



Dealing with the Sanctions Bubble in Georgia

By Ilya Roubanis¹ and Anonymous Co-author

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The war in Ukraine is not only bolstering the development of Russia's military complex but also a framework of relations that one may call the "sanctions bubble." While the sanctions regime was created to constrain the Russian economy, it created economic opportunity for Georgia, inflating profits for the oligarchic elite. This piece will argue that the tightening of the sanctions regime did push the Kremlin to accommodate, redirecting trade and logistical value chains from Western Europe to Türkiye, the Caucasus, and Central Asia. This created a new foundation for Russian "soft power," as it brought capital investment, expertise, human capital, and for-profit trade and logistics. The resulting "sanctions bubble" allowed Russia to develop deeper ties with the Georgian economy and its ruling elite, honing an exclusive relationship with systemic significance that reinforces the foundations of the captive state. Reversing this trajectory would require a review of the sanctions regime as applied to Georgia, particularly when dealing with individual oligarchs.

The Russian Sanctions Context

Georgia is a sanctions-evasion regime that is part of a global ecosystem. Sanctions can be seen as a fine, intended to uphold governance standards, or as a tariff, meant to prevent market access. Their effectiveness relies on the regulatory capacity of the state. Since 1989, the theoretical hypothesis has

¹ Dr Ilya Roubanis (PhD, EUI Florence) is Senior Fellow at the Institute of International Relations in Athens (IDIS) and the Alithia Foundation, Boston. His business intelligence work spans energy and security, driven by HUMINT and strategic analysis across Europe and the MENA regions.

been that sanctions' effectiveness would increase with interdependence. Paradoxically, however, globalisation undermines the role of the state as a market regulator, which is crucial for making sanctions work. Much like offshore regimes facilitate tax avoidance, they can also be designed to facilitate sanctions.

When it comes to trade, one can engage in "origin washing" by assembling products in intermediate destinations, or importing them from third countries, usually referred to as "re-exporting." Demand meets supply, somehow. That is why sanctions cannot be seen as "closing the door" to certain goods but rather as an added layer of cost, akin to a tax. That cost is distributed across the market, not only to sanction-evaders, but also to all market players through measures such as screening, due diligence, risk assessment, and strategic communication. Whether that cost is prohibitively disruptive depends on several factors, including the volume and cost of goods being traded, as well as the willingness of sanctioning states to absorb the economic pain. Understanding this market, Georgia has taken a position in the Russian sanctions-evasion market.² They are not alone.

Trade sanctions against Russia have been cumulatively mounting since the *de facto* annexation of Crimea in 2014. The gradual nature of sanctions is one of the reasons assessing their "effectiveness" is not a simple "before-and-after" exercise, involving the subtraction of post-sanctions GDP from pre-sanctions GDP. Measures evolve, as does the economy. Russia had the chance to prepare and test new tools of evasion, but the effects are tangible. Domestically, there was clear underinvestment in infrastructure that sustains productivity in key sectors of the Russian economy, such as logistics or oil and gas, prioritising prudent macroeconomic governance that would provide leeway for effective crisis management.³ Undeniably, the cost for the state was tangible, particularly when it comes to capital market access.

The regulation of the Greenback – the world's foundational fiat currency – has been effectively weaponised, as has the centrality of US financial platforms in facilitating financial transactions. In response to Russia's invasion of Ukraine in February 2022, Western allies coordinated to disconnect key Russian banks from the SWIFT international messaging system, severely restricting their ability to conduct cross-border transactions. Simultaneously, over \$300 billion in Russian Central Bank reserves – primarily held in the EU, US, UK, and Japan – were frozen to undermine Moscow's financial stability and limit its capacity to support the ruble or fund the war. These measures were implemented rapidly through sanctions legislation and central bank coordination, marking an unprecedented weaponisation of global financial infrastructure.

² MSN Money, Factbox: What and where are Russia's frozen assets in the West, September 2025, <https://www.msn.com/en-gb/money/other/factbox-what-and-where-are-russia-s-frozen-assets-in-the-west/ar-AA1N4nmZ>; Anton Moiseienko, Legal: The Freezing of the Russian Central Bank's Assets, *European Journal of International Law*, November 2023, <https://academic.oup.com/ejil/article/34/4/1007/7334319>; Mattias Vermeiren, Freezing Russia's Central Bank Reserves: Much Ado About Nothing?, *Ghent Institute for International and European Studies*, March 2022, https://www.ugent.be/ps/politiekewetenschappen/gies/en/research/publications/gies_papers/2022-ukraine/freezing-russias-central-bank-reserves-much-ado-about-nothing

³ Anton Moiseienko, Legal: The Freezing of the Russian Central Bank's Assets, 34(4), *European Journal of International Law*, November 2023, <https://doi.org/10.1080/1060586X.2021.1973654>; Danis Davydov et. al., Who cares about sanctions? Observations from annual reports of European firms, *Post-Soviet Affairs*, March 2022: pp.222-249.

Beyond SWIFT, the Russians lost access to London. The London Stock Exchange was the deepest equity market for its extractive industries (oil and gas, mining, etc.).⁴ Russian capital came to London in the 1990s, prompted by a golden visa scheme, a welcoming taxation regime, and a culture of business that could transform an oligarch into a respectable entrepreneur.⁵ As long as cash flowed into real estate and investment banking, fuelling retail on the high street, personal reputations were polished to perfection, with investments in football, media, public relations, generous political donations, and legal and reputational consulting. That is the background of what is known as “Moscow-on-Thames” or, more lovingly, “Londongrad”.⁶ Then Londongrad started to look less glitchy. It began with Abramovich’s Chelsea, and the exodus spread like wildfire across the London Stock Exchange (LSE), where the 20 largest Russian companies were once valued at £400 billion.⁷ No more – London-listed companies saw their value plummet, including giants such as VTB, Sberbank, Gazprom, Locoil, Polyus, and EN+. ⁸ The cost was also tangible for the LSE. That is the told-and-retold story of how the war in Ukraine triggered a process of sanctions that made Russians feel unwelcome in a town they had come to call their own.

The distinction between the Russian state and its citizens is important. Where were wealthy Russians meant to go after Londongrad? The West offered no “golden bridge” for defection. The escalation of sanctions following the 2022 invasion of Ukraine altered the legal benchmark of sanctions on individuals, targeting a whole class of businesspersons legally defined by EU regulators as “persons, entities, or bodies involved in economic sectors providing a substantial source of revenue to the Government of the Russian Federation.”⁹ It is no longer necessary for authorities to establish a direct political connection between business individuals and the Russian government. The burden of proof is reversed, and all Russian businesspersons can be sanctioned regardless of their political involvement.¹⁰ Oligarchs spending money to defend themselves from (Russian) government intervention, and those influencing it directly, as an integral part of their business model deal with the same legal benchmark. Worse yet, this legal toolbox is inconsistently applied. Individuals who have served in public office, have business interests in Russia, and maintain ongoing contacts with the Russian military complex continue to operate in Europe.¹¹

⁴ Andrew Macdonald, Euro zone crisis pushes money into London property, Reuters, November 2011, <https://www.reuters.com/article/property-london/euro-zone-crisis-pushes-money-into-london-property-idUKL5E7MF1KN20111116>; Helena Smith, Greek wealth finds a home in London, The Guardian, April 2010, <https://www.theguardian.com/business/2010/apr/13/greek-debt-crisis-capital-outflow>

⁵ Andrew Macaskill and Catherine Belton, Insight: Londongrad tries to kick its 30-year Russian money habit, Reuters, February 2022, <https://www.reuters.com/business/londongrad-tries-kick-its-30-year-russian-money-habit-2022-02-28/>

⁶ Bagehot, The rise and fall of Londongrad, The Economist, March 2022, <https://www.economist.com/britain/2022/03/05/the-rise-and-fall-of-londongrad>

⁷ Ronith Nair, Chelsea owner Abramovich gives trustees stewardship of club amid Ukraine pressure, Reuters, February 2022, <https://www.reuters.com/world/europe/chelsea-owner-abramovich-gives-trustees-stewardship-premier-league-club-2022-02-26/>

⁸ Elliot Smith, London-listed Russian stocks are collapsing with trading now suspended, CNBC, March 2022, <https://www.cnbc.com/2022/03/03/london-listed-russian-stocks-are-collapsing-with-trading-now-suspended.html>

⁹ European Union, Council Decision (CFSP) 2022/329 of 25 February 2022 amending Decision 2014/145/CFSP concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine, Official Journal of the European Union, February 2022, <https://eur-lex.europa.eu/eli/dec/2022/329/oj/eng>

¹⁰ Chris Wafer (CEO Micro Advisory), Why some oligarchs are sanctioned and some are not, BNE Intel, October 2023, <https://www.intellinews.com/macro-advisory-why-some-oligarchs-are-sanctioned-and-some-are-not-298596/>

¹¹ EUToday, Russian Steel in the Heart of Europe: Oligarch’s Business Uninterrupted by Sanctions, April 2025, <https://eutoday.net/russian-steel-in-the-heart-of-europe/>; Gordon ua, Russian NLMK plants continue operating in the EU despite ties to

The prevailing message to Russian high-value individuals was clear: the only safe place was “the old country.” That was a good thing for the Russian economy. The repatriation of Russian capital cushioned the effect of sanctions, providing liquidity as corporates have had to deal with free-falling valuations and the tax office with the declining credibility of sovereign debt.¹² And this was not merely convenient but also expected. As Ryan McLaren of the Centre for the Study of Democracy notes, the Russian state's deployment of contacts with organised crime and secret service assets to facilitate sanctions evasion means that oligarchs and professionals are under pressure to step up and support the national effort. Nonetheless, oligarchs still need spaces where they are not merely custodians of their assets under political license, like Russia, but actual owners – like they were in London. In that respect, too, help was at hand.

Dubai has spent decades to become a destination for global capital, regardless of its origins. In appreciation of the hospitality, Russians lovingly refer to the city state as “Dubaich.” The Emirates had no room for pro-Ukrainian demonstrations. Common law and British schools of comparable quality provide for welcome continuity. Becoming the top destination for private flights out of Russia in 2022, the Emirati real estate market blossomed, the restaurant and conspicuous consumption industry was injected with millions in cash, and the local consulting industry is thriving. The UAE is now the top global destination for high-net-worth individuals with personal wealth exceeding \$1 million, with arrivals from the UK outnumbering those from Russia. Bilateral trade between the Emirates and Russia has surged, as the Emirates imports oil, gold, and diamonds. It provides a gateway for Russia to access global capital, logistics, and technology markets. The country has a precedent of defying Western sanctions, as Iran was the Emirates’ most significant trading partner in 2021.¹³

The sanctions-evasion market is flourishing. Since 2022, the UK’s Office of Financial Sanctions Implementation (OSFI) has documented substantial freezes of Russian assets, amounting to £22.7 billion in 2022, and nearly £25 billion in the 2023/24 review. These figures underscore both the immobilisation of Russian wealth and the exodus of capital from the UK.¹⁴ In parallel, economists estimate that Russian nationals purchased approximately \$6.3 billion worth of Dubai real estate during this period, placing

the Russian military-industrial complex – media reports, April 2025, <https://english.gordonua.com/news/newsenglish/russian-nlmk-plants-continue-operating-in-the-eu-despite-ties-to-the-russian-military-industrial-complex-media-reports-1738530.html>

¹² The Bell, The Great Repatriation: Russian Millionaires Bring Their Cash Back to the Motherland, May 2024, <https://en.thebell.io/the-great-repatriation-russian-millionaires-bring-their-cash-back-to-the-motherland/>; Center for Strategic & International Studies (CSIS), Down But Not Out: The Russian Economy Under Western Sanctions, April 2025, <https://www.csis.org/analysis/down-not-out-russian-economy-under-western-sanctions>

¹³ Nikita Smagin, Is the Blossoming Relationship Between Russia and the UAE Doomed?, Carnegie Endowment for International Peace, April 2023, <https://carnegieendowment.org/politika/89531>

¹⁴ Office of Financial Sanctions Implementation (OSFI), OFSI Annual Review 2023-24: Engage, Enhance, Enforce, March 2025, <https://www.gov.uk/government/publications/ofsi-annual-review-2023-24-engage-enhance-enforce/ofsi-annual-review-2023-24-engage-enhance-enforce>; UK Government, UK sanctions on Russia top £18 billion for the first time, November 2022, <https://www.gov.uk/government/news/uk-sanctions-on-russia-top-18-billion-for-the-first-time>; UK Government, UK sanctions freeze £25 bn of Russian assets, March 2025, <https://www.gov.uk/government/news/uk-sanctions-freeze-25bn-of-russian-assets>

them among the top buyers in the Emirati market.¹⁵ The Russian-Emirati Business Council reports that around 3,000 Russia-linked businesses have been registered in the UAE, while corporations such as Lukoil have established or re-domiciled trading arms in Dubai. Official Emirati figures corroborate this trend: bilateral annual trade flows surged from an estimated \$9-11 billion between 2022-2023 to \$11.2bn in 2023, reflecting a deliberate re-orientation of Russian capital toward the UAE marketplace, which has become a nexus for banking, real estate, and foreign direct investment (FDI).¹⁶ This broader transformation is further underscored by record-breaking FDI inflows into the UAE, reaching \$30.7 billion in 2023, cementing its position as a global safe haven for capital.¹⁷ Of the 79,617 Golden Visas issued in 2022 and 158,000 in 2023, market sources consistently note Russians as one of the largest investor-visa cohorts.¹⁸

Taken together – the measurable surge in Russian acquisitions of Dubai real estate, the proliferation of Russia-linked companies, the visible liquidity channels through Emirati trade statistics, and the unprecedented scale of Golden Visa issuances – these developments illustrate not only the departure from “Londongrad,” but also the consolidation of “Dubaich” as the principal destination for Russian wealth and influence in the post-Ukraine sanctions era. Around Dubaich, however, there is scope for a range of niche services, which is where Georgia positioned itself. Dubai is too expensive for many professionals and trade in goods demands proximity.

The “Sanctions Bubble” & Georgian Protection Services

Georgia fills a multidimensional role in the broader sanctions evasion ecosystem. First, there is a role for the “destination washing” of goods ultimately bound for Russia. Western exporters pretend not to recognise their final destination, despite an unusual peak in demand. From Türkiye and Armenia, goods are channelled directly to Russia via the occupied territories of Abkhazia, either by rail or by sea through the ports of Batumi and Poti or are channelled to Central Asia.

Secondly, Georgia serves as the host of an offshore IT ecosystem. Discussions with human resource managers, corporate lawyers, and businesspersons reveal a pattern: Russian corporations, particularly in the IT sector, will establish their headquarters in Dubai. They will, however, set up their developers in Georgia, Armenia, or perhaps even Thailand, and allow their workers to remotely contribute to

¹⁵ Annette Alstadsæter, Matthew Collin, Blueberry Planterose, International Consortium of Investigative Journalists, Gabriel Zucman and Andreas Økland, Russians bought up \$6.3 B in Dubai property after 2022 Ukraine invasion, report finds, May 2024, <https://www.icij.org/news/2024/05/russians-bought-up-6-3-billion-in-dubai-property-after-2022-ukraine-invasion-report-finds/>; Jon Gambrell, APNews, Dubai boom sees Russian cash, high rents and reborn projects, APNews, February 2023. <https://apnews.com/article/us-department-of-the-treasury-business-united-arab-emirates-dubai-middle-east-192fbc4638f38d9334ad2508cae1eef4>

¹⁶ Julia Payne and Chen Aizhu, Russia’s Lukoil sets up a new oil trading arm in Dubai, Reuters, August 2025, <https://www.reuters.com/business/energy/russias-lukoil-sets-up-new-oil-trading-arm-dubai-sources-say-2025-08-06/>

¹⁷ Ministry of Investment, UAE, UAE Matures into a Global FDI Magnet, Invest UAE, May 2025. https://www.investuae.gov.ae/assets/678f481146d3b3e58edab845_MoI%20-%20UAE%20investment%20ecosystem%20-%20V10%20-%20spreads.pdf; Office for National Statistics (ONS), Foreign direct investment involving UK companies: 2023, January 2025, <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/foreigndirectinvestmentinvolvingukcompanies/2023>; Matthew Ward, House of Commons Library, Foreign Direct Investment (FDI) Statistics, May 2025, <https://commonslibrary.parliament.uk/research-briefings/cbp-8534/>

¹⁸ Gaurav Keswani, UAE Golden Visa Statistics and Trends: A Data-Driven Analysis, JSB Incorporation, June 2025, <https://jsb.ae/blog/uae-golden-visa-statistics-and-trends-a-data-driven-analysis/>

necessary development work within the Russian data ecosystem. In Georgia and Armenia, they will have a pleasant environment, access to Russian schools, and will enjoy the tolerance, if not the protection, of the state.

Thirdly, Georgian lenders will facilitate remittances, savings, and investment for this expatriate population, adding value to their economy. The cumulative effect is that economic power is often accompanied by political influence.

Looking first at the economic fundamentals, the benefits of being part of the Russian sanctions ecosystem for the relatively small Georgian economy are tangible. In 2022, Russian-related capital flows from re-exporting, remittances, and tourism accounted for 14.5% of GDP. Paradoxically, this hard-cash-soft-power Russian leverage over Georgia was created because of the sanctions regime.¹⁹ There are two ways in which Russian sanctions fuel Georgian growth. Leveraging its strategic location and customs infrastructure, Georgia has become a key transit hub for sanctioned goods, particularly vehicles, with a value of \$2.4 billion in 2024. In the first quarter of 2025, Georgia exported vehicles exceeding the value of half a billion dollars to Kyrgyzstan and Kazakhstan, both of which are seen as indirect conduits to the Russian market. These re-exports to Central Asia spiked late in 2023, after the Georgian Government – in an attempt to demonstrate a degree of compliance with international sanctions regimes – introduced a ban on the re-export of Western-imported cars to Russia or Belarus.²⁰ Yet, vehicles represent only one dimension of this broader sanctions-evasion ecosystem. Equally significant is the role of so-called “dual use” products.

An iFact investigation (2023) documented how the Georgian firm *Elektromek-BT* assisted the Lithuanian forwarding company Delamode Baltics in routing 365 consignments of sanctioned dual-use goods – worth an estimated \$24 million – to Russia via Georgia between July and October 2023. The shipments included bearings, electronics, plugs, and sockets – components repeatedly identified in weapons recovered from the Ukrainian battlefield.²¹ This activity was further reinforced by a sharp surge in Georgia’s imports of high-priority technologies associated with re-export risk, such as microchips and radio-navigation apparatus, much of which was subsequently forwarded to Armenia, Kazakhstan, Kyrgyzstan, and Azerbaijan – corridors already well-established in facilitating Russian supply chains.²² For context, microchip imports to Georgia increased by an extraordinary 33,725% in a single year, rising from just 375 units in 2021 to 130,140 units in 2022. Other sensitive exports also expanded dramatically in 2022, including fuses (+98.5%), explosive mixtures (+75.4%), aircraft chassis (+86.4%), and compasses (+99.9%). More subtle but equally significant increases were registered in categories such as refrigerators

¹⁹ Joshua Kucera, Georgia’s Wartime Russians Are Beginning To Leave, Harvard Davis Center for Russian and Eurasian Studies, January 2024, <https://daviscenter.fas.harvard.edu/insights/georgias-wartime-russians-are-beginning-leave>

²⁰ Nini Gabritchidze, Georgia bans re-export of Western-imported cars to Russia, Belarus, Eurasianet, August 2023, <https://eurasianet.org/georgia-bans-re-export-of-western-imported-cars-to-russia-belarus>; Transparency International Georgia, Georgia’s Economic Dependence on Russia: Summary of 2023, July 2024, <https://transparency.ge/en/blog/georgias-economic-dependence-russia-summary-2023>.

²¹ Aidan Yusif and Natia Mikhelidze, Sanction Evasion: How Georgia Facilitates Russia’s Military Supply Chain, iFact, August 2024, <https://ifact.ge/en/sanction-evasion/>

²² Mari Imerlishvili, RFE/RL: Georgia bans re-export of Western-imported cars to Russia, Belarus, Civil Georgia, May 2025, <https://civil.ge/archives/585891>

(+82.5%), washing machines (+80.3%), external hard drives (+55.9%), network switches (+50.5%), and fiber optic cables (+92%), many of which contain reprogrammable chips with direct applicability in weapons systems.²³

The diversion of dual-use goods has been accompanied by allegations of petroleum origin-laundering, whereby discrepancies between Spanish import statistics and Georgia's reported production suggest the use of re-labelling, blending, and document swaps to disguise Russian oil products as Georgian before re-entry into European markets. This pattern is consistent with broader oil price-cap evasion typologies and raises troubling questions regarding the true size and sophistication of these operations.²⁴ The systemic nature of this dependence is reflected in the fact that Russia's share of Georgia's oil imports has risen from 8% in 2012 to 61% in 2023.²⁵

Furthermore, Georgia has been enjoying a significant boost in remittances and "tourism," not least due to the relocation of Russian professionals, particularly in the IT sector. While Armenia has a stronger IT brand, data suggests that Georgia is actually the champion of the Caucasus' offshore data economy.²⁶ While the volume of remittances accompanying this professional migration has dropped since 2022, this capital flow remains significant for Georgia's GDP.²⁷ Alongside these remittances, serious investigations have also uncovered money laundering schemes designed to channel resources toward sanctioned Russian businesses. This trend coincides with the dramatic surge in Russian commercial presence in Georgia; of the 37,400 Russian-owned firms currently registered in the country, at least 30,000 were established after 2022. A significant share of these firms are sole-proprietor registrations, a structure frequently employed to create light-footprint payment mechanisms and contracting pathways that materially expand the surface area for sanctions-evading commerce.²⁸ The financial impact of this proliferation is substantial. Revenues from Russia, including remittances, tourism, and exports, amounted to \$3.1 billion in 2023, with remittances alone accounting for \$1.5 billion. Russian foreign direct investment also rose, reaching \$67 million between January and September 2023. Though critically, 37% of Georgia's FDI during this period was routed through offshore jurisdictions, an opacity risk long associated with sanctions evasion.²⁹

²³ Confidential report, Analytic Report on Bidzina Ivanishvili's role in helping Russia to avoid sanctions, 2024. On file with the author.

²⁴ Ia Asatiani, Ghost Cargo: The Hidden Journey of Sanctioned Oil to Europe, iFact, January 2025, <https://ifact.ge/en/journey-of-sanctioned-oil-to-europe/>; Vakhtang Parsvania, When Oil Becomes «Georgian», Riddle Russia, June 2025, <https://ridl.io/when-oil-becomes-georgian/>

²⁵ Confidential report, Analytic Report on Bidzina Ivanishvili's role in helping Russia to avoid sanctions, 2024. On file with the author.

²⁶ Ilya Roubanis, Oliver Gnad: The Caucasus is likely to remain an IT hub even after the war in Ukraine, Caucasus Watch, December 2024, <https://caucasuswatch.de/en/interviews/oliver-gnad-the-caucasus-is-likely-to-remain-an-it-hub-even-after-the-war-in-ukraine.html>

²⁷ Transparency International Georgia, Georgia's Economic Dependence on Russia: Trade, tourism, remittances and Russian companies in Georgia, March 2022, <https://www.transparency.ge/en/post/georgias-economic-dependence-russia-trade-tourism-remittances-and-russian-companies-georgia>; Transparency International Georgia, Georgia's Economic Dependence on Russia: Impact of the Russia-Ukraine war, February 2023, <https://www.transparency.ge/en/post/georgias-economic-dependence-russia-impact-russia-ukraine-war-1>

²⁸ Institute for Development of Freedom of Information (IDFI), Companies Founded in Georgia by Russian Citizens: Links and Registration Characteristics, September 2024, <https://idfi.ge/en/companies-founded-by-citizens-of-russia-in-georgia-links-and-registration-characteristics>

²⁹ Transparency International Georgia, Georgia's Economic Dependence on Russia: Summary of 2023, February 2024, <https://transparency.ge/en/blog/georgias-economic-dependence-russia-summary-2023>

Taken together, the expansion of Russian-owned entities, the scale of remittance flows, and the statistical anomalies in dual-use product trade highlight Georgia's emerging role as a critical node in sanctions evasion, where capital inflows and commercial registrations converge with illicit financial practices to sustain Russia's wartime economy.

Turning then to the political effect of this new relationship, it is undeniable that this glut of capital is changing the character of the Georgian state. The standoff between the EU, the UK, and Georgia dates back to October 2023, when the European Parliament issued a critical resolution stating that Georgia's parliamentary elections were "neither free nor fair," citing irregularities and intimidation. EU Observers articulated similar concerns in October 2024, when the European Commission suspended Georgia's accession process, triggering a wave of popular demonstrations. At the time, the political system was being polarised among pro-EU and pro-Russian political forces. The Georgian government's reaction was heavy-handed or, in the words of David Lammy, the UK's then-Foreign Secretary, "shocking and anti-democratic." The outgoing leadership of the U.S. State Department suspended its strategic partnership with Georgia, citing the country's blatant violation of its constitutional commitment to Euro-Atlantic integration.³⁰ Clearly, Georgia's organic link with the political project of a "rules-based order" is severed.

The evolution of Georgia's foreign policy from a constitutionally enshrined Euro-Atlantic trajectory to a multi-vector approach speaks less to the agility, patriotic sentiment, and sovereign cunning of the local elite and more to the kind of relationship being forged between oligarchs and the state. While it is true that Georgia's repression of the opposition has become less "perceived" and more an uncontested statement of fact, there is now a school of thought claiming that this is ultimately a domestic affair that should be no one else's business.³¹ That school of thought extends to Slovakia and Hungary. It is challenging to distinguish between economic interests and ideological motivations as Bratislava and Budapest extend their protection to the Georgian Dream government, a "peace-oriented, patriotic, conservative party."³²

Hungary's willingness to break ranks with EU member states has a price, as Budapest was able to secure discounted long-term gas contracts with Gazprom, importing Russian oil via the Druzhba pipeline through 2023–2024. Under Prime Minister Robert Fico's renewed mandate (October 2023), Bratislava shadowed Budapest in using its veto power to shield domestic industry from energy cost shocks. Both governments framed their stance as a "pro-peace" position, arguing that sanctions prolong the conflict

³⁰ Politico, US suspends strategic partnership with Georgia after EU membership talks halted, November 2024, <https://www.politico.com/news/2024/11/30/us-suspends-partnership-georgia-00192044>

³¹ IDFI, Russian Capital and Russian Connections in Georgian Business, June 2023, <https://idfi.ge/public/upload/Analysis/Russian%20capital%20and%20Russian%20connections%20in%20Georgian%20business.pdf>; CRRC Georgia, Russian Émigrés in Georgia, 2023, <https://crrc.ge/en/russian-emigres-in-georgia/>; Federal Agency for Civic Education (Germany), Migration from Russia to Georgia and Armenia, 2023, <https://www.bpb.de/themen/migration-integration/regionalprofile/english-version-country-profiles/550062/migration-from-russia-to-georgia-and-armenia/>; UK Government, Joint Statement on Recent Developments in Georgia, July 2025, <https://www.gov.uk/government/news/joint-statement-on-recent-developments-in-georgia>

³² Zoltán Kottász, Hungary and Slovakia Veto EU Sanctions Against Georgia, The European Conservative, December 2024, <https://europeanconservative.com/articles/news/hungary-and-slovakia-veto-eu-sanctions-against-georgia/>

and harm European economies more than Russia. By the same token, one could say that violating sanctions provides states with a competitive advantage.

This peace-loving rhetoric enabled Bratislava and Budapest to justify their economic self-interest under the guise of diplomatic restraint, as evident in their joint opposition to the EU's 18th sanctions package in June 2025.³³ Support for the Georgian government echoes and legitimises the term "Global War Party" used by Prime Minister Irakli Kobakhidze to accuse the Georgian opposition of conspiring with Western governments to instrumentalise Georgia and open a "second front" in the Caucasus.³⁴ Like his EU counterparts in Central Europe, the Prime Minister of Georgia was delegitimising pro-Western actors as essentially subversive and anti-patriotic.³⁵ Ideology in this context is directly related to a particular vision for the scope of political power afforded to governments that are not weighed down by international governance standards.³⁶

This sovereigntist ideological assertiveness has regulatory implications, as Georgia provides an additional layer of protection to loyal oligarchs and financial institutions based in the country.³⁷ Like Hungary and Slovakia, Georgia has developed a taste for a Russian kind of political "soft power" as the state becomes the sole custodian of oligarchic interests. In May 2024, Georgia's government passed the "offshore law" offering one-time tax exemptions for individuals moving businesses and assets from offshore zones to Georgia. This was explicitly pitched as a response to increased transparency and tax enforcement in Western jurisdictions, and for those "worried about getting sanctioned by the West," as expressly stated by Georgian MP Paata Kvizhinadze.³⁸ Georgia is hardly unique in adopting such measures. A number of

³³ Bruegel, The risks for Russia and Europe: how new sanctions could hit economic ties, February 2022, <https://www.bruegel.org/blog-post/risks-russia-and-europe-how-new-sanctions-could-hit-economic-ties>; Euractiv, Slovakia, Hungary refuse to back latest EU sanctions on Russia, says Szijjártó, June 2025,

<https://www.euractiv.com/section/politics/news/slovakia-hungary-refuse-to-back-latest-eu-sanctions-on-russia-says-szijjarto>; Zsuzsanna Végh, Hungary in waiting: The Slovak challenge for the EU and Ukraine, European Council on Foreign Relations, November 2023, <https://ecfr.eu/article/hungary-in-waiting-the-slovak-challenge-for-the-eu-and-ukraine>

³⁴ FactCheck Georgia, "Global War Party," "Second Front," "Unprecedented Election Meddling" From the West and Other Propaganda Narratives Dominating Georgian Information Space in the Run-up to the Key 2024 Elections, October 2024, <https://factcheck.ge/en/story/41691-global-war-party-second-front-unprecedented-election-meddling-from-the-west-and-other-propaganda-narratives-dominating-georgian-information-space-in-the-run-up-to-the-key-2024-elections>; Georgian Elections Observatory (GEO), "Global War Party," "Second Front," "Unprecedented election meddling" from the West and other propaganda narratives dominating Georgian information space in the run-up to the key 2024 elections, October 2024,

<https://geoelections.ge/reports/global-war-party-strategic-framing>; International Society for Fair Elections and Democracy (ISFED), The Global War Party Conspiracy: Its Origins, International Examples and Associated Threats, July 2024, <https://isfed.ge/eng/publications/the-global-war-party-conspiracy-its-origins-international-examples-and-associated-threats>

³⁵ European Parliament, EU Response to democratic backsliding and Russification in Georgia: sanctions on Bidzina Ivanishvili and other responsible actors, June 2025, https://www.europarl.europa.eu/doceo/document/P-10-2025-002424_EN.html; Tom Boughton and Elene Janadze, Caught in the middle: Georgia's recent history through the sanctions lens, S-RM Intelligence, April 2025, <https://www.s-rminform.com/latest-thinking/caught-in-the-middle-georgias-recent-history-through-the-sanctions-lens>; Reka Jozwiak, Georgia Faces Possible EU Sanctions and Visa Review Over Democratic Backsliding, Radio Free Europe/Radio Liberty, June 2025, <https://www.rferl.org/a/eu-georgia-sanctions-democracy-visa-trade/33458465.html>

³⁶ Ibid.

³⁷ Embassy of Georgia to the United States, Chronology of major events in Georgia–EU cooperation, January 2018, <https://georgiaembassyusa.org/wp-content/uploads/2018/01/Chronology-of-Major-Events-in-Georgia-EU-Cooperation.pdf>

³⁸ Maia Nikoladze, Its "foreign agent" bill caused an uproar. Now Georgian Dream has fast-tracked another concerning law, Atlantic Council, Atlantic Council, May 2024, <https://www.atlanticcouncil.org/blogs/new-atlanticist/its-foreign-agent-bill-caused-an-uproar-now-georgian-dream-has-fast-tracked-an-other-concerning-law/>; Eurasianet, Georgia, Kyrgyzstan face scrutiny over possible sanctions busting, March 2024, <https://eurasianet.org/georgia-kyrgyzstan-face-scrutiny-over-possible-sanctions-busting>

states, anticipating future financial restrictions or international sanctions, have introduced asset repatriation laws aimed at shielding wealth from external regulation before it could be targeted. Türkiye's 2016 Tax Amnesty Law (Law No. 6736) permitted taxpayers to repatriate foreign assets without taxation or scrutiny of their origin, thereby facilitating the return of offshore funds under conditions of near-total opacity.³⁹ Similarly, Chile's 2014 Tax Reform Act provided a temporary window for residents to declare and repatriate offshore investments until 2016, a provision that provoked intense domestic debate amid allegations that it legitimised tax evasion.⁴⁰ Other countries, including Italy, Spain, Taiwan, and South Africa, introduced comparable legislation, though these were largely framed as efforts to counter tax evasion or incentivise expatriate reinvestment rather than to protect illicit assets. In the Georgian case, however, the motivation was far more transparent: to encourage the return of capital before anticipated sanctions could complicate transfers or, in the worst case, result in the outright freezing of foreign-held assets.

According to the IDFI report (2023), there was a notable uptick in Georgian nationals reclaiming ownership stakes in companies previously registered in Russia. This trend was driven by reputational risk, currency volatility, and the desire to operate under Georgian jurisdiction. Anecdotal evidence from Batumi and Tbilisi suggests that Georgian diaspora families – especially those with historical ties to Russia – have been investing in residential and commercial properties since 2022. This includes capital previously invested in Russia, now redirected into the Georgian tourism, hospitality, and construction sectors.⁴¹

Regulatory 'gaps' have become a consistent *modus operandi* for Georgian governance. As noted by a seasoned corporate legal expert in Tbilisi, the National Bank of Georgia in 2023 created a safe financial harbour for the Russian International Trade Bank (VTB), issuing guidance that suspended the lender's international transactions without revoking its license, thereby forcing it to work through Georgian banks to access global capital transfer channels. A similar layer of protection was afforded to Georgian individuals who held Russian assets through the introduction of legislation stipulating that compliance with international sanctions does not automatically apply unless a Georgian court makes a final decision. This choice evolved into a scandal, as one of the individuals under international sanctions was the former Prosecutor General, Otar Partskhaladze. As explained by the Senior Partner at MKD Law and Chairman of the Georgian think tank Geocase, Victor Kipiani, the controversy placed private Georgian lenders – notably the Bank of Georgia and TBC Bank in a difficult spot. Both lenders are listed on the London Stock Exchange and, therefore, bound by international law. At the same time, as Georgian

³⁹ Laila Martin and Agatino Camarda, Best Practices in Tax Amnesty and Asset Repatriation Programmes, Transparency International, September 2017, https://knowledgehub.transparency.org/assets/uploads/helpdesk/Best_practices_in_tax_amnesty_and_asset_repatriation_programmes_2017.pdf

⁴⁰ IMF Committee on the Balance of Payment Statistics, Treatment of External Assets and Related Income Declared Under Tax Amnesty in External Sector Statistics, n.a., <https://www.imf.org/-/media/Files/Data/Statistics/BPM6/approved-guidance-notes/b9-treatment-of-external-assets-and-related-income-declared-under-tax-amnesty-in-external-sector-sta.ashx>

⁴¹ Organized Crime and Corruption Reporting Project (OCCRP), Despite Criminal Probe, Georgian Call-Center Scammers Are Back At Work, June 2024, <https://www.occrp.org/en/project/scam-empire/despite-criminal-probe-georgian-call-center-scammers-are-back-at-work>

lenders, they must comply with national regulations. NBG suggests that the “final say” on the matter lies with the management of these commercial Georgian lenders. That means the private lenders become *de facto* regulators when it comes to compliance with international sanctions.⁴²¹

Backdoors to regulation are becoming cruder and more predatory. During this sanctions bubble, the political and institutional transformation of Georgia is attracting other kinds of interest that appreciate protection, such as companies specialising in phone fraud. It appears that the enforcement of international regulatory standards remains weak, with useful Voice over Internet Protocol (VoIP) loopholes and regulatory gaps that enable businesses to defraud thousands globally.

Bursting the Sanctions Bubble

To evaluate policy options, it is essential first to define more precisely what is meant by the term “sanctions bubble.” The metaphor may be understood by imagining Georgia’s economy as a stick of bubble gum. When chewed and inflated, the gum undergoes a stress test: the bubble expands only as long as the gum retains its structural integrity. In this analogy, the international restrictions imposed on Russia and its partners exert pressure on Georgia’s political economy, testing its resilience and adaptive capacity. Each new circumvention strategy – whether through re-exports, regulatory arbitrage, or financial loopholes – further inflates the bubble. The critical question then arises: how far can the bubble expand before it bursts?

Georgia, more so than Russia in some respects, has been stretching this bubble to its limits. Through a combination of economic distortions, political capture, and the creation of a parallel system of financial and commercial flows, the Georgian state has not merely blunted the effects of international sanctions but actively profited from them. These mechanisms have redirected funds into unregulated markets, sustained temporary windfalls for local elites, and provided a platform through which Russian actors – and, by extension, other kleptocratic systems – can launder and shelter illicit wealth. In this sense, Georgia has transformed sanctions into opportunity, embedding itself as an indispensable node in sanctions-evasion networks. The fragility of such a system should not be underestimated. Like the bubble of gum, it may appear resilient in the short term, but its strength has yet to be tested under conditions of maximum external pressure. What is certain, however, is that when the bubble does burst – when the strain of cumulative restrictions becomes unsustainable – the collapse will be sudden and severe, leaving the Georgian economy deflated and distorted, a diminished shadow of the inflated structure that once appeared so profitable. It is within this conceptual framework that Georgia’s role in the global sanctions-evasion system must be understood.

The systemic significance of the state in ‘protecting’ individual oligarchs eventually turns into a system in which individuals owe their property and liberty to the government. At this point, they become custodians rather than owners of their assets. In this scheme, reviewing the effectiveness of the sanctions’ regime is not merely about limiting Russian influence or weakening the country’s economy’s ability to continue fighting in Ukraine, but also about affirming a paradigm of governance.

⁴² Victor Kipiani, Look Beyond MIR to Assess Appetite for Sanctions Compliance, Caucasus Watch, April 2024, <https://caucasuswatch.de/en/interviews/victor-kipiani-look-beyond-mir-to-assess-appetite-for-sanctions-compliance.html>

In theory, the key advantage of sanctions applied to individuals is that the economic effect is targeted at the political architects of repression rather than the country and its citizens. In this case, sanctions may have backfired, allowing the Russian government to solidify an increasingly exclusive relationship with its oligarchs and its economic sphere of influence. In the case of Georgia, the sanctions regime has enabled the government to offer ‘protection services’ with a clientele that extends both within Georgia and Russia. For those who claim that Georgia is becoming a proxy of Russia, the assessment is not entirely accurate. Georgia is not simply subordinated to Moscow’s agenda; rather, it is profiting from Russia by facilitating the continuation of its war effort. The leadership of Georgian Dream presents this posture as the pursuit of “multi-vector opportunities,” positioning it as pragmatic statecraft. Yet in reality, this strategy is narrowing rather than widening Georgia’s options. Should Tbilisi sever its ties with the West – an outcome that appears increasingly plausible – it would find itself in an exclusive, asymmetric relationship with Russia, where dependence replaces choice. At that stage, the Georgian government will discover the limits of attempting to “punch above its weight,” as the very leverage it cultivated through sanctions evasion and opportunistic alignment will transform into a form of complete – and possibly public – subordination to Moscow’s interests.

The question then is whether the West has the political will to address the challenge at hand. The answer is not straightforward. At first glance, the ability of Europe and the United States to collaborate as a *de facto* rules-based order is increasingly questionable. Economists and legal experts agree that the paradox of sanctioning individuals while treating their companies as independent legal entities is problematic. The gaps in the sanctions’ regime exist within a broader context of economic globalisation that enables them. At the same time, there has been an insistence on sanctioning figures like Bidzina Ivanishvili, without the accompanying political resolve to identify, freeze, and confiscate, the impact risks being more reputational than politically significant.⁴³

The European Commission and most member states have taken a firm stance against Georgia, introducing entry bans and asset freezes for Georgian officials. However, the consensus is disrupted by Slovakia and Hungary, which prevent an escalation of individual sanctions through visa bans and asset freezes.⁴⁴ The European Commission now has to act upon existing regulations without relying on the European Council, where unanimity is required. Indeed, in December 2024, Hungary and Slovakia vetoed a proposed sanctions package targeting Georgian officials involved in police violence and democratic backsliding. Unable to introduce measures via the Council, in January 2025, the Commission deployed measures that could be taken with a qualified majority, such as suspending visa-free travel for Georgian

⁴³ Tefta Kelmendi, A narrow window: How Europeans can still halt Georgia’s authoritarian turn, European Council on Foreign Relations, May 2025, <https://ecfr.eu/article/a-narrow-window-how-europeans-can-still-halt-georgias-authoritarian-turn/>; Erikard Jozwiak, EU Eyes Sanctions And Visa Moves Over Georgia’s Political Crackdown, Radio Free Europe/Radio Liberty, July 2025, <https://www.rferl.org/a/eu-georgia-crisis-sanctions-options/33473820.html>

⁴⁴ Rikard Jozwiak, Hungary, Slovakia block EU sanctions against Georgian leaders, Radio Free Europe/Radio Liberty, December 2024, <https://www.rferl.org/a/georgia-hungary-orban-slovakia-fico-eu-sanctions-visa/33241932.html>

diplomats and officials and reducing support for defence cooperation.⁴⁵ In sum, the EU has limited scope for policy innovation and its ability to act as a bloc is curtailed.⁴⁶

Doing what is politically possible, rather than reviewing the effectiveness of sanctions tools, is proving unproductive. As argued by the former Georgian Ambassador to the EU, Natalie Sabanadze, the direction of travel of the European Commission, which currently threatens to extend suspension of visa liberalisation for specific bureaucrats to ordinary citizens, points exactly in the wrong direction.⁴⁷ It is an admission of political impotence to target individuals, substituting what should be done with what can be done. This falls into the hands of the government, which portrays the standoff with Brussels as a last stand for national dignity and sovereignty. In Washington, too, the appetite for sanctions escalation has decreased, particularly against individuals. The last time the US and the UK jointly announced sanctions against senior Georgian government officials was in December 2024.⁴⁸

Currently, Euro-Atlantic coordination is weak. The UK sanctioned four senior Georgian officials in April 2025, including the General Prosecutor and the Head of the Special Investigatory Service, citing their failure to investigate abuses. These individuals overlapped with U.S. visa restrictions imposed against 110 Georgian persons introduced in 2024 and were more of a consolidation of existing measures than a step forward.⁴⁹ While the mobility of these individuals is impeded, there are no additional measures to freeze their assets, and with each passing day, their individual asset protection strategy evolves. While the U.S. has been reviewing issued sanctions programs, as of September 2025, Georgian individuals, institutions, or sectors have not been targeted. Perhaps more significantly, as suggested by Irina Mamulashvil of the RUSI Centre for Finance and Security, individual sanctions target middle management or 'clogs' in the government machine rather than the actual engineers of subversive economic governance.

The question then is how sanctions can retain their legitimacy and effectiveness in the present context. Sanctions remain a potent instrument, particularly in states with strong rule of law credentials, such as the Netherlands. The Vice Chair of the Export Controls & Economic Sanctions Committee of the American Bar Association, Sebastiaan Bennink, cites a case involving a Dutch shipbuilder that exported cranes and logistics technology to Russia. This disruption of supply-and-demand chains helps not only in restoring the moral authority of the EU but also enables more targeted strikes against specific economic conglomerates. In sum, if one cannot unveil, expose, and disrupt the business interests of oligarchs with interests and assets in Europe, one can surgically target their business model, targeting their companies rather than their country of origin alone. This kind of action does not necessitate an en-bloc action by

⁴⁵ The Brussels Times, Hungary and Slovakia block EU sanctions against Georgia, December 2024, <https://www.brusselstimes.com/eu-affairs/1358417/hungary-and-slovakia-block-eu-sanctions-against-georgia>; Rikard Jozwiak, Hungary, Slovakia block EU sanctions against Georgian leaders, Radio Free Europe/Radio Liberty, December 2024, <https://www.rferl.org/a/georgia-hungary-orban-slovakia-fico-eu-sanctions-visa/33241932.html>

⁴⁶ The Brussels Times, Hungary and Slovakia block EU sanctions against Georgia, December 2024, <https://www.brusselstimes.com/eu-affairs/1358417/hungary-and-slovakia-block-eu-sanctions-against-georgia>

⁴⁷ Civil Georgia, EU Commission Letter to Tbilisi Warns of Visa-Free Suspension, Lists Recommendations, July 2025, <https://civil.ge/archives/692834>

⁴⁸ DW, US, UK sanction Georgian officials over protest crackdown, December 2024, <https://www.dw.com/en/us-uk-sanction-georgia-officials-over-protest-crackdown/a-71113620>

⁴⁹ US Department of the Treasury, Treasury Sanctions Georgian Officials and Extremists for Serious Human Rights Abuse, September 2024, <https://home.treasury.gov/news/press-releases/jy2580>

the EU but can be achieved through plurinational cooperation among willing coalitions of regulators within existing normative frameworks.

Accommodating to the political context matters. While a more assertive action that would take on the economic and ideological structure of the Georgian government would be consistent with EU conditionality, this cannot be achieved as the member states cannot reach a consensus. Increasing the cost of sanctions evasion should be possible, but only if one masters the political resolve required to close regulatory gaps in and around the EU. In summary, holding onto maximalist aspirations may be counterproductive. Nonetheless, the priority and ultimate objective of sanctions against individuals is not to punish the state, but rather to reduce the regime's ability to sell protection to its elite.

In this scheme, the priority is to place a wedge between governments, such as those in Georgia, and individual businesspersons. This cannot be achieved by lowering the legal benchmark of designation, lowering the moral authority of Western regimes and feeding a populist narrative that equates Russian and Western governance standards. There are both positive and negative approaches to drawing that wedge.

On the positive side, efforts should be made to encourage defections from the Russian ecosystem to the West. The Russian-American economist, Vladislav Inozemtsev, has criticised the lack of political resolve to bolster the effectiveness of sanctions without alienating Russian oligarchs. Among his proposals, which may be more feasible in Georgia, is the creation of a high-risk fund that would be willing to buy off assets at a fraction of their value, enabling individuals to 'defect' from the Russian or Georgian sphere of influence while providing the West with a normative lever. Whether this approach is practicable is of secondary significance; what appears essential is pursuing a direction of travel that seeks specific results in a political context by moving from sanction regimes to individualised approaches.

On the negative side, normative action needs to be more precise, clearly scoped to affect key individuals by limiting their access to equity, loans, assets, and power. Going after a "class of people" is difficult because global economic governance has evolved to enable individuals to evade taxes, sanctions, travel restrictions, and asset seizure. While it is difficult to coordinate policy across the board, particularly as many states have built their development model on a foundation of 'competitive regulatory regimes,' a sniper's approach should still be feasible.

In sum, to burst the sanctions bubble, one cannot continue inflating it in the hope that it will burst. A pin is in order.