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China-Kazakhstan Trade Relations in the Context of Sanctions against Russia

**Thesis submitted for
the degree of Bachelor in
6B03103 International Relations**

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Astana 2024

Abstract

The Ukrainian conflict in 2022 created unstable environment in the international arena. Western countries imposed various sanctions on Russia as it emerged as aggressor in the conflict. These sanctions caused various challenges for several states in the Central Asian region, because of Russia, one of the great powers in the region and key trading partner, appeared under the sanctions. In this regard, the role of China as a future main trading partner gains the importance among Central Asian states.

This study describes the dynamics of Kazakhstan-China trade in the context of ongoing Russia-Ukraine conflict. Used data will include secondary data in the face of official reports from the governmental websites, academic articles, news sources and official statistics from websites. According to findings of the study, trade dynamics between Kazakhstan and China rose after Western countries imposed sanctions on Russia. The conclusion of this study emphasizes the development in Sino-Kazakh trade relations after sanctions imposed on Russia by Western countries. Also, it articulates the further recommendations for Kazakhstan to improve its trade relations with Eastern neighbour.

Keywords: *trade dynamics, sanctions, key trading partner.*

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Introduction

Russia launched a “military operation” in 2022 against Ukraine that prompted Western countries to take drastic measures. These sanctions were imposed against individuals and specific sectors of the Russian Federation's economy. The first sanctions used in 2014 by Western countries covered narrow sectors of the economy and other areas, which could not stop Russia's aggression in the continuation of this conflict. However, the “military operation” influenced relations between Russia and Western countries, which led to the imposition of sanctions against the economy and other areas that covered individual goods, services and included individuals involved in the "military operation”.

These sanctions targeted Russia and were created to stop Russia’s "military operation"; however, these sanctions by Western countries also affected Russia's economic partners, which directly affected Kazakhstan. Although Western countries have not imposed sanctions against the Republic of Kazakhstan, Western sanctions against Russia have affected many areas of Kazakhstan’s trade and economy, as Russia is one of its main trading partners (CentralasianLIGHT.org, 2024). There are difficulties in importing and exporting certain goods, such as high-tech goods and logistics, as well as dual-use goods. These sanctions by Western countries on Russia have negative consequences for Kazakhstan, as trade relations link Russia and Kazakhstan within the Eurasian Economic Union. The Russia-Ukraine crisis has shown that Kazakhstan needs to create strategies to create alternative logistics routes to minimize the consequences of the sanctions. Kazakhstan is trying to intensify efforts to develop alternative routes for transporting goods and minerals, such as oil and gas, through the countries of the "Belt and Road Initiative," as the Government of Kazakhstan has held official meetings with member countries to create a roadmap for the Middle Corridor 2022-2025 to mitigate the adverse effects of sanctions (ITA, 2022). Kazakhstan has found itself at the center of a turbulent situation due to political turmoil. However, China can help manage the complexities, providing opportunities for cooperation that could lead to positive consequences. In this analysis, we

describe the dynamics of Kazakhstan – China trade in the context of the ongoing Russia – Ukraine conflict and offer recommendations for improving Kazakhstan's situation in the turbulent political and economic environment.

To investigate this question, we identify and examine four main sub-themes:

Geopolitical Implications

In order to understand the essence of the development of the dynamics of trade relations between China and Kazakhstan, it is necessary to briefly understand the Russian-Ukrainian conflict and what areas have been affected by the sanctions that could indirectly or directly affect the relations between Kazakhstan and China. For this purpose, we will look at the beginning of the conflict and the development of sanctions imposed by Western countries on Russia. The dynamics and purpose of the sanctions, as well as consideration of what areas were imposed sanctions on Russia. In addition, the changes in trade relations between China and Kazakhstan will be examined to examine why these sanctions may have led to a rapprochement between the two countries.

Dynamics of Kazakhstan – China Trade Relations After War

The second sub-theme will examine the dynamics of trade relations between China and Kazakhstan. In the course of the research we will study the development of trade and how this factor could change the course of relations in a positive way. As well as the dynamics of changes in the structure of cooperation in economic and trade relations between China and Kazakhstan. We will use basic descriptive research – an observational method to fully understand the essence and identify specific details in the relationship.

Economic Consequences

In the third sub-theme, we will study the economic and trade sectors from a perspective of statistical analysis. To fully understand, we would need accurate statistics to compare the dynamics of pre-war and post-war trade relations. The analysis will show the development of the dynamics of China-Kazakhstan trade relations after the conflict between Russia and

Ukraine. The BRI and TITR will have a crucial function in mitigating sanctions in trade relations.

Future Outlook and Recommendations

The fourth sub-theme will be devoted to providing possible prospects and recommendations for China-Kazakhstan trade relations during the period of political instability. It will analyze positive and negative scenarios in trade relations that will affect the future state of trade relations and cover all possible cases for providing recommendations.

1. Theoretical and methodological framework

1.1 Conceptual and theoretical framework

The main purpose of this study is to observe the dynamics of Sino-Kazakh trade relations after Western countries imposed sanctions on Russia; it is necessary to examine the concept of sanctions, purpose of sanctions, and economic interdependence. For this study, attempts will be made to explain the definitions of these key words from the literature studied. Studying these concepts is vital to understanding the dynamics of Kazakhstan-China trade relations.

Many studies have defined these keywords. For example, as Eaton and Engers (1992) point out, sanctions are measures that one party uses to influence a target; governments usually use sanctions to change attitudes, for example, on human rights, trade, or foreign policy of the other party (the target). The authors point out that "the sender wants to influence the target's actions as the sender has the ability to harm the target in different areas, however, at his own expense." For example, we can take that Western countries are the senders, but Russia is the target for harm. Kaempfer and Lowenberg (2007) point out that "international economic sanctions are imposed based on nation states or international organizations as an instrument of exemplary power or to influence the behavior of the target (countries), excluding military conflicts with targets."

For example, after the start of the Ukraine-Russia conflict in 2022, many Western countries have been exemplary in imposing sanctions on Russia to intervene and try to put pressure on the aggressor country in the countries' opinion. This method can affect the early end of this conflict as sanctions can be detrimental to many structures and areas of the recipient country. As Kaempfer and Lowenberg (2007) explain, "Economic sanctions include trade pressures; for example, restrictions on imports and exports, includes investment sanctions, or narrowly focused 'smart' sanctions such as freezing assets in sending countries, as well as imposing restrictions on individuals (officials or associated persons)." For example, this article points out that in the long run, sanctions have an impact on the development of domestic industries in the recipient country because they reduce the dependence of these countries on the outside world and lead to a weakening of economic sanctions methods (Selden, 1999, as cited in Kaempfer and Lowenberg, 2007).

Economic interdependence is a state where two or more groups of individuals or countries transact for their economic needs so that each depends on the other for necessary goods or services. This system leads to the efficiency of the two parties and improves each other's quality of goods or sentiments in the economic or political environment. The first creation of economic interdependence was influenced by industrialization because it led to the creation of many goods and services in-house (Tomasetti, 2024). For positive economic development, countries try to improve their trade between countries, which creates an endless circle of imports and exports. Since the economy is continuously developing, this affects the production of more industries and sectors involved in imports. It is commonly understood by economists that interdependence has a sensitivity to economic and political events or situations that occur abroad (Whitman, 1979, as cited in Tanious, 2018).

Tanious (2018) quotes that:

“In the field of international relations, “economic interdependence” has two meanings: First, “a group of countries is considered interdependent if economic conditions in one country are contingent on those found in the other”(Mansfield & Pollins, 2003, p. 11),

for example, the change in the exchange rate of a country affects the economic conditions of other countries that enter into a relationship of economic interdependence. Second, “countries are considered interdependent if it would be costly for them to rupture or forego their relationship” (Mansfield & Pollins, 2003, p. 11), as would be the case if relations between the Organization of Petroleum Exporting Countries and the advanced industrial countries (which rely heavily on petroleum imports) were severed.

The author concludes that there are two types of interdependence: sensitivity interdependence and vulnerability interdependence. The first type states that the economic conditions of countries are sensitive to changes in other countries. He gives the example that the destabilization of monetary policy in a country can negatively affect other countries because they are interdependent with each other sensitively (Wooten, 2007, as cited in Tanious, 2018). However, the second type explains that countries can cause significant damage to each other from the breakdown of relations. It assumes that cooperation and destabilizing attitudes have precedence between countries (Wooten, 2007, as cited in Tanious, 2018).

Robert O. Keohane and Joseph S. Nye (2012) noted that “to fully understand interdependence, we must understand the two dimensions of interdependence. Sensitivity indicates the degree of responsiveness to policy situations - how quickly a change in a country will lead to a costly change in another country, or how much a given incident will affect a costly change in a country. It is measured not only by the volume of logistical flows but also by how costly the change will be to the government and citizens of a given country”. Walt's defined interdependence as “a trading relationship that is expensive to break” (Copeland, 1996, as cited in Tanious, 2018). Keohane O. and Nye S. (2012) gave the example that “the oil industry is not only important for the imports of the state, and imported alternative energy sources, so if anything there may be costs to realise these alternatives. Two countries that import 35% of their oil needs may be equally sensitive to price increases: but if one country can switch to domestic sources at moderate cost, and the other country has no such alternative, the second country will be more vulnerable than the first. The vulnerability of interdependence depends on the availability of moderate cost alternatives that countries face”.

1.2 Methodology

The conflict between Russia and Ukraine created political and economic instability in Central Asia region. Researching this topic requires the following approach: we use basic descriptive research, secondary method of data collection, and collect statistical data to understand the development dynamics of Sino-Kazakh trade relations in the context of ongoing Russia-Ukraine conflict. In this thesis, we use a descriptive–interpretive approach, which is accompanied by statistical data to describe the development China-Kazakhstan trade relations.

The term interpretive research is often used in connection with basic descriptive research. One of the essential ways of researching topics involves collecting existing research data to draw meaningful conclusions and create a connected narrative (Elliot & Timulak, 2021). In addition, using data collection and existing research will help to understand the situation, but collecting statistical data and numerical data helps to gain a deeper understanding of the topic to eradicate subjective perceptions. For example, interpretive research can be collected from quantitative and qualitative data because the combined use can lead to unique insights and conclusions in research (Lumenlearning, n.s).

2. Geopolitical Implications

2.1 Background: Conflict between Russia and Ukraine

The crisis between Russia and Ukraine began in 2013 when Viktor Yanukovich stopped all signings for an association agreement with the European Union. This gesture was designed to get a positive effect and sentiment from Russia. However, it caused mass protests inside the country as it was called "Euromaidan." However, on 21 February, Viktor Yanukovich, with the help of Russia and the European Union, decided to sign an agreement to resolve this crisis, but on that day, the opposition, using force, seized power from Viktor Yanukovich. This incident was a critical factor in Russia's introduction of troops into Crimea on 2 March. After the annexation of Crimea, a referendum was held in the region to determine

whether it should belong to Russia or Ukraine. This referendum showed that Crimea would have to join Russia and become part of this federation.

After Russia's annexation of Crimea, the "Collective West", such as the United States and the European Union, began to express strong negative statements and imposed economic and political sanctions. As Wang (2015) describes that from 2014 to 2015, Western countries imposed six rounds of sanctions, involving the US, Australia, Japan, Canada, New Zealand and the EU. The first three rounds of sanctions targeted individuals and institutions (agencies), based mainly on freezing their assets. These rounds of sanctions blocked business people, government officials, and others (Wang, 2015).

However, these rounds could not influence the nature and course of events of this crisis, which may show the ineffectiveness of these sanctions. The European Union decided to create two new rounds of sanctions to weaken the Russian Federation effectively. It added restrictions in different sectors of Russia, such as economic, energy, financial, and military spheres. These sanctions stated that the US and the European Union could not cooperate with the energy industries of the Russian Federation; regarding the financial structure of the five central state-owned banks, many restrictions were imposed on individuals and entities of the European Union and the US, for example, these banks cannot provide loans to EU and US persons. These sanctions led the Russian Federation to adopt anti-sanctions measures, resulting in higher oil and gas prices in response to Western sanctions. These measures put pressure on Ukraine and Western Europe.

The conflict between Russia and Ukraine began to escalate in 2022, and Western countries reacted strongly by imposing sanctions on Russia. However, after the start of this conflict, Russia recognized Donetsk and Luhansk regions, and Western countries started to use measures (sanctions, etc.). Sanctions were used to weaken military force of Russia and to limit its access to technology and to the outside world markets. For example, after the imposed sanctions, Russia has 275 billion euros frozen in the central banks of the EU, USA, Japan, and

Canada (Djokic, 2024). Since the central banks of the Russian Federation have restrictions on using the SWIFT system. As Nwador, Sanubi & Clark (2023) pointed out Western countries have imposed sanctions mainly in economic, military, and individual spheres, e.g., the US has imposed sanctions on Russian banks, tax system, oligarchs, Oil and gas sector and airlines.

2.2 Reaction of China and Kazakhstan to the war and sanctions

Since the beginning of Russia's "military operations" in Ukraine, Western countries have endeavored to impose sanctions to prevent this conflict. The first purpose of the sanctions is to restrict Russia's access to the world, military technology, and economic sectors, but the impact of these sanctions may also have positive and negative consequences on Kazakhstan's sectors since Kazakhstan has close ties in trade relations and integration between countries from behind the Eurasian Economic Union and the Eurasian Customs Union. According to an article by the European Bank for Reconstruction and Development, exports of the United Kingdom and the European Union to Russia had halved in March 2022. As specified by Buranelli (2023), exports of goods that were under sanctions to Russia and Kazakhstan's exports increased by 30%. On 19 October, the Government of Kazakhstan banned many secondary goods to avoid secondary sanctions on the country. Burannelli (2023) researched that Kazakhstan has improved its attitude towards dual-use goods since, after several investigations, media, and researchers accused Central Asian countries of supplying microchips and drones to Russia, thus re-exporting to help Russia circumvent sanctions by trading partners. The Government of Kazakhstan is trying to comply with international norms and rights, protecting its country from reputational risks. Secondly, Central Asian countries are trying to have a neutral position in Russia's conflict with Ukraine. Kazakhstan, having close relations in all spheres with Russia in terms of economic, political, and historical views, is trying to maintain its neutral status in front of both Western countries and Russia (Buranelli, 2023). Kazakhstan is aware of possible negative consequences of new geoeconomic situation and because of this it is trying to mitigate the situation.

Pomeranz and White (2024) point out that China's central bank, Chouzhou Commercial Bank, which helps facilitate imports to Russia, has stopped cooperating with Russia, and three central banks - the Industrial and Commercial Bank of China (ICBC), the China Construction Bank, and the Bank of China - have also stopped cooperating with sanctioned businesses and institutions as Western countries have begun to impose sanctions on Chinese business institutions that had or have ties to Russia. This incident has created a sense of vulnerability in institutions and business establishments that carefully choose whom to support as they may suffer adverse consequences that will lead to irreparable situations in the global market. After this case, Ma Jingjing (2024) points out that the Chinese Ministry of Foreign Affairs and the Chinese Ministry of Commerce have issued several statements on the protection of firms and business institutions to safeguard the interests of citizens and legal rights after the imposition of sanctions by Western countries. China may have a skeptical attitude towards sanctions and is trying to protect the country from the restrictions as they may harm China's economic sector. Since the conflict started in 2022, China has been trying to maintain a neutral position; the Chinese Government claims that peace talks between the two sides and constructive dialogue can help in this conflict because it does not want a long-term escalation between the countries.

The Chinese Government reiterates that it will use countermeasures against Western countries' sanctions against Chinese companies, as stated by Chinese Foreign Ministry Press Secretary Mao Ning: "They are annoyed by the U.S. statements that Chinese companies and business institutions use Chinese goods for civil and military purposes, as the U.S. is trying to suppress the adequate and regular trade relations between China and Russia (Ma Jingjing, 2024).

After the conflict in Ukraine took its starting point, experts divided in two viewpoints. Some of them predicted the opportunities for Kazakhstan to improve its economy. On the other hand, some experts state that Kazakhstan now can't rely on Russian routes to export its oil to Europe (Libman & Obydenkova, 2022). As Kazakhstan has strong economic ties with Russia

considering the fact that they share a lot of events in history, Kazakhstan also might be impacted by the secondary sanctions. As it stated in the work of Burna-Asefi (2023), EU lawmakers made an amendments in 11th package of sanctions that would target private companies and individuals in third countries that helped Russia to overcome sanctions. Kazakhstan were listed as possible target of this package by EU officials (Burna-Asefi, 2023).

Economist Kasymkhan Kapparov predicted that shutting down the SWIFT system would severely hamper the ability of Russian companies to pay Kazakhstan's exporters for goods, causing difficulties in trade, and it was also suggested that Kazakhstan would have to replace Russia with other countries such as Turkey and China (Kumenov, 2022). Kapparov also assesses the National Bank of Kazakhstan and their initiative to put downward pressure on the tenge because a stronger dollar will lead to higher prices for most commodities, facilities and economic areas (Kumenov, 2022).

3. Dynamics of Kazakhstan – China Trade Relations after Conflict

3.1 The Changes in Trade Patterns and Economic Cooperation between China and Kazakhstan

The conflict between Russia and Ukraine can create political and economic instability in the Central Asian region. For example, the direct and indirect repercussion of sanctions by Western countries on Russia have implications for Kazakhstan, such as logistical problems, political risks, trade relations in the global market, and migration. This prompted the development of a plan to mitigate negative impacts of sanctions (International Trade Administration, 2022a). Migration in 2022 - 2023 showed that citizens of the Russian Federation migrated from Russia after the start of the conflict, which led to price increases in various areas of Kazakhstani life; for example, housing prices became sharply high, which led to harsh statements from Kazakhstani citizens (Oshchepkov et al., 2024). The impact of the sanctions on Kazakhstan has manifested itself in the restriction and difficulty in logistics. At this stage, the Government of Kazakhstan is trying to mitigate the adverse circumstances by

improving and upgrading trade routes with the support of China. However, we cannot point to the fact that some companies in Kazakhstan started to receive more investments or profits after the imposition of sanctions on Russia. This case has created a precedent that the Government of Kazakhstan should develop new trade routes and create new conditions for companies and trade along with sanctions. For example, Russia is one of Kazakhstan's main trading partners and is also a conduit for the logistics of Kazakhstani goods, which helps the economy. However, the sanctions have complicated this situation; at the moment, China is a one of the main trading partners of the Republic of Kazakhstan, which can have positive dynamics on the economy of Kazakhstan.

Most of Kazakhstan's energy is transported and exported through or to Russia: for example, about 80% of Kazakhstan's oil produced in western fields is exported through the Caspian Pipeline Consortium, but Russia's conflict with Ukraine has caused serious disruptions in transport due to western sanctions (InternationalTradeAdministration, 2022b). To improve trade relations with China, the President of Kazakhstan, Kassym-Jomart Tokayev, took part in the first Central Asia-China Summit on 18-19 May 2023 in Xi'an city, China. The President of Kazakhstan expressed his opinion that "China is one of the major investors and the leading economy of the world, as for Kazakhstan it will give a rapid progress." (akorda.kz, 2023). At this summit, an agreement for 22 billion dollars was signed, as Kazakhstan is one of the critical corridors along the transport and logistics route. It was also noted that the volume of Kazakh-Chinese trade is 31 billion dollars, but Kasym-Jomart Tokayev and Chinese President Xi Jinping agreed to improve trade relations and increase the volume to 40 billion dollars. The first Central Asia-China Summit discussed using trade nomenclature to increase exports. For example, Kazakhstan can increase exports to China by 135 items of non-resource goods. This summit showed plans to improve trade relations as the Khorgos International Trade Centre is a potential trade and logistics hub, showing commitment to creating a world land port to link logistics with other countries. Kazakhstan has the prospect of increasing trade with China by

setting up new customs warehouses at the border and sharing the "C5+China" unified trade system. The Chinese Government has also spoken out about simplifying customs procedures (akorda.kz, 2023).

Countries participating in the Central Asia-China summit discussed China's internet giants, such as Alibaba Group and JD.COM, which could potentially contribute to the countries' economies. The Government of Kazakhstan has started to develop plans to participate actively in these marketplaces to increase the commodity turnover between the countries. Vivian Yang (2023) pointed out that the company, for the first time, established the Kazakhstan National Pavilion in Xi'an city in China, where the national goods of Kazakhstan will be offered to visitors. Since the support of the Government of Kazakhstan and JD.COM are creating the largest export destination, new opportunities to create new supply chains to support the economy and the national pavilion will be utilized.

Serikkaliyeva et al. (2024) indicate that the working trip of the Head of State of Kazakhstan Kasym - Zhomart Tokarev was an initiative to create a multi-brand car factory of Chinese brands such as Changan, Chery, and Haval which is planned for the fourth quarter of 2024. After this start of construction, "Orbis" Distributing Company granted a 5-year loan to establish a car plant for Geely and Exeed brands. The construction of these plants will improve and increase trade relations between China and Kazakhstan, which will be linked to economic interdependence. Sales of Chinese cars in Kazakhstan continue to grow; in January - March 2023, 37.3 thousand units were sold, which is 66.7% more than in 2022. Also, the production of these cars in 2023 January - March produced 19.5 thousand units, which is 36.7 % more than in 2022 (Serikkaliyeva et al., 2024). After the start of the conflict between Russia and Ukraine, there was an increase in fuel prices and lubricants and a fuel shortage, but Kazakh citizens are buying cars despite these difficulties. Kazakhstanis have started to pay attention to Chinese cars, which have small volumes, and electric cars (Serikkaliyeva et al., 2024).

After the imposition of sanctions on Russia by Western countries, the Government of Kazakhstan began to create logistics restrictions, which negatively impacted Kazakhstan's economy. Construction of the megaproject "Belt and Road Initiative" creates an alternative route for logistics between countries. The critical route for Kazakhstan is China-Central Asia-Europe, where the Trans-Caspian International Transport Route connects these routes. Currently, the route is strategically important, and there is a great interest in creating this alternative route with China. This route will actively use routes as Kazakhstan - Turkmenistan - Iran, which is an additional route for logistics (akorda.kz, 2022).

The Heads of State of China and Kazakhstan attended the first Central Asia-China Summit for the first time on 18-19 May 2023 in Xi'an city, China (the International Institute for Strategic Studies (IISS), 2023). The Presidents of China and Kazakhstan discussed establishing and improving oil and gas logistics routes such as Atyrau-Kenkiyak, Kenkiyak-Kumkol, and Beineu-Bozoi-Shymkent. Trade relations may have improved after Russia's conflict with Ukraine, as Kasym-Jomart Tokayev's proposal was to create tour operators between China and Kazakhstan to facilitate visits by tourists because earlier links were established with the cities of Shymkent - Xi'an and North Kazakhstan Region with Shanxi Province.

An essential part of China was transporting containers through Russia to Europe, but Russia's conflict with Ukraine created an incident that led to the creation of new alternative routes. As Standish (2022) points out, the Trans-Caspian Association of International Routes started to get a new impetus after Russia's conflict with Ukraine because Maersk, as a large shipping corporation, canceled new orders through Russia and started to use the Middle Corridor. After this case, Finnish company Nurminen Logistics joined to use the Middle Corridor route. Kazakhstan announced increased investment in Caspian Sea ports, and Kazakhstan Temir Zholy doubled the volume of transportation (Standish, 2022).

Pauline Jones (2023) showed in a study that "Russia's conflict with Ukraine accelerated the decline of Russia's influence on Kazakhstan, which provided an opportunity for Kazakhstan's relations with China to improve. In 2022, China was able to overtake Kazakhstan as a trading partner, as we can see in the quantitative analysis. China started to implement trade and economic plans with Central Asian countries. For example, Kazakhstan has increased oil shipments to China by 30 percent from the main Kazakhstan-China routes".

In October 2023, the President of Kazakhstan visited China to sign 30 commercial documents worth approximately US\$32 billion in Oil and trade. As pointed out by Gaye Christoffersen (2024) the statistics of the National Bureau of Kazakhstan showed that China accounts for 21.3 per cent of the total foreign trade, but Russia has 18.6 per cent. We can see that for China Kazakhstan is an important "friend" that has a strategic partnership and China may have made Kazakhstan the infrastructure centre of Central Asia.

To summarise, we can see that Kazakhstan has started to move closer to China and establish closer strategic and economic ties with China since the start of the conflict between Russia and Ukraine. This has led to ambitious plans to benefit the two countries, bypassing Russia. BRI has gained new impetus for development, and all Central Asian countries see the initiative as a benefit to the country's economy and for cooperation between the countries.

4. Statistical data on the Dynamics of the Sino-Kazakh trade relations

4.1 Exploring the Development of China-Kazakhstan trade relations

Statistical data collection may require an observation of some economic factors, such as trade volume, imports and exports between two countries, types of goods in trade between China and Kazakhstan. To begin with, we should start with an earlier period of time in the economic relations between China and Kazakhstan. The trade relations between China and Kazakhstan started in 1990's after the collapse of USSR. The evolution of Sino-Kazakh trade relations went through different stages including shifts in trade volumes. According to Xie,

Zharkynbayeva, Dadabayeva, and Delovarova (2021), stage two began and ended in 2002 and 2013 respectively. By 2013, trade volume between two states reached \$28.59 billion, marking a big increase comparing to 2002 data where it was only \$1.95 billion. See Figure 1.

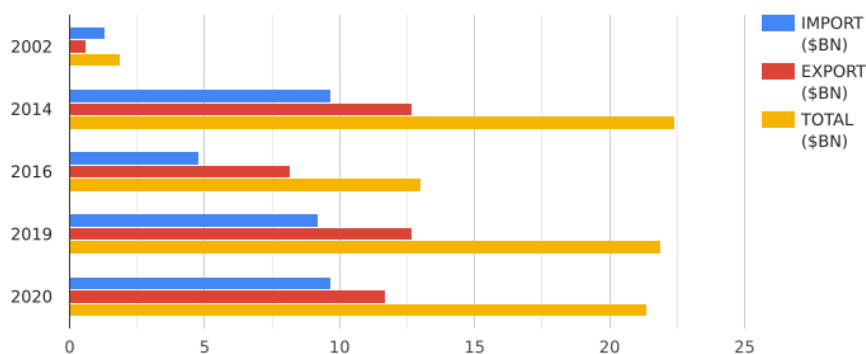


Figure 1. *China's trade with Kazakhstan. Exports and Imports (2002-2020).* (Xie et. al., 2021)

Stage two underscored the strong trade relations and economic ties between China and Kazakhstan. Going into stage three from 2014 to present days, Sino-Kazakh trade volume was still increasing despite various challenges. According to Xie et al. (2021), this stage was characterized by an economic challenges due to such factor like fall in the global price of the oil, the main export product of Kazakhstan to China. Furthermore, the overall trade volume was \$13.1 billion in 2016, making up the two-thirds reduction from 2014 figures. Despite that, after this crisis, Sino-Kazakh trade volume began to recover rapidly, reaching the trade volume of \$21.99 billion. The COVID-19 pandemic in 2020 created new challenges, however, trade volume remained similar at point \$21.45 billion in 2020 comparing to 2019 (Xie et. al., 2021).

The analysis provided by Xie, Zharkynbayeva, Dadabayeva and Delovarova (2021) offers various and relevant insights of the dynamic of Sino-Kazakh trade relations, mentioning the impact of external factors and equally important policy responses to this challenges from the side of both China and Kazakhstan.

The conflict in Ukraine has created new economic obstacles for almost all of its

neighbours. In China, since 2021 there has been a downturn in the economy, especially in the property market due to "a series of defaults among property developers who have been making years of bad investments coupled with excessive leverage", as Cash, Zhang, and Gao mentions in their article (Cash et al., 2024). After Western countries imposed sanctions on Russia, Kazakhstan can not ignore China's role in balancing Europe's demands to adhere to the sanctions and, on the other hand, not to damage relations with Russia, as Kazakhstan plays an important role in the so-called Middle Corridor, China's new Silk Road trade routes (Szumski, 2023). Stimulated by a number of reasons, both China and Kazakhstan are now very interested in mutual co-operation for mutual benefit.

Next statistics provided by Trading Economics (2024) shows the following: as shown in Figure 2, China has shown an increase in total exports to Kazakhstan starting in 2021 to 2022, from \$13.8 billion to \$16.4 billion respectively. This shows that the economic relationship between the two countries is also gaining momentum. The reason for this phenomenon is might be that Kazakhstan strives to diversify its trade policy towards the great powers.

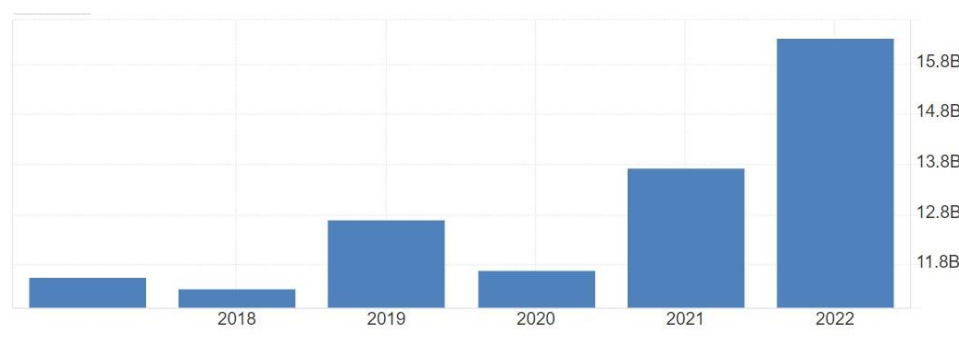


Figure 2. *China exports to Kazakhstan through years. (Trading Economics, 2024)*

Following the growth of exports to China, it is also important to mention how partners in imports and exports have changed in 2023. Here are the statistics for 2023 from the Bureau of National Statistics of Kazakhstan (QazStat, 2024). See Figure 3 and 4.

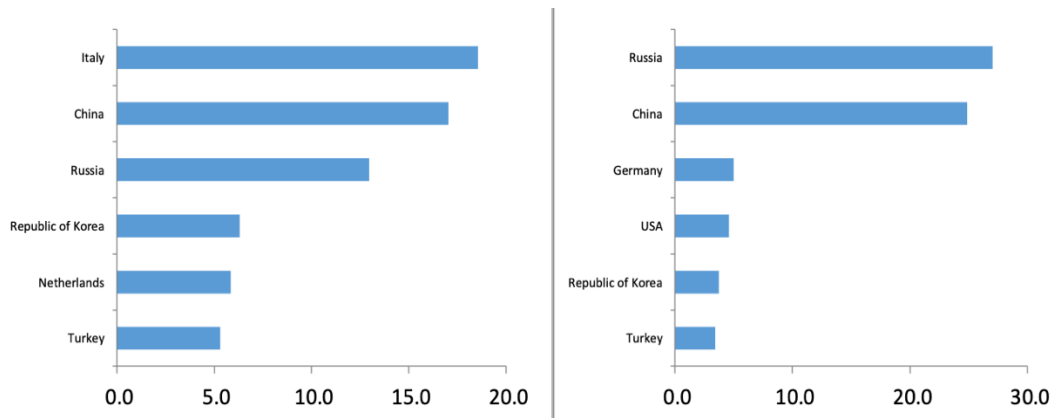


Figure 3. *KZ partners on the left for exports and on the right for imports, respectively, for the period January-July 2023. (QazStat, 2024).*

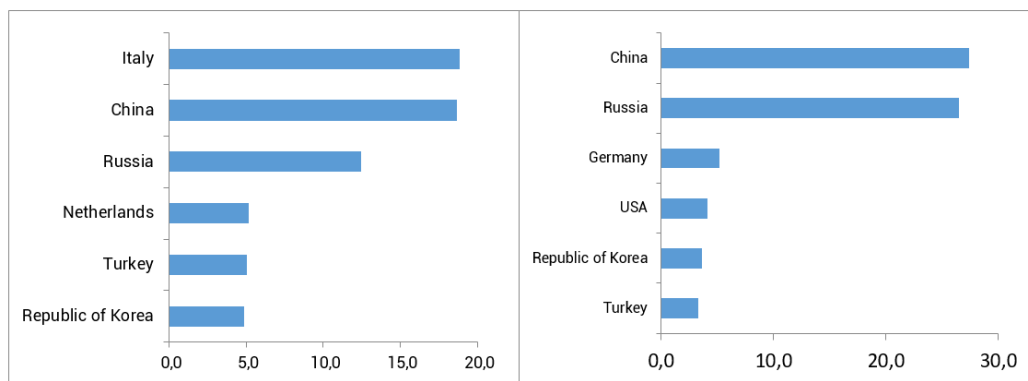


Figure 4. *KZ partners on the left for exports and on the right for imports, respectively, for the period January-December 2023. (QazStat, 2024).*

In the statistics for January-July 2023, it can be seen that the main import partner of Kazakhstan is Russia with 27% of imports at that time, while China provides 24.9% of Kazakhstan’s imports. Also, it can be seen that Kazakhstan’s export to China rise for couple billions of dollars by the end of the year, almost equal to Italy, while exports to Russia remained similar to January-July statistics. Already by the end of that year, China provides 27.4% of Kazakhstan’s total imports, displacing Russia, which at the time of December 2023 provides 26.5% of imports. That is, Kazakhstan’s imports from China increased by 2.5% in 6 months, while imports from Russia decreased by 0.5%. On the one hand, the slight decrease in imports from Russia may indicate that Kazakhstan is probably not reducing trade with Russia too much, but the 2.5% increase in imports from China indicates the actions of Astana to mitigate the

Western sanctions on Russia and to protect state's economy from downgrading.

At the moment of writing his study during September 2023, Moldashev (2023) noticed that, "Russia remained as main trading partner of Kazakhstan. However, there is a sharp decline in share of Kazakhstan's trade and China is moving towards becoming the main trading partner of Kazakhstan".

An article from Ministry of Trade and Integration of the Republic of Kazakhstan (2024) on Kazakhstan's trade results for the whole year of 2023 from January to December reports that "China has become Kazakhstan's main trading partner" (MTI RK, 2024). This growth in imports is justified by an increase in supplies of the following goods in Table 1:

TYPE OF GOODS	GROWTH RATE	VALUE (\$MILLION)
Cars	8.3 %	549.9
Footwear Parts	17.2 %	191
Car Bodies	4.6 %	218.7
Telephone Sets	14.2 %	651.4

Table 1. Popular import goods of KZ from China. (MTI RK, 2024)

cars – an increase of 8.3 p. to \$549.9 million,

parts of footwear – growth of 17.2 p.p. up to \$191.0 million,

car bodies – up 4.6 p. to \$218.7 million,

telephone sets – up 14.2% to \$651.4 million (MNE RK, 2024).

On the other hand, Kazakhstan's exports to China have also increased, based on the article from Ministry of National Economics of the Republic of Kazakhstan (2024). It reports that for the period January-August 2023, the PRC's share of Kazakhstan's total exports is 21 per cent of all exports and grew by 2.1% to \$9 billion in 2023. Delving deeper into the details, the following areas accounted for the vast majority of Kazakhstan's exports to China. See Table 2.

TYPE OF GOODS	GROWTH RATE	VALUE (\$MILLION)
Copper Ores	24.7 %	1.700
Uranium	56.9 %	553.1
Wheat	20.9 %	110.2
Barley	4.1 %	102.4
Unprocessed Zinc	2.7 %	116.7
Gas	9.4 %	735.2

Table 2. *Export goods of KZ to China. (MNE RK, 2024)*

copper ores and concentrates - up 24.7% to \$1.7 million,
uranium - up 56.9 per cent to \$553.1m,
wheat - an increase of 20.9 p. to \$110.2 million,
barley - up 4.1p to \$102.4m,
unprocessed zinc - up 2.7p to \$116.7m,
gas - up 9.4 per cent to \$735.2 million (MNE RK, 2024).

According to above-mentioned statistics, there could be seen a trend of rising trade volume in various types of goods between Beijing and Astana after Western countries imposed sanctions on Russia in 2022.

In addition to all the other important effects of the sanctions, such as increased imports of dual-use goods, should be added. On the 25th of February 2022, the second package of European sanctions against Russia were imposed. This package of sanctions affected dual-use goods and technology. Specifically, a ban was imposed on the export of dual-use goods that could contribute to Russia's technological enhancement of its defence and security sector (Council of the EU, 2022). Almost immediately after the sanctions were imposed, a number of Central Asian countries, including Kazakhstan, increased imports from China of goods such as machinery, nuclear reactors and boilers. As Mirzakhmedova, Ismailkhodjaev, Fayzieva (2024)

notices in their article, the dual-use goods in the face of “machinery, nuclear reactors and boilers” were one of the top imports and exports for Kazakhstan, Uzbekistan, Kyrgyzstan with both China and Russia, respectively (Mirzakhmedova et al., 2024). The percentage of the increase of imports and exports on this particular type of goods were 553.34% for Kazakhstan, 2,342.56% for Kyrgyzstan, and 264.18% for Uzbekistan during 2021-2022 (Mirzakhmedova et al.). According to Trading Economics (2024) statistics, Kazakhstan's imports from China of these types of goods totalled \$2.79 billion in 2022, an approximately 2 times increase from \$1.53 billion in 2020. See Figure 5. Uzbekistan's 2022 imports of dual-use goods totalled \$2.04 billion, up from \$1.52 billion in 2021. In Kyrgyzstan, the upward trend also continued, totalling \$212 million, \$741 million in 2021 and 2022, respectively (Trading Economics, 2024).

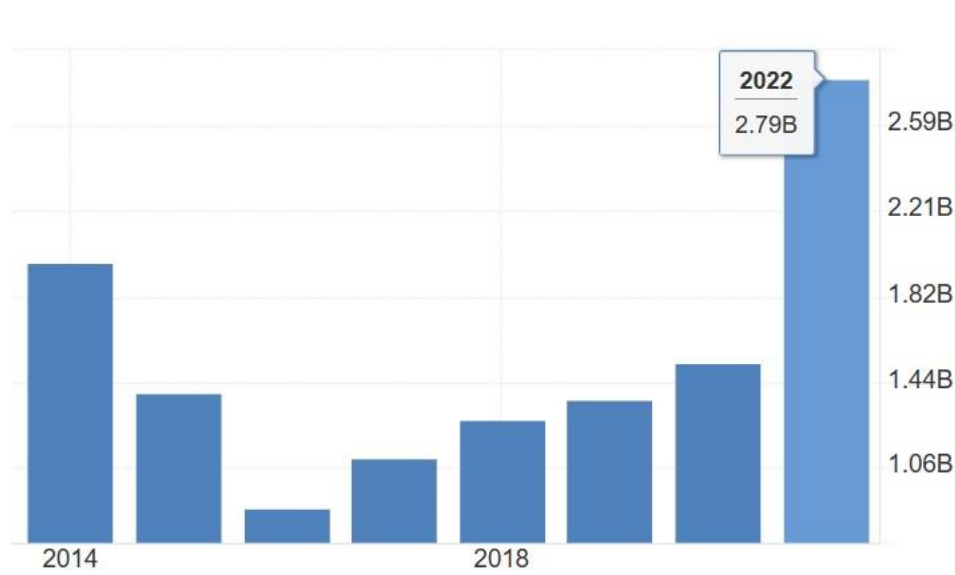


Figure 5. *Kazakhstan imports from China of machinery, nuclear reactors and boilers in 2022.*
(Trading Economics, 2024)

Other data from the same Trading Economics (2024) shows exports of dual-use goods from Kazakhstan, Uzbekistan and Kyrgyzstan to Russia for 2022. See Figure 6.

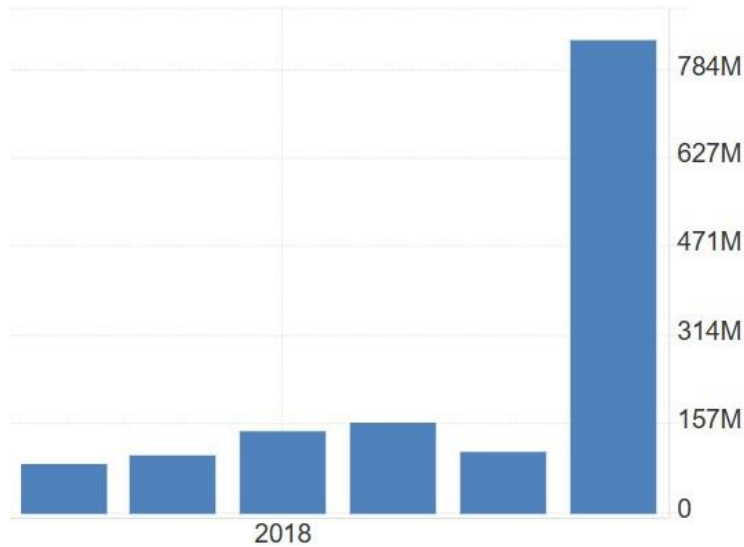


Figure 6. *Kazakhstan exports to Russia of machinery, nuclear reactors and boilers in 2022.*

(Trading Economics, 2024)

Here you can see that from Kazakhstan exports of such goods to Russia totalled \$837 million in 2022 and \$111 million in 2020. And from Uzbekistan, exports totalled \$107 million in 2022 and \$29.4 million in 2021. The situation with Kyrgyzstan is interesting. In 2021, exports of machinery, nuclear reactors and boilers to Russia totalled only \$2.13 million, but already in 2022 they amounted to \$57.8 million, growing 27 times its 2021 point of \$2.13 million (Trading Economics, 2024). The previous statistics for the same category for the 2018-2019 period were much more less than for the 2022. The growth was only 8.62% for Kazakhstan and 24.24% for Uzbekistan and decline of 75.44% for Kyrgyzstan. These shifts lead to the point, that 2021-2022 growth of import and export of dual-use goods is strongly linked with Russian-Ukrainian conflict and Western sanctions on Russia (Mirzakhmedova et al., 2024). On the one hand, Uzbekistan is actively acting on its plans to build the first NPP in Uzbekistan, and the increase in imports and exports of this type of commodity could be attributed to the above reason. But on the other hand, the construction of NPPs has not been one of the primary tasks for Kazakhstan and Kyrgyzstan in the last 3-4 years. Nevertheless, imports and exports of dual-

use goods in all three above-mentioned countries increased several times in 2022, just after the imposition of sanctions on Russia by Western countries. On this basis, it can be assumed that the first two packages of European sanctions on Russia very likely influenced the growth of trade between Kazakhstan and China as part of Russia's circumvention of these sanctions.

The Caspian Pipeline Consortium was established in 1992 to transport Kazakhstan's oil to the rest of the world. The route is about 1,500 kilometres long and passes through Russian territory. Before the sanctions, in 2018, the CPC reached 67 million tonnes of oil per year (Caspian Barrel, 2024). According to the 6th package of European sanctions against Russia, adopted on 3 June 2022, many European suppliers of parts for oil tanker maintenance refused to provide CPC with these parts. Deutsche Bank refused to work with Russian companies controlling the CPC (Afanasiev, 2023). This resulted in a volume of about 52 million tonnes in 2022 (Sorbello, 2023). These restrictions may have created some obstacles to the Caspian Pipeline Consortium's activities, however, CPC is looking for alternative ways to circumvent the sanctions, for example, Japanese shareholder Inpex initiated a trial run to export 7,000 tonnes from Aktau to Baku, Azerbaijan (Sorbello, 2023). Also, in the 11th package of sanctions, European countries made exceptions for the Caspian Pipeline Consortium (European Commission, 2023). After the amendments in the 11th package of sanctions, 400 kilometres of tracks are expected to be rerouted to comply with the sanctions. About \$100 million out of \$300 million will be allocated for this. As a consequence, capacity is expected to increase from 59 million tonnes per year to 63.9 million tonnes per year (Afanasiev, 2023). On the other hand, parts previously supplied by European suppliers are now supplied by Russia itself, about 136 (Afanasiev, 2023). This shows that in the future, because of this, Kazakhstan may be subject to secondary sanctions due to these actions and this creates some risk of further use of the Caspian Pipeline Consortium. As a result, there is a need to search for alternative ways.

4.2 BRI and TITR as an Opportunity to Mitigate Western Sanctions

Gorban, as cited in Afanasiev (2023), states that KazMunayGas signed an agreement with Azerbaijan to increase transportation volumes through the Baku-Tbilisi-Ceyhan pipeline. As is known, Azerbaijan and Kazakhstan signed a memorandum of accession to the Belt and Road Initiative project in 2015 (Nedopil, 2023). Due to the fact that Azerbaijan, like Kazakhstan, is a member of China's Belt and Road Initiative project, it is logical to assume that this sets the stage for the Belt and Road Initiative and TITR project, also known as the Middle Corridor. In light of recent events related to Russia, one of the largest logistics corporations, Maersk, has refused to accept orders from Russia, and to compensate for formerly large orders from Russia, has started to focus more on the Middle Corridor. Specifically, it began shipping goods from China via Kazakhstan's railway lines from Khorgos to Aktau, where the cargo would then be transferred to ships to Baku, Azerbaijan (Maersk, 2022). Parlagashvili, as cited in Maersk (2022), argues that over 90% of the Middle Corridor's railway tracks are electrified, and after listening to customers, they have developed an alternative route through Central Asia to alleviate complications with deliveries from Russia. The Trans-Caspian International Trade Route is of growing relevance. After the sanction was imposed in 2022, the total volume of goods carried through this route was 1.7 million tonnes in 2022, rising by more than 65% to 2.7 million tonnes in 2023. (Tokayev, as cited in Interfax, 2024). Already by 2027, TITR intends to raise its volume of transported goods to 10 million tonnes per year (Sakenova, 2024).

5. Future Outlook and Recommendations

Given the difficult geopolitical situation with Russia, Kazakhstan's main trade partner, Kazakhstan itself was under the threat of damage to the national economy. Now, Kazakhstan is taking steps to move closer to its Eastern neighbor, China, by increasing trade and adopting mutually beneficial reforms towards each other. In the future, Kazakhstan should show greater initiative in relation to the Belt and Road Initiative, since this project has a good basis for further

development and full launch. The launch of this project involves mitigating the impact of sanctions on Russia on Kazakhstan and the successful implementation of the strategy of diversifying Kazakhstan's foreign policy and reducing influence from its Northern neighbor, as well as increasing its role in the Eurasian region through close ties with China.

To increase trade with China, the role of FDI in this should also be taken into account. In the work of Lingzhi (2021), the author argues that the growth of Chinese FDI in Kazakhstan and other Central Asian countries affects the growth of trade between them. Using linear regression computational formulas, the author revealed the following: "From the perspective of each country, with the exception of Turkmenistan, the regression results of China's FDI and import and export trade to Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan have all passed the 5% significance test. From the economic sense of the regression results, for every 1% increase in China's FDI to Kazakhstan and Uzbekistan, the import trade volume will increase by 0.41% and 0.19%, and the export trade volume will increase by 0.35% and 0.26%" (Lingzhi, 2021). So it can be assumed that growth of FDI will affect the growth of import trade volume between Beijing and Astana as well.

Also, the recently adopted visa-free regime between Kazakhstan and China may play a role in improving trade relations in the future. On 10 November 2023, the regulation on visa-free regime between China and Kazakhstan came into effect. This measure can be perceived as an additional method of stimulating the growth of trade volume between the countries and an indicator of the growing close cooperation between Astana and Beijing (Kumarbekov, as cited in Kenesova, 2023). This action is expected to affect primarily the yuan exchange rate. The expected future of the RMB may be both positive and negative. Together with the expected increase in tourism and business travel, where all transactions will be conducted in RMB, which in turn will increase demand for it, the visa-free regime will affect the exchange rate positively by reducing visa costs (Maslov, Kumarbekov, as cited in Kenesova, 2023). Increased demand

for RMB means that a third currency, such as the US dollar, will be shielded from trade between China and Kazakhstan. This should affect the growth of trade between the two countries. On the other hand, the aforementioned impending crisis in China is not having the best effect on its currency. Abdurakhmanov, as cited in Tsnik (2023) believes that it is worth expecting the import of inflation to Kazakhstan due to the fall of the yuan. In turn, this may also have a bad effect on the volume of trade between the two countries, since the third currency will still participate in transactions and be an obstacle for Kazakhstan on the way to diversifying trade routes.

Conclusion

Kazakhstan faced several challenges after Western countries imposed sanctions on Russia after it started an armed conflict with Ukraine. These challenges involve logistic problems and changes in trade patterns. Nevertheless, Kazakhstan remained neutral in this conflict and tried to balance its relations with both Russia and Western countries. Meanwhile, China emerged as one of the main trading partners for Kazakhstan as trade volume between Beijing and Astana increased in recent years.

The role of the Belt and Road Initiative (BRI) and Trans-Caspian International Trade Route (TITR) for the Kazakhstan in mitigating the consequences of Western sanctions on Russia gained importance in recent years.

Considering the cooperation of Kazakhstan and Russia in oil field through the Caspian Pipeline Consortium (CPC), Kazakhstan might occur under secondary sanctions. Sanctions that prohibited European suppliers to provide spare parts for CPC, created an obstacle for CPC to maintain its activity.

According to Keohane O. and Nye S. (2012) that “sensitivity means taking responsibility for costly consequences that have been imposed because of political circumstances. Vulnerability can be defined as the responsibility of a state or entity for the costs imposed by political circumstances even after a change in policy. However, vulnerability can

only be defined as the cost of effectively adapting to changed political or economical conditions over time”. We can conclude that at this stage Kazakhstan was in a sensitive phase of economic interdependence due to political circumstances after the imposition of Western sanctions on Russia, because Kazakhstan's oil was exported through Russia. However, the Government of Kazakhstan has begun to adapt to the current political situation and is trying to find alternative approaches to address this issue, which shows the vulnerability of the independence. This shows the creation of new alternative logistics routes and the improvement of trade relations with China.

In conclusion, the Russian-Ukraine conflict made several challenges for Kazakhstan's trade relations and stability in economy. While Kazakhstan manages to maintain balanced relations with both Russia and Western countries, it also faces the challenge in mitigating the consequences of sanctions. The BRI and TITR, in this perspective, provides an opportunity for Kazakhstan to diversify its trade routes, strengthening its economic ties with China.

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