



ECONOMIC COOPERATION OF KAZAKHSTAN AND RUSSIA: RISKS AND PERSPECTIVES

Russia is one of the key economic partners of Kazakhstan in terms of trade and investments. The countries jointly implement many important projects. However, since the Ukrainian invasion and international sanctions and pressure, economic cooperation with Russia may bring substantial costs for Kazakhstan and other Central Asian countries. Therefore, this commentary aims to analyze Russia's role in Kazakhstan's economy, reveal potential risks from economic cooperation and provide policy recommendations.

Analysis of bilateral trade figures between the two countries demonstrates that the volume of the trade turnover increased substantially. Calculations based on the International Trade Center (ITC, 2022) data show that the figure surged from \$4.3 billion in 2002 to a record \$25.6 billion in 2021. For the reported period, Russia's exports to Kazakhstan grew from \$2.4 billion to almost \$18.5 billion, while Kazakhstan's export to Russia changed from \$1.9 billion to \$7.1 billion. While Russia's exports to Kazakhstan increased by 7.7 times (2002-2021), Kazakhstan's growth ratio was equal to 3.7.

Russia's export to Kazakhstan is diversified and mainly consists of agricultural and manufacturing goods. It is worth noting that agricultural products gained importance in bilateral trade between the two countries. For instance, Russia's agricultural exports to Kazakhstan surged from almost \$178 million in 2002 to around \$2.8 billion in 2021. For the reported period, the share of agricultural exports in Russia's total exports to Kazakhstan increased from 7.4% to 14.9%. It is important to note the significant growth of the supply of certain agricultural and food products. In particular, for the reported period meat exports from Russia to Kazakhstan surged from \$0.6 million to \$72.6 million, cereals – from \$1.3 million to \$246.2 million, sugars and sugar confectionery – from \$9.7 million to \$217 million. It is worth noting that cane or beet sugar exports increased from \$3.2 million to \$160.6 million. These numbers show that Russia plays an important role in Kazakhstan's food market and security.

Kazakhstan's supplies to the Russian market mainly consist of metals and mineral fuels. Export of agricultural products demonstrated growth within the reported period and increased from \$76 million in 2002 to \$502 million in 2022. The share of agricultural exports in Kazakhstan's total exports increased from 3.9% to 7%. However, in 2004 the share of agricultural exports was 12.3%. It should be mentioned that Kazakhstan's agricultural and food supplies to Russia mainly depend on cereals. It is important to note that Kazakhstan substantially increased exports of some agricultural and food products. For example, during the reported period exports of dairy products increased from \$0.8 million to \$51.1 million, while meat products exports jumped from \$1.1 million to \$53.5 million. In 2021, other important products, which Kazakhstan exported to Russia, included iron and steel (25.8%), mineral fuels (6.3%), inorganic chemicals (3.5%), and electrical machinery (1.7%).

Russia has invested about \$12.6 billion in the Kazakh economy over the past decade. There are 7.791 enterprises with Russian participation and 3.325 joint Kazakh-Russian enterprises operating in Kazakhstan. Russian companies are among the top five key investors in terms of the amount invested in the economy of Kazakhstan. The investment portfolio of Russian companies is represented in almost every industry and 30 joint large projects in different fields for a total of \$5.3 billion are at the stage of implementation and development [TASS, 2021].

However, following the Ukrainian crisis, Russia made several controversial decisions, which put Kazakhstan at risk. In particular, Russia imposed temporary restrictions on cereals and sugar exports, which had negative consequences on Kazakhstan's market. Firstly, this step decreased the supply of these products which caused their deficit and surge in prices. Secondly, the cereals deficit increased risks for the sowing campaign in Kazakhstan. Thirdly, price hikes caused social discontent in Kazakhstan. Finally, this decision violated the principles of the Eurasian Economic Union (EAEU), which advocates the free

movement of goods, putting its strategic allies at risk and hurting both countries' economic interests. It is well known that the bulk share of Kazakhstan's oil exports goes through Russia through the Caspian Pipeline Consortium (CPC). On July 6 2022, it became known that the Primorsky District Court of Novorossiysk suspended the work of the Caspian Pipeline Consortium for a month under the pretext of environmental violations. However, later the Krasnodar Regional Court considered an appeal against the decision of the Primorsky District Court of Novorossiysk. Having considered the materials, and having listened to the arguments of the parties, the court of appeal changed the decision of the district court, imposing an administrative fine of 200 thousand rubles on the CPC [KazTAG, 2022].

At the same time, the activity of Russian companies in Kazakhstan increased substantially. Trading volumes on the foreign exchange market of Kazakhstan grew mainly due to an increase in the share of trading in the ruble-tenge pair: in general currency trading, it amounted to 9%. The volume of trading in the ruble grew almost 10 times and amounted to 115.55 billion rubles, and the number of transactions increased by 2.052 and reached 3.360. This can be explained by higher demand for the ruble or the ruble-tenge conversion in Kazakhstan's market due to restrictions on the conversion of the dollar and ruble [Forbes, 2022].

Following the sanctions, many Russian companies migrated to Kazakhstan. In January – May 2022, the number of operating foreign enterprises in the country increased by 12.7% reaching close to 25.000. During the reported period, the indicator increased by 2.400 companies, of which 1.600 were from Russia. At the end of May 2022, the number of Russian companies reached 13.000. The number of companies that migrated from Belarus amounted to 120 [Kapital, 2022]. Despite these companies may bring benefits, Kazakhstan's government should consider sanctions-related risks and increasing competition in the internal market of Kazakhstan. Therefore, it is important to develop mitigation policies in advance.

In conclusion, it could be stated that Russia remains an important economic partner of Kazakhstan. However, to strengthen these relationships, Russia should avoid the above-mentioned unilateral decisions, which may hurt the economic interests of Kazakhstan. These decisions will have long-lasting consequences as Kazakhstan must change its economic policy toward reducing its dependence on Russia. To date, the key risks from Russia stem from its uncertain and unpredictable decisions. Therefore,

Kazakhstan must revise all economic dependencies, adjust its economic policy, diversify import channels and start import substitution. For Kazakhstan, it is important to protect its interest within the EAEU. These policies may strengthen Kazakhstan's position and improve its competitiveness.

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