

Should the West Sanction Russia's Neighbors in Central Asia?

By [Moscow Times Reporter](#)

September 16, 2024

Russian companies are turning to Central Asia not just as a refuge from political instability, but also as a strategic hub to bypass sanctions. This poses a dilemma for the West: finding a way to disrupt Russia's supply of "battlefield technology" without severing ties with Central Asian economies.



Vladimir Putin, Kazakh President Kassym-Jomart Tokayev and Kyrgyz President Sadyr Japarov. **Evgenia Novozhenina / POOL / TASS**

As Russia lays the groundwork for deeper engagement with Central Asia, with a fresh [presidential summit](#) reportedly in the works, countries in the region are trying to maintain economic distance from their larger neighbor to the north.

In one of the latest examples, Kyrgyzstan's central bank on Sept. 6 [banned](#) the settlement of trade contracts unless goods are shipped directly to Kyrgyzstan. This move could complicate Russian companies' use of Kyrgyz banks for payments to China.

Meanwhile, the refusal of payments by Russian companies through Central Asian banks, including for the purchase of goods from third countries such as China, has increased by 30%, according to a July [report](#) by the RBC business news website.

These challenges come after multiple rounds of Western sanctions targeting Central Asian firms [accused of helping](#) Russia bypass sanctions.

EU sanctions envoy David O'Sullivan [praised](#) Kazakhstan for its cooperation, but it's clear that Central Asian countries face limits in their ability to fully break away from the Kremlin.

This delicate balance presents an ongoing dilemma for Western policymakers: how to deprive Russia of critical military components without driving Central Asian nations closer to Moscow.

Why does Russia need Central Asia?

Russia's neighbors in Central Asia are playing an important role in helping Moscow soften the blow of Western sanctions, as well as the exodus of foreign companies since the full-scale invasion of Ukraine.

Central Asian nations provide Russians with access to goods and financial services that are no longer readily available at home. Many middle-class Russians travel to countries like Kazakhstan or Kyrgyzstan to open bank accounts or purchase Western brands.

Kazakhstan, in particular, has emerged as a hotspot for Russian entrepreneurs. In 2023, it [became](#) the second most popular destination for Russians starting businesses, with 6,100 new companies established — second only to Georgia.

Whether this outcome is a bug or a feature of the Western sanctions regime is up for debate. And while the crackdown against the political opposition inside Russia continues, the economic opportunities offered in countries like Kazakhstan and Uzbekistan may contribute to brain drain and capital flight from Moscow, potentially benefiting the Western alliance.

However, Western policymakers have concerns that Russia could exploit Central Asian countries to reroute goods from the EU, further complicating efforts to isolate Moscow economically.

Embed:



As the EU's exports to Russia dropped by 53% between 2021 and 2023, Kazakhstan's exports to its northern neighbor rose by 39%, Kyrgyzstan's by 90% and Uzbekistan's by 77%.

It is difficult to know for certain how much of this increase is due to Western goods being rerouted through Central Asia to Russia, but it is likely to be a significant proportion.

How does Central Asia help Russia soften the impact of sanctions?

Trade data reveal a significant rise in the export of [dual-use goods](#) — items banned by Western sanctions that can be used in Russia’s military-industrial complex.

Kazakhstan’s exports of these so-called “battlefield goods” to Russia surged by 401% in 2022 compared to the previous year, before dipping slightly by 5% in 2023, according to UN Comtrade data.

Similarly, Kyrgyzstan boosted its exports of the same goods by 400% year-on-year in 2022, with a further increase of 5% in 2023. Uzbekistan saw an even larger rise, with a 430% increase in 2022 and an additional 38% in 2023.

Despite these increases, Kazakhstan remains the top exporter of “battlefield goods,” sending nearly \$300 million worth of such equipment to Russia in 2023.

Embed:



Journalists have documented numerous cases of how dual-use goods end up in Russia via Central Asian countries.

For example, a 2024 report by the Organized Crime and Corruption Reporting Project (OCCRP) [shed light](#) on the alleged scheme to use a Kazakh company, KBR-Technologies LLP, to order high-tech semiconductor production equipment and other goods from Europe for Russia’s needs.

The benefits of an EAEU free trade zone and [informal](#) links between companies in neighboring states enable such schemes, although their scale may be limited.

Embed:



Bloomberg analysis shows that only about 7% of all goods transhipped from Kazakhstan to Russia are [sanctioned](#) dual-use items.

The issue of sanctions evasion worries policymakers enough to talk about it publicly. In the case of Kyrgyzstan, it helped add entire percentage points to its GDP growth, according to Alexey Eremenko, an associate director at the Control Risks consultancy.

Does Central Asia need to comply with sanctions?

So far, no Central Asian countries have joined the West in sanctioning Russia over its invasion

of Ukraine, but they have committed not to assist Moscow in evading these restrictions.

According to Tom Keatinge, director of the Center for Financial Crime and Security Studies at the Royal United Services Institute (RUSI), since the sanctions against Russia are not mandated by the UN Security Council, they lack legal authority in nations that do not impose “unilateral” sanctions, such as the G7 countries and their partners.

In theory, Central Asian nations could align with all Western restrictions on Russia, close their customs to Russian goods and crack down on Russian companies operating within their borders.

In reality, however, implementing such measures would be challenging. Central Asian states are keen to avoid antagonizing the West to preserve their access to the SWIFT international payments system, Western goods and investments.

Yet, maintaining close economic ties with Russia is also crucial. Russia represents 19% of Kazakhstan’s trade turnover, 19% of Kyrgyzstan’s and 17% of Uzbekistan’s. For instance, Uzbekistan [benefits](#) from inexpensive Russian gas imports, with [prices](#) at \$160 per 1,000 cubic meters in 2023, compared to export prices of \$257 to Turkey and \$320 [reported](#) for other markets.

Embed:



Should the West sanction the Eurasian Economic Union?

The EU and the U.S. have employed diplomatic efforts to encourage Central Asian economies to reduce their reliance on Russia, while targeting individual, predominantly small, companies suspected of aiding Moscow.

Overall, U.S. sanctions agency OFAC has added eight Kazakhstani companies, 13 from Kyrgyzstan and 12 from Uzbekistan to its Specially Designated Nationals and Blocked Persons (SDN) list for sanctions related to Russia. Similarly, the EU has [blacklisted](#) entities involved in transferring prohibited goods to Russia.

Some [argue](#) that the West should adopt a [more stringent approach](#) to curbing these violations, potentially by imposing sectoral sanctions on Russia’s neighbors to cut off a range of technologies.

However, there is no indication that the West plans to impose sanctions on Moscow’s neighbors to the same extent as Russia or Belarus.

Part of the reason is that Central Asian governments do not appear to be deliberately facilitating large-scale shipments of Western goods to Russia. And while these countries may lack robust oversight mechanisms, their commitment to sanctions compliance appears “genuine,” according to Alexey Eremenko from Control Risks.

From a geopolitical standpoint, increasing sanctions pressure on Central Asian countries could have the adverse effect of pushing them closer to Russia, as they have little to lose by deepening cooperation with Moscow.

“Whatever sanctions evasion is taking place through Central Asian jurisdictions, it is not yet a game changer,” Eremenko told The Moscow Times by email.

“Direct exposure to sanctions would likely push these countries closer to the likes of Russia and China, while sending a negative message that risks alienating other non-aligned and neutral countries,” he added.

At the same time, the West’s current approach to Central Asian economies has not been fully explored.

“So far, the G7 has used these tools relatively sparingly, but if diplomatic engagement does not work, we can expect to see them used more actively in the coming months,” RUSI’s Tom Keatinge told The Moscow Times.

Eremenko agrees that targeted sanctions against specific entities and individuals in Central Asia are likely. While most of the currently designated entities are small companies, often created to evade sanctions, the West could eventually target larger local businesses or banks involved in these schemes.

“Such a move would indeed be felt by the targeted country, but it would not be too geopolitically disruptive,” Eremenko said.

Original url:

<https://www.themoscowtimes.com/2024/09/16/should-the-west-sanction-russias-neighbors-in-central-asia-a86310>