

# Sanctions on Russia and Economic Impact for Central Asia

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## **Key Points**

- With the Russian declaration of the independence of the Donetsk and Luhansk People's Republics and the start of Russia's declared "special military operation" in Ukraine, the West imposed extensive collective anti-Russian sanctions and a few foreign corporations suspended their activities in Russia.
- The Central Asian States (CAS) expressed a neutral stance on the Russia-Ukraine crisis, in particular Kazakhstan, Tajikistan and Kyrgyzstan abstained in the vote on the UN resolution against Russia and called on the parties to the conflict to resolve issues peacefully through diplomatic means.
- The Russian invasion of Ukraine damaged Moscow's image in CAS, which further deteriorated as a result of Russian losses against the Ukrainian armed forces.
- To advance BRI, China is focusing on the trans-Caspian rail and transport route through Kazakhstan, Azerbaijan, Georgia, and Türkiye.
- Nevertheless, Russia and CAS continue to maintain close economic ties.

## **Introduction**

The Russian invasion of Ukraine has created a geopolitical challenge to the world order. The Russian attack violated not only Ukraine's security and sovereignty, but also the rules-based international order and created a global economic, political and security crisis. Central Asian States (CAS) are among the most significantly affected by the conflict between Russia and Ukraine. Central Asia has deep historical, economic, political and trade ties with Russia. Any crisis and every event taking place in Russia will directly or indirectly affect the countries of Central Asia. At the beginning of the Russian invasion, the prices of oil and natural gas increased sharply, bringing huge economic benefits to energy exporting countries including Kazakhstan, Turkmenistan, Tajikistan, Kyrgyzstan, and Uzbekistan.<sup>1</sup>

The energy region is becoming one of the centers of great power rivalry. The demographic structure, culture, linguistics, as well as the political map of the region, were formed and changed under the influence of the great powers. Neighbors such as Russia and China have influenced every development in the region. The Russian decision

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<sup>1</sup> Стан Прибылов, «Могут ли страны Центральной Азии заменить Россию на международном рынке ресурсов?», Голос Америки (Voice of America-Russian news), May 1, 2023 <https://www.golosameriki.com/a/how-can-kazakhstan-and-central-asia-help-power-and-feed-the-world/7073851.html>, (accessed May 2, 2023).

to invade Ukraine was a turning point for Moscow's influence in Central Asia.<sup>2</sup> The war is weakening Russia and damaging its image. Russia's inability to protect its influence will be an opportunity for China to fill the gap. In the long term, China could replace Russia as the dominant power in Central Asia.

### Political and Security Implications

The CAS were all members of the Soviet Union, while at the time Moscow and Kyiv were historically and politically close allies. Unlike Ukraine, relations between the CAS and Russia are unique because geography and resultant relative isolation from Western influence amplified Moscow's influence on the region's security, culture, economy, and politics. This 'real politic' and history make CAS hesitant to fully condemn Putin's actions.<sup>3</sup>

The CAS found alternative ways to voice their concerns without provoking Russia. While they did not denounce the Russian invasion, they opposed Russian aggression against an independent Ukraine. They demonstrated that they respect Ukraine's sovereignty and territorial integrity by providing them aid. Some anti-war protests were allowed, civil society organizations were permitted to assemble humanitarian aid for Ukraine, and the use of the "Z" sign by pro-war demonstrators in local communities was not widespread. It is telling that the heads of state voiced their support for Ukraine's territorial integrity.<sup>4</sup>

The Russian invasion of Ukraine damaged Moscow's image in Central Asia. Russia was regarded by the CAS as their most favored and trustworthy ally prior to the invasion of Ukraine. Following the invasion, perceptions of Russia have changed from being a crucial CAS ally to a potentially dangerous neighbor.<sup>5</sup> Although Russia continues to be one of the most appealing travel destinations for CAS citizens, an increasing number of people in the region have started to feel uneasy and have changed their opinions of Russia.

The protracted conflict in Ukraine has worn Russia down, exposed its frailties,<sup>6</sup> and damaged Moscow's reputation internationally. Data from the Morning Consult's daily global tracking poll shows that Russia's standing in all countries sampled collapsed in February 2022, when it launched its invasion of Ukraine. Sympathy towards Russia tends to be higher in countries of the Global South such as Brazil and Mexico – the only countries in the sample with a positive net rating of Russia (+5 percent) – than among large European countries, the US and Japan.

Data from the Morning Consult show that adults in the UK have the most unfavorable attitude towards Russia (-79), followed by people in Japan (-75). This assessment is shared by EU countries like Germany (-68), France (-68), Italy (-69), and Spain (-69). The US public opinion appears to be slightly less hostile to Russia (-62), as the poll also shows that support for US military and economic support for Ukraine tends to be weaker among Republican supporters. Russia is experiencing global isolation, a shrinking economy and diminishing power in CAS. Chinese influence in Central Asia will likely increase as Russia's starts to decline. Due to Russian isolation and Western sanctions, China was forced to discover a new alternate trade route around Russia as part of the "Belt and Road Initiative". China's attention has shifted to the trans-Caspian rail and transport route through Kazakhstan, Azerbaijan, Georgia, and Türkiye.<sup>7</sup>

<sup>2</sup> Paul Stronski, "The Common Theme in Central Asia's Response to Russia's Invasion of Ukraine", Carnegie Endowment For International Peace, March 30, 2022 <https://carnegieendowment.org/2022/03/30/common-theme-in-central-asia-s-response-to-russia-s-invasion-of-ukraine-pub-86764>, (accessed March 31, 2023)

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Eleonora Tafuro Ambrosetti, "A Dangerous Neighbour: Russia's Image After Ukraine", ISPI, September 6, 2022, <https://www.ispionline.it/en/publication/dangerous-neighbour-russias-image-after-ukraine-36056>, (accessed March 31, 2023).

<sup>6</sup> Invasion of Ukraine slammed Russia's global reputation, poll shows, Politico, January 17, 2023, <https://www.politico.eu/article/russia-ukraine-war-invasion-slammed-russias-global-reputation-poll-shows>, (accessed March 31, 2023).

<sup>7</sup> Sophia Nina Burna-Asefi, "New Hopes for Old Projects? China Gears Up Rail Efforts With Kazakhstan", The Diplomat, March 27, 2023, <https://thediplomat.com/2023/03/new-hopes-for-old-projects-china-gears-up-rail-efforts-with-kazakhstan>, (accessed March 31, 2023).

Türkiye, whose influence in Central Asia has increased in recent years, has announced that it is seeking membership in the Shanghai Cooperation Organization (SCO).<sup>8</sup>

After the outbreak of war in Ukraine, Kazakhstan increased efforts to align with the US, Türkiye, and China.<sup>9</sup>

### **Effects on Central Asian Economies**

Russia and CAS still have close economic ties. For the largely landlocked region, Russia is regarded as a source of investments, commodities, and transit routes. For 2.5 to 3 million people in the area, Moscow continues to be a source of employment and income. CAS economies have been directly impacted by the conflict in Ukraine, both favorably and unfavorably. As it did in every region of the world, the war led to inflation and rising commodity prices in the area. People, particularly those on low and middle incomes, are the most affected by these developments. Migrant workers are another volatile group that has been severely impacted. Thousands of foreign businesses have left Russia since the war started.<sup>10</sup> A few Russian business owners and entrepreneurs moved abroad. This resulted in rising unemployment, along with inflation in Russia. This may have a knock-on impact on some CAS countries which are still dependent on cash remittances from Russia. Russia has closed the labor market for migrants, it has fewer jobs available, and many will have to return home or seek other vacancies. It would not be that easy for them.<sup>11</sup>

Russia's economy is currently contracting because it does not provide enough jobs for its citizens.<sup>12</sup> The worst-case scenario is that the countries of origin are unable to offer sufficient employment opportunities and competitive wages.

Increased energy prices, particularly for exported energy resources, are a result of the war. With higher prices and greater demand, Kazakhstan and Turkmenistan benefit. Russian citizens seeking to avoid international expenses and secure their foreign currency savings do so in Central Asia, to the benefit of republics in the region.<sup>13</sup> The large influx of Russians, Belarusians, and Ukrainians who have settled in the area and started businesses has been advantageous for the CAS; there has been an increased interest in visits to the special economic zones in Tashkent.<sup>14</sup>

While Russia is struggling with economic difficulty and a shrinking economy, remittance into Central Asia is increasing overall. Recently, the European Bank for Reconstruction and Development (EBRD) continues to obtain remittances from Moscow to Kyrgyzstan, Tajikistan, and Uzbekistan. The total amount of deposits to Uzbekistan in January-June 2022 was about \$6.5 billion, more than double compared to the previous year.<sup>15</sup> This phenomenon is likely not

<sup>8</sup> Bermet Talant, "The war in Ukraine is pushing Central Asia away from Russia", the interpreter, September 20, 2022, <https://www.lowyinstitute.org/the-interpreter/war-ukraine-pushing-central-asia-away-russia>, (accessed April 10, 2023).

<sup>9</sup> Evan Gershkovich, "Russia's invasion of Ukraine has Kazakhstan and its neighbors rethinking alliances and reaching out to the U.S.", The Wall Street Journal, July 24, 2022, <https://www.wsj.com/articles/russia-ukraine-kazakhstan-central-asia-11658439761>, (accessed April 10, 2023).

<sup>10</sup> "Over 1,000 Companies Have Curtailed Operations in Russia—But Some Remain", Chief Executive Leadership Institute, June 10, 2023, <https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain>, (accessed June 12, 2023).

<sup>11</sup> Inna Chernyshevskaya, "How has Mutual Trade of Central Asia with Ukraine and Russia Changed?", Central Asian Bureau for Analytical Reporting (CABAR), July 22, 2022, <https://cabar.asia/en/how-has-mutual-trade-of-central-asia-with-ukraine-and-russia-changed>, (accessed June 12, 2023).

<sup>12</sup> Kanat Altynbayev, "Russia's demographic troubles worsen as source of labor migration runs dry", Caravanserai, May 18, 2023, [https://central.asia-news.com/en\\_GB/articles/cnmi\\_ca/features/2023/05/18/feature-01](https://central.asia-news.com/en_GB/articles/cnmi_ca/features/2023/05/18/feature-01), (accessed June 12, 2023).

<sup>13</sup> Aaron Eglitis, "Putin's War Boosts Central Asian Economies as Russians Relocate", Bloomberg, May 16, 2023, <https://www.bloomberg.com/news/articles/2023-05-16/putin-s-war-b-in-the-oosts-central-asia-as-russian-businesses-relocate>, (accessed June 13, 2023).

<sup>14</sup> Anton Usov, "Central Asia shows strong resilience to geopolitical turmoil", European Bank for Reconstruction and Development, September 28, 2022, <https://www.ebrd.com/news/2022/central-asia-shows-great-resilience-to-geopolitical-turmoil-.html>, (accessed June 13 March 31, 2023).

<sup>15</sup> Yunis Sharifli, Chia-Lin Kao, and Bermet Derbishova, "Russia's War in Ukraine and Its Impact on Central Asia", The Diplomat, October 24, 2022, <https://thediplomat.com/2022/10/russias-war-in-ukraine-and-its-impact-on-central-asia/>, (accessed April 6, 2023).

reflecting an increase in remittances from Russia-based CAS nationals; instead, this is from migrant workers who have liquidated their wealth and collected their earnings when they were forced to leave Russia. A sudden increase in flow of remittances into CAS could be followed by a sharp decline in steady state remittance from Russia; World Bank predictions are that remittances will fall by 21% in Uzbekistan, 22% in Tajikistan and 33% in Kyrgyzstan.<sup>16</sup>

The trade environment in Russia has deteriorated since the beginning of the invasion of Ukraine and the subsequent Western sanctions against Russia. Increasingly, Russian companies are relocating outside of the Russian border. CAS are becoming one of the most attractive destinations for Russian companies. Since March 2022, around 500-800 Russian entities have come to Kazakhstan per month in the first eight months of this year, Kyrgyzstan registered 546 companies with stakeholders from Russia, including \$600 million into the Jeeroy gold mine, and Uzbekistan registered nearly 2,700 companies from Russia.<sup>17</sup> According to recent EBRD reports, the Central Asia economy could grow by 4.3% this year and 4.9% next year.<sup>18</sup>

### Effects on Bilateral Trade Relations

The US and Western allies have repeatedly asserted that they are aware of the challenges and will do everything in their power to support the economy of CAS and lessen the negative impact of international sanctions on the local economy. But CAS are among the list of “increased vigilance for potential Russian and Belarusian export control evasion attempts” in 18 states identified as “common transshipment points”<sup>19,20</sup>



■ Common transshipment points of CAS.

CAS, like Kazakhstan and Tajikistan, gain considerable income by importing goods including consumer electronics, household appliances, computers, car spare parts, and electronic components that Russia needs, then reselling them

<sup>16</sup> Ibid.

<sup>17</sup> Aleksanda Vasilkova, Irina Osipova, “Russian companies continue to relocate to Central Asia”, Kursiv Media, September 23, 2022, <https://kz.kursiv.media/en/2022-09-22/russian-sompanies-continue-to-relocate-to-central-asia/>, (accessed April 10, 2023).

<sup>18</sup> Anton Usov, “Central Asia shows strong resilience to geopolitical turmoil”, The European Bank for Reconstruction and Development (EBRD), September 28, 2022, <https://www.ebrd.com/news/2022/central-asia-shows-great-resilience-to-geopolitical-turmoil-.html>, (accessed April 15, 2023).

<sup>19</sup> Catherine Putz, “Russia’s War Puts Central Asia’s Economies in a Difficult Position”, The Diplomat, July 14, 2022, <https://thediplomat.com/2022/07/russias-war-puts-central-asias-economies-in-a-difficult-position/>, (accessed April 24, 2023) These 18 States included - China, Armenia, Georgia, Brazil, Israel, India, Türkiye, Kazakhstan, Tajikistan, Kyrgyzstan, Nicaragua, South Africa, Taiwan, Singapore, Serbia, Uzbekistan, the United Arab Emirates, and Mexico.

<sup>20</sup> Ibid.

to Moscow.<sup>21</sup> International sanctions seek to curtail this, and China may seek to capitalize on this. In addition, if Russian or Belarusian companies persist in circumventing international trade embargoes, CAS may also be subject to such embargoes. One example was Promcomplektlogistic from Uzbekistan, which was the first Central Asian enterprise to be sanctioned for vigorously backing up the efforts of Radioavtomatika, a Russian business, to bypass the sanctions.<sup>22</sup>

Over the past five years, Russia's trade with Central Asian countries has doubled and surpassed 37 billion US dollars. Bilateral trade with Central Asia increased by an additional 16% in the first half of 2022. With around 5 billion US dollars, Russia is one of the leading investors in the Central Asian economies.<sup>23</sup> But in the long term, as the Russian economy contracts because of the conflict and international sanctions, Russia's influence on trade and commerce in Central Asia could deteriorate. By contrast, Chinese influence is growing, and Central Asia's search for alternate partners and trade routes are likely to accelerate this trend.

### **Analysis**

- Sanctions against Russia offer opportunities and challenges for CAS, but other actors such as the US, China and the EU can take advantage of this situation. It is now up to CAS to strategically channel their interests amongst all peers.
- Western sanctions against Russia offers an opportunity to open and diversify the CAS economy, which could benefit them in the medium to long term. However, CAS are currently experiencing negative economic impacts due to their historical dependence on Russia.
- With a new regional geo-politico reset, China is keen in pursuing its economic and political interests. The recent C+C5 summit is aimed at elevating CAS ties with Beijing and aligning them with its 'persuasion campaign' so that China can be seen as a responsible actor in this polarizing world. By contrast, the US, Russia, and the EU are not yet matching such comprehensive initiatives.
- China is attempting to gain dominance in Russia's backyard by creating long-term CAS dependency. It also aims to take advantage of a distracted and increasingly exhausted Russia, currently weakened by the Ukraine war.
- The Russian invasion of Ukraine could be considered an 'inflection point' that alters the regional security dynamics, as CAS now seeks not only autonomy, but also alternative security guarantors.

### **Conclusions**

Russia's dominance in Central Asian politics is closely related to Russia's military power and its security ties with the region. For many CAS, Russia was seen as a security guarantor in the region, but the invasion of Ukraine changed the narrative to some extent.

Russia remains one of the leading trading partners of the CAS and they control the most important trading route for Central Asian trade with the West. CAS are searching for ways to diversify their trade routes to the west and south, away from traditional routes through Russia. They are working with Azerbaijan, Georgia, and Türkiye to expand trade across the Caspian Sea and through the Caucasus to Türkiye and Europe. In the South, they are working with Afghanistan, Pakistan, and India to open the southern corridor.

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<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Chris Devonshire-Ellis, "CIS Heads Of State, and Russia-Central Asia Forum Meetings In Astana: Analysis & Opinion", Russia Briefing News, October 17, 2022, <https://www.russia-briefing.com/news/cis-heads-of-state-and-russia-central-asia-forum-meetings-in-astana-analysis-opinion.html/>, (accessed May 24, 2023).

The Russian invasion of Ukraine has weakened Russia economically, militarily, and financially. It has also damaged its image in the international arena. Russia is no longer the sole security partner with political and economic hegemony in the region.

The US could assist in establishing a more secure and prosperous Central Asia that is free to pursue its own security, economic, and political goals with a range of allies. To do so, the US could coordinate economic development efforts with other nations including as far afield as the EU, South Korea, and Japan. The United States has a fleeting opportunity to fill the gaps and address the security demands of the region while being chosen as a key strategic partner.