

THE IMPACT OF SANCTIONS ON RUSSIAN-KAZAKH COOPERATION

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Abstract: *The purpose of the article is to analyze the balance of benefits and risks in cooperation between Russian and Kazakh companies under sanctions pressure, to determine the consequences of a decrease in the activity of interstate relations and to assess the prospects for cross-border cooperation between countries.*

Method - in order to identify the factors of influence of sanctions on economic cooperation between Russia and Kazakhstan, the method of excluded alternative is used, which assumes that the influence of sanctions is less pronounced, the less pronounced a possible alternative to the sanctioned action is.

The hypothesis of the study is the assumption that, despite the threat of secondary sanctions, it is beneficial for the Republic of Kazakhstan to maintain the existing system of cooperative ties between Russian and Kazakh enterprises.

Result. A set of factors has been identified that indicate the high stability of the structure of economic relations between Russia and Kazakhstan to Western sanctions

Conclusion. The study provides for the formation of a long-term monitoring model for assessing socio-economic relations between countries, one of which is under the influence of sanctions.

Key words: *sanctions, Russian-Kazakh relations, cross-border cooperation, foreign trade turnover, transport corridor*

JEL classification: *P33, F51, F15*

1. INTRODUCTION

The Republic of Kazakhstan is of great geopolitical importance for Russia. A significant amount of cargo, which is extremely in demand by both countries, is sent through the republic. The announcement of sanctions against Russia by Western countries has an undoubted impact on the nature of socio-economic relations between the Russian Federation and the Republic of

Kazakhstan, despite the deep internal connection that has formed between enterprises of both countries over a period of their independence. At the moment, at least a quarter of Russian exports and imports are subject to direct sanctions-related bans, and the total number of sanctions has reached about 11 thousand. (Shegirbayev, 2023). The Kazakh company Elem Group is already included in the 13th package of EU sanctions in 2024. In addition, the DA Group company was included in the list of sanctions published by the United States “in connection with two years of Russia’s attack on Ukraine and the death of Navalny.” In these conditions, it is important to balance all possible risks associated with the prospects for the development of Russian-Kazakh cooperation, since it is Kazakhstan that accounts for a significant part of the Russian state border and through which most of the export-import flows are directed.

Research shows that the impact of sanctions on different countries can cause the most unexpected consequences. In one case, sanction intentions may not achieve the desired results and harm the initiators of sanctions (Smeets, M. 2018), but, on the other hand, negative results for the sanction target may be caused not so much by sanctions as by the threat of their announcement (Kaempfer, 2007). Therefore, despite the obvious connection, the processes that generate sanctions and the processes that determine their outcome cause different consequences.

The reason for this discrepancy is that the subjects involved in the sanctions war are not always able to comply with sanctions restrictions, since this contradicts their interests and threatens to destroy the economic system that has been formed over many years. The Russia-Kazakhstan border is almost totally a land border, except for 1,516.7 km of the river border, 60 km of the lake border, and 85,8 km of the border that goes across the sea.

2. DEVELOPMENT OF CROSS-BORDER COOPERATION BETWEEN RUSSIA AND KAZAKHSTAN

Until 1990, the territories of modern Russia and Kazakhstan developed as a single economic complex. A significant part of the territory of the Kazakh SSR, especially its northern side, was poorly developed and required a large investment of labor and capital for its development. With the acquisition of independence, Kazakhstan was faced with the need to form a holistic and balanced national economic system, providing for active cooperation with neighboring countries. Thus, at least 4 stages can be distinguished in the development of cross-border cooperation between the two states.

1. Since the beginning of the 90s, border infrastructure is being formed, checkpoints are being built and the procedure for crossing the state border is being determined.

2. The stage is associated with the establishment of the EurAsEC; after the ratification of the agreement with all member states in 2001, the stage of integration of the economic systems of the participating countries into the common economic space begins. At this stage, a noticeable impetus was given to trade and economic relations between Russia and Kazakhstan, which became the basis for the inclusion of other participating countries. During this period, the activity of interaction between countries in an intermunicipal format increases, joint cultural events are organized, and cross-border trade intensifies.

3. However, the introduction of COVID restrictions in the early 20s. slowed down cooperation between countries, limiting the mobility of business and humanitarian contacts between them, which contributed to the transfer of relations exclusively to the level of interstate cooperation. This third stage soon develops, against the backdrop of Russia's special military operation (SMO), into the suspension of all intermunicipal events and the curtailment of business cooperation between entrepreneurs in border areas.

4. Since the beginning of the SMO, the dynamics of trade exchanges between Russia and Kazakhstan have not undergone significant changes. However, the share of Russia in the structure of foreign trade relations of the Republic of Kazakhstan gradually decreased as the dynamics of trade relations of the Republic of Kazakhstan with other countries increased - from 24.2% in 2021 to 19.4% in 2022. For this period, Russia ranked third among the largest investors in Kazakhstan (Dodonov, 2023).

The introduction of sanctions against Russia in 2023 had a significant impact on the dynamics of trade relations between the countries. Fearing

secondary sanctions for the supply of products and technologies through parallel imports, the leadership of Kazakhstan began to gradually revise previously concluded contracts with the Russian side. However, the country's economic leadership was not ready to completely submit to the dictates of the imposed sanctions. The country is faced with a number of problems that require Russia's active participation and in-depth development of interstate relations.

The introduction of sanctions by Western countries contributed to a significant reduction in imports of equipment and technology from Europe and the USA. And this forced Russia to intensify cooperation with the countries of Asia and the Middle East. As a result of this circumstance, a change in the vector of trade flows contributes to an increase in the cost of logistics and a revision of the structure of incoming imported products. However, research shows, that multilateral sanctions did not divert the trade flows from Western countries, the existence of sanction busting activities against Russian unilateral counter-sanctions, confirming the hypothesis that unilateral sanctions are ineffective and allow for third-country effects. (Aituar, 2021).

The experience of sanctions policy in previous years shows that economic sanctions achieve their goals in less than a third of the cases when they are introduced. (Early, 2015). In the case of Russia, it should be borne in mind that the country has a powerful resource potential that is capable of compensating for trade flows subject to sanctions. The economy of Kazakhstan has historically been integrated into the economic system of the former Union, being one of its constituent parts.

However, the introduction of sanctions against Russia in 2023 had a significant impact on the dynamics of trade relations between the countries. Fearing secondary sanctions for the supply of products and technologies through parallel imports, the leadership of Kazakhstan began to gradually revise previously concluded contracts with the Russian side. However, the country's economic leadership was not ready to completely submit to the dictates of the imposed sanctions. The country is faced with a number of problems that require Russia's active participation and in-depth development of interstate relations.

3. ASSESMENT OF THE IMPACT OF SANCTIONS ON ECONOMIC COOPERATION BETWEEN RUSSIA UND KAZAKHSTAN

Assessing the impact of sanctions on a country's economic development is best done using the eliminated alternative method. The theoretical meaning of this method is that the influence of sanctions is less pronounced, the less visible a possible alternative to the sanctioned action is. The purpose of the method is to identify special parameters of the socio-economic situation of interacting countries according to their influence on the country of the counterparty. The degree of such influence can be determined by the nature of the exclusivity of the resource that is the subject of interstate exchange. Sanctions are designed to limit the possibility of such an exchange by specifically causing damage to one of the parties to such an exchange.

An analysis of the practice of interstate cooperation between countries during the sanctions period shows that the Kazakh side is most interested in using Russia's logistics infrastructure to supply its export products to European markets, oil and gas engineering products, in the creation of components and spare parts for machinery and equipment, as well as in the production of containers for transportation of goods. Over 90% of Kazakh oil exports are delivered through the territory of Russia, transported through the Caspian Pipeline Consortium (Tengiz - Astrakhan - Novorossiysk, CPC) and the Atyrau - Samara oil pipeline, as well as by rail. The throughput capacity of the CPC is 67 million tons per year (with the prospect of increasing to 80 million tons by 2024), and the capacity of the Atyrau-Samara oil pipeline reaches 15–18 million tons per year. (Pylina, 2022a). However, this transport corridor, used for transporting products from China to Europe through Russian territory, has a real alternative in the form of the Trans-Caspian International Transport Route. The EU countries are interested in the development of this route, as well as China, Azerbaijan and Georgia, which, through this project, can improve the state of their transport infrastructure, create jobs on their territory and diversify transport flows to European markets. But the implementation of this project seems too expensive today, since it is associated with significant costs for information services for the route, the development of ports on the Caspian Sea, and administrative costs associated with crossing borders. Consequently, the cost of this option is many times higher than that of the CPC, making it more of a political instrument.

Many enterprises of the Republic of Kazakhstan not only have markets for their products in Russia, but also receive a significant part of their raw materials and components from Russian enterprises. The share of Russian companies in reforming the Kazakh electricity sector is significant, and Russian gas is widely used for gasification of the northern and eastern regions of the country. For environmental reasons, international banks refuse to finance coal-fired generation, which forces the Kazakh side to turn to Russia for help when reconstructing local heating plants. From 2019 to 2023, the number of Russian enterprises in the Republic of Kazakhstan increased from 6.5 thousand to 18 thousand units. At the moment, the number of enterprises with Russian capital is already 45% among enterprises with foreign capital, whereas in 2019 there were only a third.

A special feature of the economy of Kazakhstan is its industrial nature (40% of GDP), which makes it insensitive to sharp fluctuations in market conditions. This can explain the relatively low return on the influx of Russian relocants in 2022. The service economies of Georgia and Armenia received significantly more income from the influx of Russian relocants. (Petrocouncil, 2023) The industries of Kazakhstan itself are also suffering from the Western sanctions policy towards third countries, especially the export-oriented metallurgical and mining industries. (Bozhko, 2022). Since Russia is the main market for industrial products of Kazakhstan, finding an alternative for it seems to be an extremely difficult task.

One of the actual problems of modern Kazakhstan is also the shortage of water resources, since most of the country is located in an arid zone. Solving this problem is impossible without the participation of Russia, which has significant water resources and technologies for regulating the water balance. (Dzhushupova, Bagytkaieva, Nurlybai, Raeva, 2019).

Another important problem of the republic is the noticeable lag of the northern regions adjacent to the borders with Russia. This lag is confirmed by both economic indicators and demographic trends. So, if in one of the large regions of Northern Kazakhstan, the North Kazakhstan region (oblast), there were 592 thousand people in 2010, then in 2020 there are only 548 thousand people. The low population density in the border regions of Northern Kazakhstan does not allow for an active economic policy to be pursued here. Cross-border cooperation between the Russian Federation and the Republic of Kazakhstan in the territory

adjacent to Northern Kazakhstan, where most of the Russian-speaking population of the republic lives, could contribute to the development of this depressed territory.

The situation seems more favorable for the western part of the country (Atyrau region), where the oil production industry is developing and does not show any dependence on the supply of equipment from its northern neighbor. However, in recent years, a record number of Russian enterprises have been registered in the region, and cooperation between one of the most developed regions of the Republic of Kazakhstan and the Astrakhan region is expanding.

In general, restrictions in the development of interstate relations can be removed to a certain extent as interregional relations develop. Agreements concluded between the regions of the two countries allow timely and flexible decisions to be made that benefit companies operating in these regions. In addition, at the regional level, the impact of sanctions is less noticeable. Subjects of the Russian Federation, within the framework of their powers, actively promote their products to the markets of the Republic of Kazakhstan, building mutually beneficial cooperation with the neighboring country. Thus, for the Omsk region, Altai Territory and a number of other border regions, the volume of foreign trade turnover with Kazakhstan is at least 20% of the total volume. (Pylin, 2022b)

According to the Kazakh Center for Statistics of Foreign, Mutual Trade and Commodity Markets, trade turnover between Russia and Kazakhstan in 2023 amounted to almost \$26 billion, which is commensurate with 18.6% of its volume. Exports to Russia amounted to \$9.8 billion (12.4% of total exports) and \$16 billion of imports (26.5%) of its total volume. The Russian Federation, even under sanctions pressure, continues to occupy a huge share of the foreign trade turnover of the Republic of Kazakhstan: with the countries of the EAEU its size is 91.1%, followed by the Kyrgyz Republic - 5.5%, the Republic of Belarus - 3.2% and the Republic of Armenia - 0.2%. Russia also leads as a supplier of imported products to the republic, ranking second after China. Russia's share in Kazakh exports is slightly lower: Italy (18.9%), China (18.7%), Russia (12.4%), the Netherlands (5.2%), Turkey (5%), Republic of Korea (4.8%). The structure of Kazakhstan's exports to Russia is dominated by food products (42.4%), mineral products (20.4%) and chemical products (16.6%), machinery and equipment, and Kazakhstan's imports from Russia consist mainly of food products, mineral products, chemical products

and wood. (Bureau of national statistics, 2023) Thus, using the excluded alternative method, it is possible to identify several parameters for comparing the social and economic indicators of two countries, and also to assess the stability of interstate economic relations between Russia and Kazakhstan to the influence of anti-Russian sanctions using the selected parameters (Table 1). The selection of parameters is carried out on the basis of a comparison of a number of social and economic indicators of the compared states, considered from the perspective of taking into account the interests of states in establishing a coordinated policy. The selected parameters allow us to consider the position of the border country relative to its counterparty from the point of view of the participation of this counterparty in the development of this country, its receptivity to the participation of the counterparty in establishing mutually beneficial ties. The degree of intensity of such participation and the exclusivity of resources demanded by the counterparty country determine the depth of interstate cooperation and the significance of sanctions pressure on the possibility of such cooperation.

Table 1.
Comparative analysis of the parameters of social and economic connectivity in the development of Russia and Kazakhstan

Comparison parameters	Russia	Kazakhstan
Investments in the counterparty country	\$19 billion	\$5.6 billion
The number of companies in the neighboring country	18 thousand.	no information
Import demand	Steel, ore, uranium	Energy, mineral fertilizers, railcars
Export volumes to the counterparty country (2023)	\$16 billion.	\$9.8 billion
Number of Kazakh/Russian population in the counterparty country/percentage of total number	591 970/0,4%	3000 611 /15,8%

Compiled: according to the Bureau of Statistics of the Republic of Kazakhstan and Rosstat

The selection of parameters is determined by the degree of distribution of a number of socio-economic factors of the country's development in the space of the counterparty country from the point of view of the influence of this factor on this development. By building long-term and sustainable relationships with each other, neighboring countries exchange goods, services and technologies, selecting the most effective method of such exchange. The effectiveness of an

exchange is determined by the maximum benefit that each such exchange provides to the parties. This benefit is assessed by each party in relation to possible alternatives in achieving the goals underlying such an exchange. These factors can be divided into three groups:

1. Foreign economic – factors that determine the nature of export-import interaction between neighboring countries, the degree of their economic dependence on each other.
2. Investment - factors that are formed on the basis of the placement of capital of entrepreneurs from one country on the territory of another country. Investments in the economy of a neighboring country, like nothing else, makes the business communities of neighboring countries feel interested in the development of these countries.
3. Ethnic-national factors, which are determined by the concentration of the population representing the titular nationality of the neighboring state in the counterparty country. The significance of this factor is due to the common values and interests of residents of neighboring states, their readiness to expand socio-economic cooperation between countries, and interest in the development of humanitarian contracts.

All these groups of factors lay down certain institutional restrictions on the actions of political leaders of states in determining the strategic directions of state economic policy. The changes occurring under the influence of these factors form stable preconditions for excluding alternative options in the development of the country in order to neutralize the threats of destruction of the existing socio-economic model.

The parameters presented for each of the countries being compared are evidence of their deep internal social and economic integration with each other, which makes it difficult to use alternative methods of replacing the existing structure of interstate relations.

The excluded alternative method involves identifying basic structural relationships in the list of presented parameters, which contain the majority of the semantic scope of these relationships. Thus, in the ratio of national communities of the Russian-Kazakh border region, representatives of titular nationalities make up the overwhelming majority of local national communities, excluding the emergence of other large diasporas here. And in establishing export-import flows, their main share is distributed between the countries adjacent to this area. For example, with those presented in table. 1, in terms of the structure of export-import operations,

the advantage goes to the country that has a product that has no analogues in the counterparty country. Therefore, Kazakhstan is an indispensable partner for Russia, through whose territory a significant part of imported products enters the country, including sanctioned. In addition, Kazakhstan is valuable for the Russian economy because it consumes relatively large volumes of non-raw materials produced in Russia. On the other hand, the economy of the Republic of Kazakhstan cannot develop without cooperation with the Russian Federation, which is confirmed by the expanding participation of Russian companies in the economy of Kazakhstan, as well as significant volumes of raw materials and equipment sent to Kazakh enterprises.

4. CONCLUSION

The analysis of the state of Russian-Kazakh economic cooperation carried out in the article indicates serious limitations associated with the effect of Western secondary sanctions on countries in contact with Russia. These countries, that have extensive relations with Western countries do not want to expose themselves to danger and officially demonstrate their readiness to support the regime of sanctions of Western countries against Russia, refusing to introduce their own direct sanctions. However, the relations between business structures of Russia and Kazakhstan that have developed over many years are an important factor in countering the sanctions policies of third countries. The regions of both countries are active promoters of mutually beneficial economic cooperation, establishing stable ties that provide conditions for the full development of these regions. Administering the sanctions regime in this case becomes a complex task, and this contributes to the expansion and strengthening of economic cooperation between countries.

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