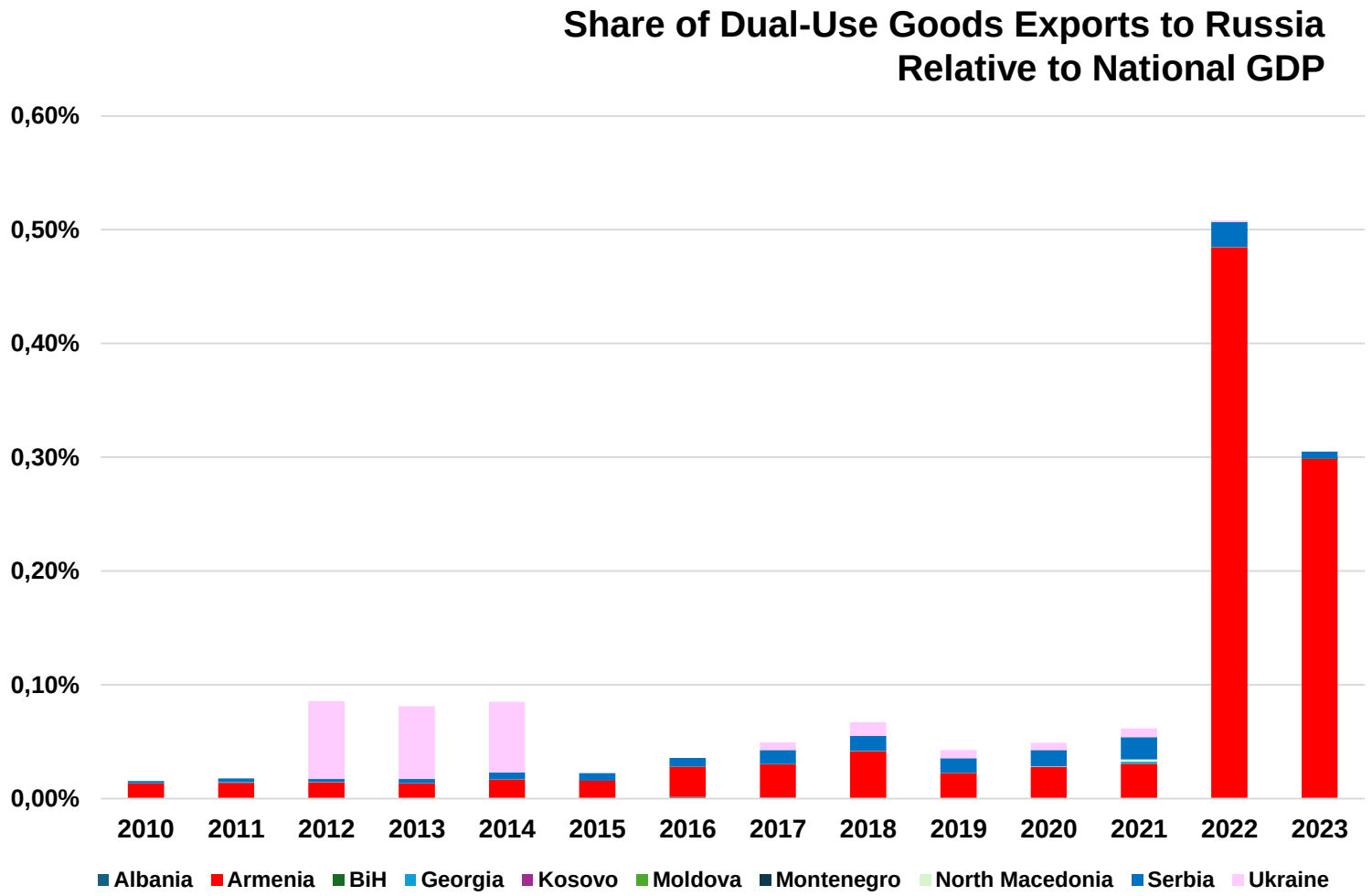
Findings and Policy Implications

Four countries - **Armenia, Serbia, Bosnia**, and **Moldova** - have increased **dual-use goods exports to Russia since 2022**, with Armenia and Serbia seeing the most significant growth.

Armenia's exports of dual-use items to Russia surged by 2,660% in 2023, creating rapid and artificial economic growth, and deepening the economic dependencies on Russia.

Bosnia and Moldova, with **no or little prior history of trading dual-use goods to Russia, have suddenly increased their exports,** highlighting a notable shift.



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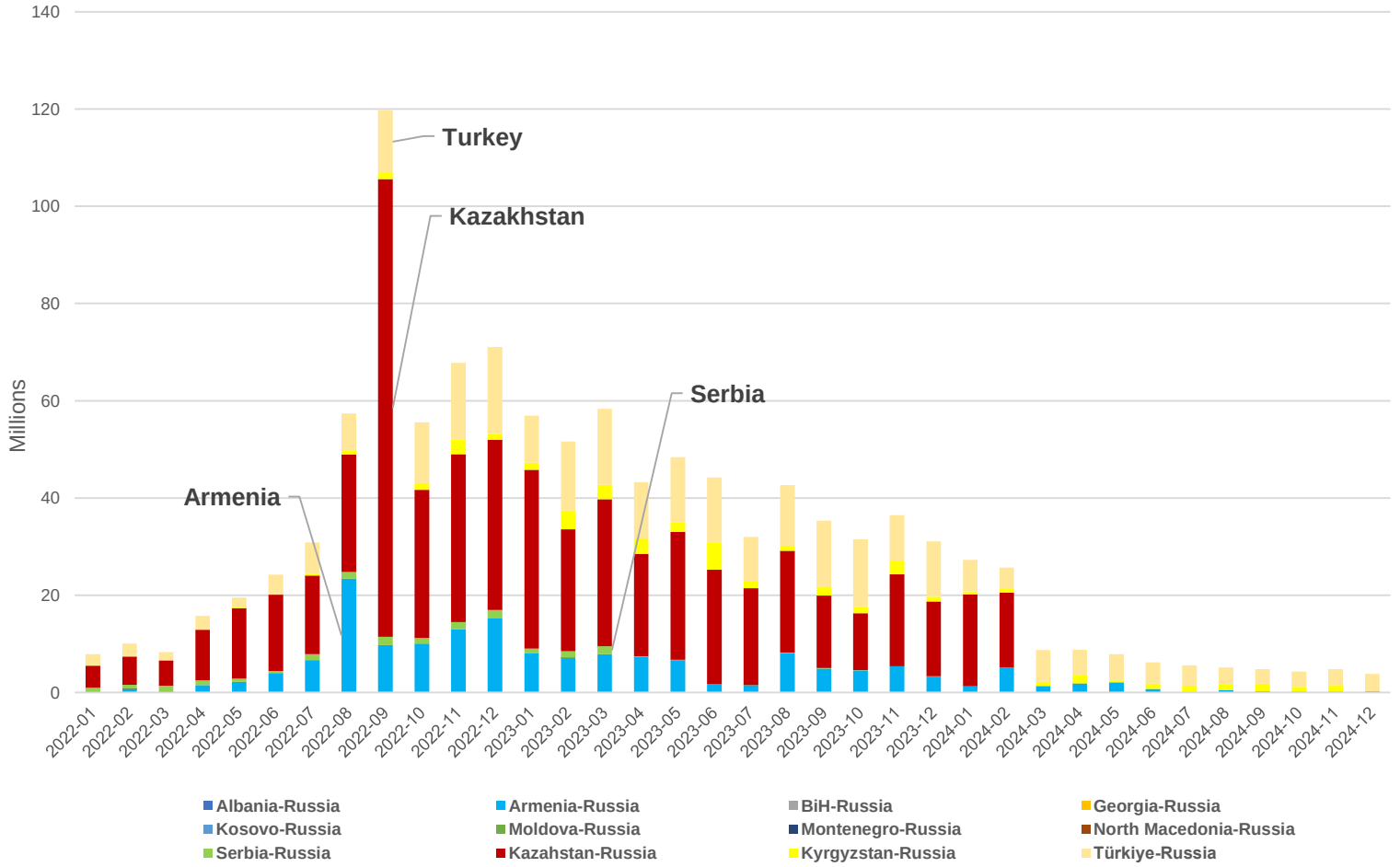
Findings and Policy Implications

Armenia emerged as a key re-export hub. Statistical findings reveal that EU exports to Armenia, as well as Kyrgyzstan, and Kazakhstan (used as benchmark countries) **directly fuel shipments to Russia**, solidifying their role in sanctions circumvention.

The **rise of IFFs** is directly linked to the surge in **illicit trade,** especially the **import of dual-use goods from the EU** and **their reexport to Russia.**

Exports of Dual-Use Goods from Western Balkan and Black Sea countries, Armenia, Kazakhstan, Kyrgyzstan and Türkiye to Russia



Questions?

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