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Under the Radar: How Russia Outmanoeuvres Western Sanctions with Help from its Neighbours

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Acronyms and abbreviations

CIF	Cost, Insurance, and Freight
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EEU	Eurasian Economic Union
ESG	Environmental, social, and corporate governance
EU	European Union
FOB	Free On Board
IDFI	Institute for Development of Freedom of Information
IPHR	International Partnership for Human Rights
KGB	Komitet Gosudarstvennoy Bezopasnosti (Committee of National Security)
NAKO	Independent Anti-Corruption Commission of Ukraine
OCCRP	Organized Crime and Corruption Reporting Project
TI	Transparency International

Summary

This paper examines the practices used to evade sanctions imposed on Russia after its invasion of Ukraine in 2022, focusing on the import–export operations of Russia, Belarus, Georgia, and Kazakhstan. The research finds that sanctions have not cut supplies to Russia but have instead empowered informal trade networks and intermediaries. Georgia and Kazakhstan have indirectly benefited from the increased transiting trade; however, the impact on the shadow economy and traditional organised crime has been minimal because sanctions-busting is not illegal in these countries. In the aftermath of Russia’s invasion in Ukraine, a conspicuous surge in trade anomalies and import- and export-related red flags has been observed. In many instances, these irregularities can be definitively attributed to strategies employed to circumvent sanctions. The Western focus has been on restricting the re-exports of sanctioned goods to undermine Russia’s military apparatus. However, third-party states, such as Georgia and Kazakhstan, play a significant role in enabling Russia to sustain its international trade activities, yielding substantial financial gains for the country’s military expenditure.

Our research underscores the complexity and challenges of enforcing international sanctions and preventing sanctions evasion. It shows that the sanctions have not been as effective as hoped in cutting off Russia from the global economy, and that Russia has been able to find ways to circumvent them. The paper highlights the need for more concerted efforts and cooperation among Western states, private companies based in the West, and third-party states, to mitigate and prevent sanctions-busting activities.

Future research could expand to include more countries and examine the broader implications of sanctions. It could also examine the extent to which organised crime, such as cybercrime and trade-based money laundering, are linked to sanctions evasion. This research would build on the recommendations of this paper by developing more specific strategies for detecting and preventing sanctions evasion, including the use of new technologies and data analysis techniques.

1. Introduction

Since Russia's invasion of Ukraine in February 2022, Western sanctions on Russia have changed how neighbouring states trade with Russia. Although Russia's economic ties with EU countries have declined, countries in Central Asia and the South Caucasus probably participate in sanctions evasion through both legal and informal routes. Western brands and counterfeit goods enter the Russian market, while Russia exports oil and grain via the two regions. This report analyses export and import data for 2021–22 in Russia, Georgia and Kazakhstan, which exposes states' participation in shadow economic networks that help Russia evade sanctions. We find that trade between neighbouring countries and Russia increased in 2022, but countries often conceal their real trade flows to avoid coming across as supporting Russia.

Russia is open for imports of products affected by the sanctions, while neighbouring countries view the expansion of trade with Russia as beneficial for their economies. We have not, however, found traditional organised crime to be particularly complicit. Instead, the research shows that *legitimate* businesses are participating in sanction evasion activities in two main ways. First, new networks of trade intermediaries (who may or may not evade taxes) have emerged. These include three main types: formal businesses based in Georgia and Kazakhstan, Russian businesses based in Russia, and Russian migrants who moved to these countries when fleeing military conscription. Consequently, these intermediaries often have an affiliation with formal businesses or consist of informal groups with links to formal businesses.

Second, we have noted value discrepancies, unidentified countries of origin and destination, and other import- and export-related red flags that indicate illegality – including the evasion of customs tariffs and taxes – but that do not always link to the war and sanctions. In some cases, however, we find evidence that trade fluctuations and other irregularities arose after Russia's full-scale invasion, and these changes can be attributed to sanctions-evasion techniques. For example, the misreporting of countries of origin and destination increased dramatically after February 2022, and the only valid explanation for this change at this point is the sanctions. In trading with Russia, states, businesses, and individual entrepreneurs operate in legal ambiguities by combining lawful behaviour and misreporting of key details of domestic and international transactions.

We researched four main categories of trade between Russia and neighbouring states that operate in the realm of legal ambiguities. These are:

- 1 re-exports of legal but sanctioned commodities (such as luxury consumer goods),
- 2 re-exports of dual-use sanctioned commodities (such as semiconductors and cameras for civilian use that can be also used for military purposes),
- 3 financial services (financial transactions related to Russia, including the financing of trade with Russia), and
- 4 re-exports of Russian-produced goods to the rest of the world.

The distinction between the first and second category is sometimes unclear. The re-export of certain consumer goods may appear harmless in principle, but specific spare parts can be used for military purposes, even if these are not formally designated as dual-use technology. For example, Rostec (State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product Rostec), a Russian defence conglomerate based in Moscow, is known to have used spare parts from toys and vaping products to assemble Lancet loitering munitions (The Moscow Times, 2023a). In some cases, the chips have been extracted from other household appliances like fridges (Sheftalovich & Cerulus, 2022). Nevertheless, we assess the risk of military utilisation to be higher for dual-use goods.

Russia has consequently been able to soften the impact of Western sanctions through: (1) parallel imports of sanctioned brands, (2) its membership in the Eurasian Economic Union, (3) the willingness of neighbouring countries to trade with Russia, and (4) new, informal trade with Western brands that have formally left the Russian market. Western-based companies thus continue to supply the Russian market with goods – from technologies to food products – but via Georgia and Kazakhstan. Meanwhile, Georgia, Kazakhstan, and other countries in this region have witnessed economic growth in 2022 thanks to increased trade with Russia and with Western countries.

This paper contributes to a growing literature on the connection between international sanctions and shadow economies, showing Russia softened the impact of international sanctions thanks to its domestic legislature and willingness of the neighbouring countries to continue to trade with Russia (Gaur et al., 2023; Early & Peksen, 2020; Blanton & Peksen, 2021; Petrescu, 2016; Li & Li, 2022). In terms of structure, we first review the literature on the link between sanctions and the shadow economy, then we present our methodology, and we go on to analyse the evidence emerging from our research regarding Russia's sanctions evasion as assisted by Georgia and Kazakhstan. We conclude with potential implications emerging from the research, for discussion by US, UK, and EU governments and companies, on how to increase the effectiveness of sanctions without contributing to illicit activities in bordering countries.

2. The link between sanctions and the shadow economy

Much has been written about sanctions in recent years (for example, Mulder, 2022; Early & Peksen, 2020; Jones, 2015; Farzanegan & Hayo, 2019; and so on), and we do not seek to cover the wider sanctions literature here. Instead, we pull out key points from the literature on the expansion of shadow economies under the sanctions regime that have helped to shape the approach taken in our analysis. Previous research has provided extensive evidence that economic sanctions expand shadow economies, and that sanctions can also have harmful secondary effects on neighbouring countries where the resulting economic hardship may push more actors into the shadow economy. In addition, when the participants in the informal marketplace change, this leads to further transformations in corruption patterns, taxation, the involvement of state actors, and economic competitiveness (Early & Peksen, 2019; Blanton & Peksen, 2021; Petrescu, 2016). Altogether, research has shown how both the shadow economy and licit trade with neighbouring countries contribute to resilience against international sanctions (Akoto et al., 2020).

When countries witness a spike in informal economic activity due to sudden disruptions like sanctions, their passing over the illegality to avoid significant costs to society may be an effective interim strategy until replacements in the formal economy emerge. Inevitably, however, new intermediaries and criminal elements will undermine state functions in the long term (Berdiev et al., 2021), and consumers will become accustomed to obtaining goods and services from shadow markets. Criminal elements can coexist with law-abiding entrepreneurs, without interrupting economic growth, if the criminal elements bribe officials (Blackburn et al., 2017).

Another useful literature for understanding post-invasion developments in shadow markets in Russia and neighbouring states is that on economic disruption incurred by armed conflicts (such as Medina & Schneider, 2018; Early & Peksen, 2019; Ouédraogo, 2017; Sörensen, 2006). Wartime disruption in economic activity results in short-term uncertainty but entrepreneurs, both legal and criminal, can adapt to the new market environment. Criminal groups, for example, may take advantage of a chaotic and unregulated environment to smuggle commodities under the fog of war. Yet equally, uncertainty and violence pose a threat to traffickers, especially during active military warfare (Steenkamp, 2017; Cockayne, 2013).

The shadow economy's growth due to sanctions may increase economic inequality, but it also takes pressure off the political regime in the target country (Early & Peksen, 2020). Especially in non-democratic systems like Russia, the political leadership can retain control over loyalists for as long as the shadow and illicit economies alleviate their population's economic grievances. Sanctions can also boost loyalty to the ruling regime among political elites to capture sanctions rents (Kaempfer et al., 2004). Regime affiliates evade taxation, customs duty, and oversight, so long as they fuel economic activity by adapting to the sanctions (Feige, 1989; Early & Peksen, 2020). Firms are also prepared to pursue riskier strategies to find new suppliers, evade taxes, and hire

informal labour among other things (Early & Peksen, 2019). Finally, the governments in the target countries facilitate informal economies or even leverage illicit markets to procure arms (Andreas, 2005).

An analysis of the effect of Western sanctions on Russia by Gaur et al. (2023) demonstrates that although Russia has suffered economically, sanctions dodging via neighbouring countries has softened the impact on the average Russian consumer. Russia and its immediate neighbours already have sizeable cross-border illicit markets in legal commodities (the informal economy, grey markets, the shadow economy) and illicit markets in illegal commodities (the black market) (Early & Peksen, 2019; Zamani et al., 2021). Both existing illicit markets and new, informal, cross-border intermediaries have adapted to the new economic reality: one of persistent demand for consumer goods in Russia and unhindered supply routes from neighbouring countries.

Early predictions of unprecedented sanctions argued that Russian economic collapse was imminent due to the wide range of sanctions and the West's unified approach (Mahlstein et al., 2022; Sonnenfeld et al., 2022; Chowdhry et al., 2022). After an initial shock, however, Russian manufacturers were able to increase the production of import substitutes, while economic activity increased along the Russian-Chinese border (Li & Li, 2022). Instead of challenging their loyalty, the sanctions probably united the Russian oligarchy in support of the Kremlin (Siegel, 2022). The Kremlin expanded the informal economy by allowing parallel imports of sanctioned brands and increased exports of grain, oil, and other goods via Kazakhstan and Georgia (Babina et al., 2023). Russia may find it increasingly difficult to fund the war, but sanctions are unlikely to inflict enough pressure for the Kremlin to withdraw from Ukraine (Snegovaya et al., 2023). Russia's continuing illicit cross-border trade networks with neighbours once again confirm previous scholarly findings that sanctions expand shadow economies. Extensive evidence of cross-border illicit trade in the region, as presented in the following sections, provides a red flag for Western countries sanctioning Russia.

This brief literature review shows how sanctions can create economic distortions and disrupt formal channels, leading to a rise in illicit activities and underground markets. The scarcity of resources resulting from sanctions can increase loyalty, among political elites, to the regime incumbents. This review highlights the importance of considering how sanctions dodging is a common outcome. States experiencing sanctions are likely to support the informal economies to satisfy the population and political loyalists. In the case of Russia and neighbouring countries, we ask: how exactly did states adapt to new sanction regimes? And what type of shadow economic activities emerged as a result?

3. Methodology

To answer the questions we identified, we analysed two different types of data: media reports, along with import-export data. In the first instance, we reviewed news articles, reports, and other published materials written in Russian, Georgian, or Kazakh, which had been compiled by investigative reporters, NGOs, and analytical organisations on the issues of criminal activity and sanctions evasion. We identified materials by searching for the keywords ‘crime’, ‘money laundering’, and ‘illegal trade’ linked to various commodities. We have extensive experience of research in both South Caucasus and Central Asia and speak the native languages and Russian. This data allows us to understand how countries concealed trade with Russia since its full-scale invasion of Ukraine.

By using import-export data from Export Genius, we conducted a trade mirror analysis focused on commodities sanctioned by Western countries, and we identified trade irregularities. In the first stage, we examined the values reported by exporting and importing countries in bilateral trade relations at both ends, to reveal any discrepancies. We then dug deeper into the trade data in those instances where there were large discrepancies. In the second stage, we determined the risk of sanctions evasion for specific commodities, and we assessed their likelihood of being diverted via third countries. With this goal in mind, we reviewed the trade sanctions of the US, UK, EU, Canada, and Switzerland and identified the commodities that are most likely to be regulated and restricted. We identified the HS codes 8252 (communications: radio equipment, cameras, and antennas), 2710 (oil and oil products), 1001 (wheat), and 8708 (motor vehicles) to analyse trade patterns in these commodities. We then looked for possible red flags: these included unexpected fluctuations in trade volumes, a lack of transparency in the reported origin or destination, an absence of consignees, and so on. The reason we focused on this data is that it provides insights into the risks of sanctions evasion. By analysing the import-export data, we identify anomalies in reporting of trade activities before and after February 2022. For instance, if a country reported higher exports of goods to itself or to an unknown country – that would indicate evasion of sanctions.

The use of mirror trade statistics at the country level was pioneered by Global Financial Integrity, and it is regularly used by various researchers and international organisations to estimate illicit flows and trade-based money laundering (for a useful review, see Cobham & Jansky, 2017). The method is far from perfect and, in fact, discrepancies in reported values can be caused by many different factors including merchanting trade and re-exports, customs errors and different reporting standards, or the practices of trade misinvoicing (over-invoicing, under-invoicing, or false invoicing).¹ Despite these shortcomings, consistent value gaps represent red flags, and they can be used as a risk

¹ The major driver in value discrepancy is CIF (Cost, Insurance, and Freight) and FOB (Free on Board) differences, but adjusting the value based on freight and insurance costs typically results in no more than a 10% correction. CIF and FOB are both common international trade terms used to indicate the shipping arrangements and the party responsible for certain costs involved in transporting goods. FOB indicates that the buyer is responsible for the goods once they are loaded onto the shipping vessel, while CIF indicates that the seller is responsible for the goods until they reach the port of destination.

assessment tool to highlight potential cases of illicit flows (Gnogoue, 2017). Usually, a more granular analysis than what we perform here is required for specific commodities in order to determine the nature of the discrepancies. For example, in the case of the Georgia-Belarus mirror trade analysis, we first identified the commodity driving the discrepancy. In 2022 the largest commodity imported from Georgia as reported by Belarus was raw tobacco products used for manufacturing cigarettes (HS code 2401), valued at US\$28 million, while Georgia's reported sum for the export, re-export, and trans-shipment of the same goods did not exceed US\$20 million.² The Cost, Insurance, and Freight (CIF) and Free on Board (FOB) differences could not explain the discrepancy either because these adjustments typically result in a correction of no more than 10% (Gara, Giammatteo & Tosti, 2019). We found mismatches in the reported trade of select HS codes linked to Russia, Georgia, and Kazakhstan. These mismatches suggest potential issues such as incorrect reporting, smuggling, or trade misinvoicing which we will delve into the following sections.

Another aspect we observed closely is the category of 'unknown' or 'same country' origin and destination in customs documentation (for instance, export data detailing Georgia-to-Georgia trade), which has increased dramatically in the post-invasion period. In our case studies, the categories of 'unknown' and 'same country' origin and destination featured more often in the 2022 import-export data compared with 2021. The change indicated that misreporting the origin or destination is due to sanctions rather than other factors (such as tariff evasion, legitimate reasons for not knowing the destination of transiting goods, and so on) (Ferrier, 2021). Indeed, a misdeclaration of the country of origin or of a shipment's final destination is a common practice used to circumvent trade restrictions (Nitsch, 2017). Most likely, the buyers of Russian commodities and the suppliers of sanctioned goods to Russian territory are trying to avoid being associated with evading the sanctions, and they are misreporting the origin, the destination, or both. Furthermore, these shipments often lack information about consignees, which is another red flag. For example, a glance at Russian imports related to aviation and the industry's spare parts – one of the most sanctioned commodities – revealed that after 1 March 2022, 'unknown' was the second most frequently reported origin. In the unknown-origin category, the names of supplier companies were also often missing, but of those that were listed, the top ten suppliers included four companies from UAE, three from China, and one from Tajikistan.

Finally, we selected the Russia-based companies that are sanctioned by the West (US, UK, EU, and Canada) from the Russian Sanctions Database of the Atlantic Council.³ We then studied their suppliers before and after sanctions and examined their import activity over time to identify trends. This final step allowed us to identify the change in key suppliers of regulated and restricted commodities to Russia before and after the invasion.

² The reported number for Belarus comes from Export Genius and the reported number of Georgia comes from the Georgia trade portal.

³ The list is updated regularly and is available from the Atlantic Council's website: <https://atlanticcouncil.org/blogs/econographics/russia-sanctions-database/>.

3.1. Case selection and approach to analysis

We selected Georgia and Kazakhstan as case studies since both countries have strong economic and trade relations with Russia but are also different in the depth of their political ties with Russia and the composition of their national political economy. This is important because the comparison highlights how different degrees of political closeness prior to Russia's full-scale invasion of Ukraine were poor predictors of both countries' willingness to help Russia evade sanctions. Similarities include a shared border with Russia and high number of migrants from Russia. Both Georgia and Kazakhstan, along with other countries in Central Asia and the South Caucasus, witnessed a sharp increase in trade rates with the EU (Kudrenok, 2023), with both countries reporting that their imports from the EU increased by 20% in 2022 (Chupilkin et al., 2023).

Furthermore, roughly 112,000 and 100,000 Russian citizens fled to Georgia and Kazakhstan, respectively. Serbia is the only other country with comparable rates of migration, followed by Türkiye and Armenia (Ebel & Ilyushina, 2023). With Georgia and Kazakhstan bordering Russia, trade is more likely to be comprised of smaller networks compared with other countries. Russian migrants brought with them business activities that we regard as high risk for sanctions evasion. Russian migrants form a group that moved for the long term and who now work remotely or were hired locally in Georgia and Kazakhstan. Another large group consists of occasional travellers who cross borders to go shopping. A large inflow of migrants created new networks for importing goods from the EU and other countries to Russia, confirming existing literature that after initial shocks, businesses will adapt to sanctions (see Image 1). Finally, roughly 50 international companies moved from Russia to Kazakhstan in 2022; the number of companies that moved to Georgia is unclear (RFE/RL, 2022b).

Image 1. Example of a company - 'Reloparts' - created in Kazakhstan that offers transit of goods from Europe and China to Russia via Kazakhstan (reloparts.ru).

The image shows a screenshot of the website for 'RELO PARTS'. The header includes the company logo on the left and contact information on the right: 'info@reloparts.ru', '+7 (707) 677 90 54', and '+7 (495) 772 02 03'. Below the header, there is a large banner with the text: 'Поможем купить и доставить товары из Европы и Китая через Казахстан'. Underneath this, it says 'Логистика. Промышленное оборудование, расходники, спецтехника, тяжелые машины и механизмы, пром и нефтехимия и другие товары B2B.' At the bottom of the banner is an orange button that says 'Оставить заявку'.

Both Georgia and Kazakhstan are also different in their alignment with Russia. Kazakhstan is an oil-rich member of the Russian-led Eurasian Economic Union (EEU) that facilitates trade in most products between the two countries. Georgia is not a member of the EEU or other Russian regional alignments. Georgia is also a more democratic country with a stronger civil society that advocates for closer ties with the European Union. It also condemns, at least rhetorically, Russia's war on Ukraine. Georgia's standards for transparency in public service are also higher, including in the customs and law enforcement agencies. While Armenia's and Kyrgyzstan's trade increase with the EU grew at an even higher rate, they were not selected as cases because neither country shares a border with Russia, and so most of their EU imports are likely to be transiting through Georgia and Kazakhstan. We included Belarus, another member of the EEU and Russia's closest political ally, in the analysis of trade increased between Belarus and Georgia, and between Belarus and Kazakhstan. We assume that increased trade with Belarus since February 2022 is another sign of both Georgia and Kazakhstan helping Russia to evade sanctions by re-exporting goods from the EU via Belarus.

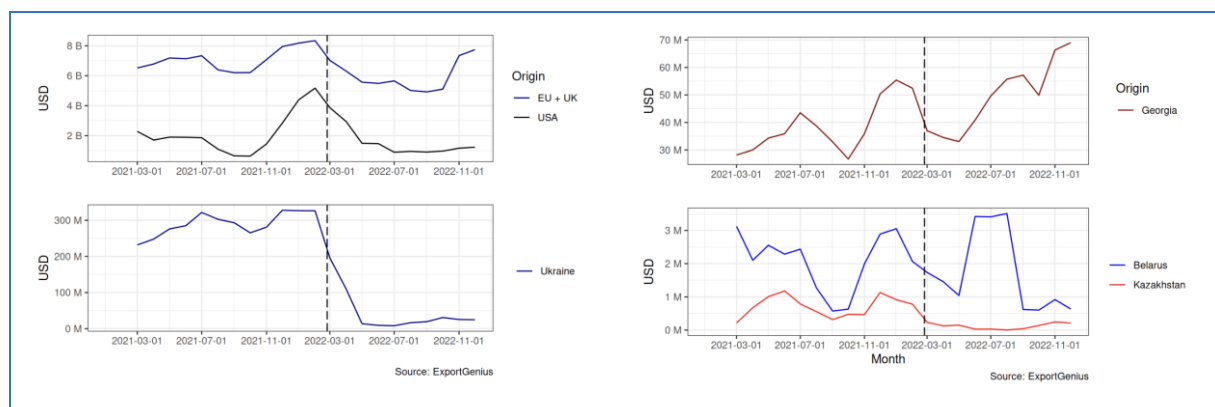
In sum, to form case studies, we brought together different sources of data from the selected countries using a structured methodology. The goal was to provide a comprehensive understanding of the specific cases being studied. We identified and gathered various data sources that are relevant to our research objectives including academic studies, reports, policy documents and trade data. Whenever possible we triangulated the data by cross-referencing information from multiple sources, but we tried to ensure quality and reliability of the information we used. The next sections set out the outcome of our analysis, starting with the trends in Russia's parallel imports, before moving onto the Georgia and Kazakhstan where we look at facts, risks, and impact of sanctions evasion.

4. Russia's parallel imports

One month after the invasion, the Russian government adopted Decree No. 506 that allowed parallel imports of sanctioned brands and commodities. The decree exempted businesses from civil liability when importing foreign goods without the consent of manufacturers or copyright holders (Yakubov, 2022). Parallel imports only allow original, not counterfeit, goods (Vasilenko, 2022), and the list of goods permitted for parallel imports includes every Western brand that exited or reduced its presence on the Russian market.⁴ This parallel import mechanism opened up venues for Western producers to sneak their products into Russia, and sanctioned brands therefore became available on the Russian market soon after parallel imports had been legalised.

Parallel imports quickly created semi-legal and illegal schemes involving new businesses and intermediaries in both Russia and neighbouring countries. Distributors of popular brands operating in Central Asia and the South Caucasus also took advantage of the legalisation of parallel imports and profited from higher prices on the Russian market. One of the most common schemes involved distributors of Western brands in neighbouring countries redirecting or increasing their supplies to Russia (Ivanova & Seddon, 2022). In a notable example, the Samsung corporation reopened its plant in Russia in June 2022 and claimed that its entire output would be shipped to Central Asia. This created an opportunity for the same goods to be re-exported back to Russia through shadowy schemes (Inozemtsev, 2022). Likewise, according to Russian entrepreneurs, Russia's largest e-retailers, such as Wildberries and Ozon, opened several warehouses in Belarus, Kazakhstan, Kyrgyzstan, and other countries (Tonkonog, 2023). Graphs 1-2 show the impact of Russia's invasion on trade patterns with the USA, the EU, the UK, Ukraine, Georgia, Belarus, and Kazakhstan. The graphs reveal how trade volumes declined in the immediate aftermath of the invasion; however, over time, they bounced back, and in some cases (such as Georgia), they have even surpassed pre-war volumes.

Graphs 1-2. Monthly direct imports reported by Russia in 2022 (three months moving average)



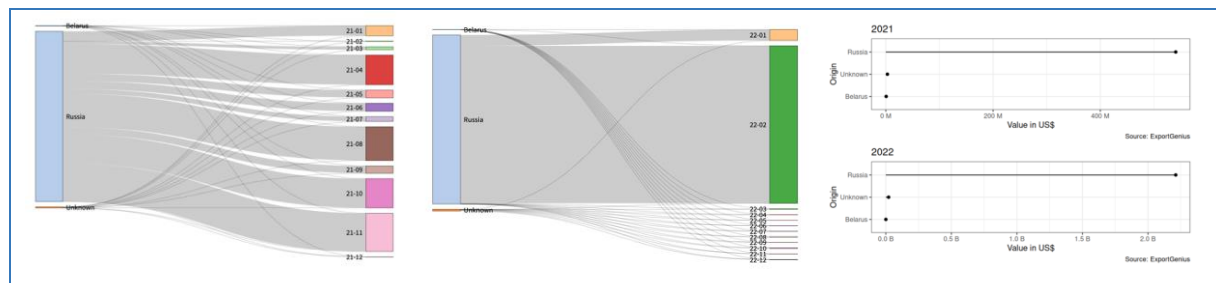
⁴ The list of all permitted products and brands can be found here: https://consultant.ru/document/cons_doc_LAW_416496/343227a0f7231f293415124c9c5b7237496b9008/#dst100011.

In the process of the analysis, we noticed significant differences in how Georgia and Kazakhstan reported their import-export data and in their formal and informal approaches to sanctions evasion. Georgia has been successfully policing re-exports to Russia after having returned several suspicious cargoes, not permitting them to transit from Türkiye and Armenia towards Russia. Kazakhstan has not demonstrated the same willingness. Georgia’s trade data is more transparent in documenting countries of origin and destination, even though some commodities like oil products and cars have been recorded as Georgia-to-Georgia trade. Kazakhstan’s rate of reporting ‘unknown’ countries of origin for imports is much higher than Georgia’s. Neither Georgia nor Kazakhstan have demonstrated enough commitment to monitor the re-exports of goods produced in Russia, and these have been on the rise since March 2022. As we have not observed any fluctuations in other intervening variables (such as corruption in customs), we can attribute this variation to a greater prevalence of sanctions-busting in Kazakhstan and Belarus compared with Georgia.

Graphs 3 to 10 below use Export Genius data for 2021 and 2022, comparing imports and/or exports in a range of goods. The graphs show potential irregularities in Russia's import-export patterns. Graph 3 shows increased semiconductor imports in 2022, possibly with concealed origins. Graph 4 reveals a decrease in automobile imports. Graph 5 indicates a significant drop in communication imports, hinting at potential smuggling. Graph 6 suggests a decline in communication exports from Belarus to Russia, with possible redirection. Graph 7 shows a notable decrease in wheat exports from Russia and increased Russia-to-Russia exports, raising suspicions. Graph 8 displays decreased oil and petroleum exports from Russia but exponential increases to Georgia and Belarus, signalling shifting trade patterns. Finally, Graphs 9 and 10 focus on the Russian high-tech and IT companies Skolkovo and Kronshtadt, showing a modest decline in overall supplies starting from March 2022. This decline suggests some degree of success with the Western sanctions. However, Chinese companies have replaced Western companies as key suppliers.

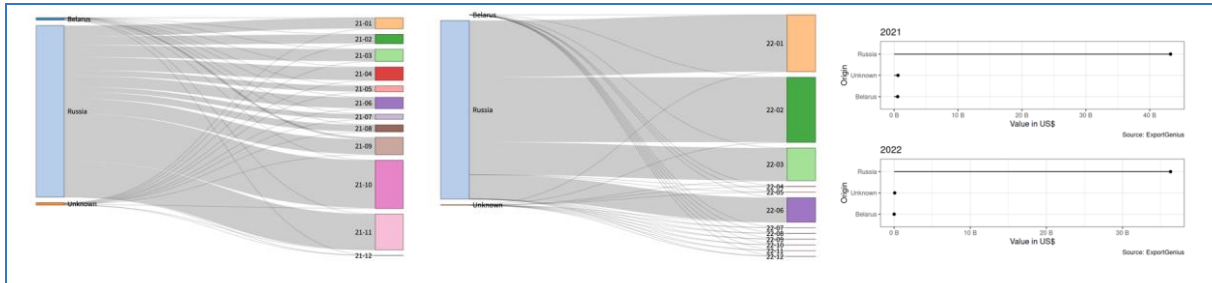
Graph 3. Semiconductor imports reported by Russia, 2021–22 (USD, billions).

The graph demonstrates that semiconductor imports to Russia have shown an increase in 2022. However, the listed origin of imports for that year is marked as ‘Russia’, which may suggest an attempt to conceal the actual origin of the imports.



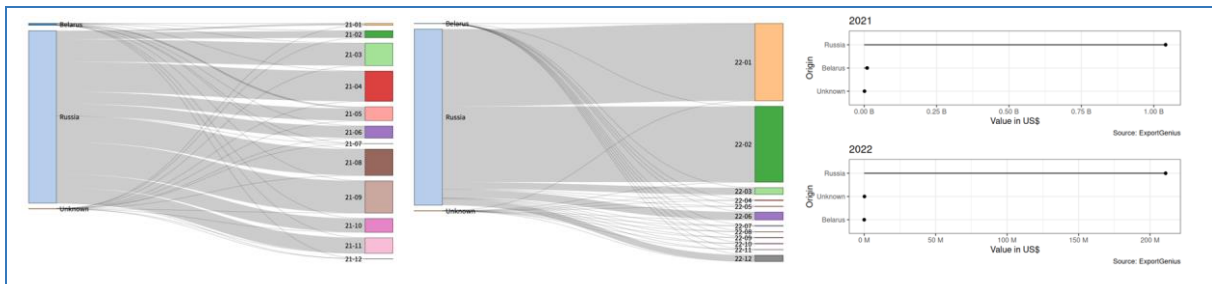
Graph 4. Automobile imports reported by Russia, 2021–22 (USD, billions).

The graph illustrates that the import of automobiles into Russia has decreased in comparison with the previous year, 2021. However, the information presented in this graph does not raise any concerns or indicate any potential issues in the automobile trade from a Russian perspective.



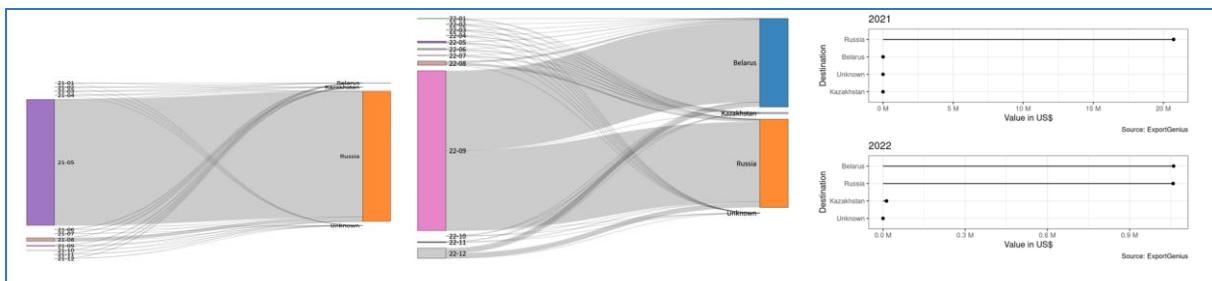
Graph 5. Communication imports reported by Russia, 2021–22 (USD, billions).

Graph 5 displays a considerable drop in the import of communication products into Russia. This decrease could be an indication that these goods are being smuggled illegally into the country.



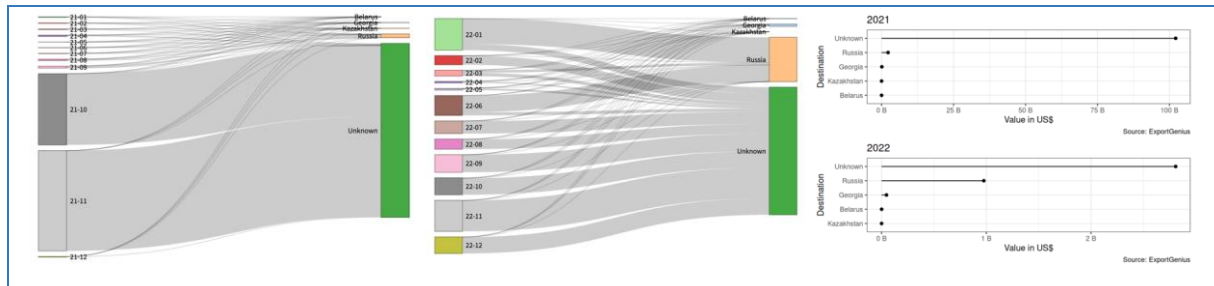
Graph 6. Communication exports reported by Belarus, 2021–22 (USD, millions).

The graph illustrates a sharp decline in communication exports from Belarus in 2022, particularly towards Russia. At the same time, the listed destinations of Belarus and Kazakhstan for these exports have seen a notable increase. This implies that the exports recorded for Belarus could potentially be redirected towards Russia instead.



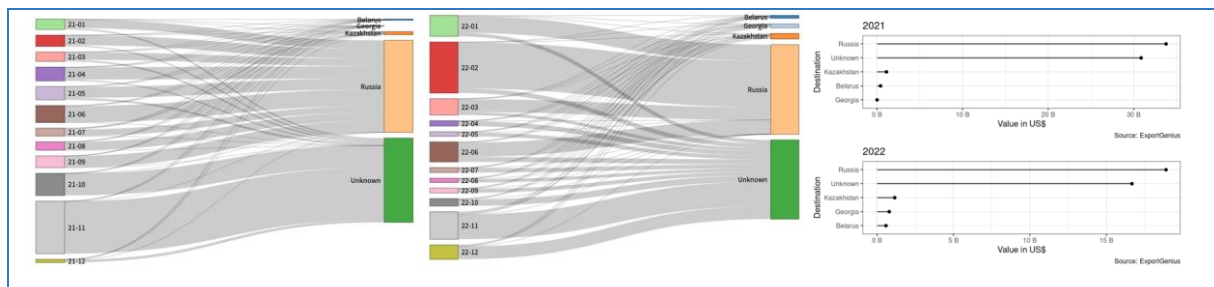
Graph 7. Wheat exports reported by Russia, 2021–22 (USD, billions).

The graph indicates a significant decrease in wheat exports from Russia in 2022 compared with 2021. The share of Russia-to-Russia exports has increased significantly, which may be seen as a red flag for potential illicit activities such as illegal trans-shipment or false exports.



Graph 8. Oil and petroleum exports reported by Russia, 2021–22 (USD, billions).

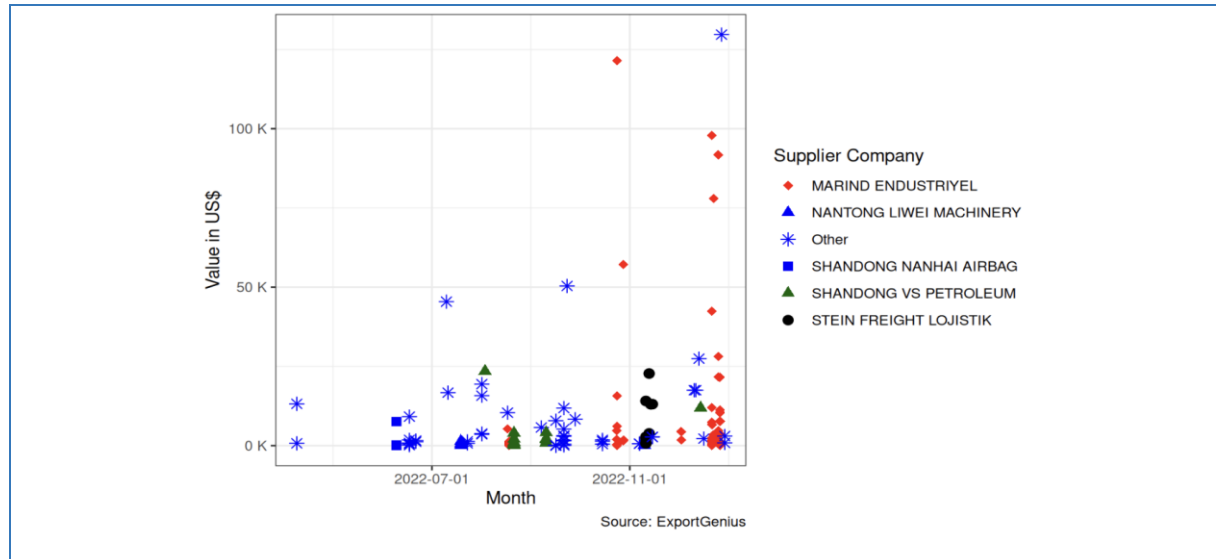
The graph shows that oil and petroleum exports from Russia have decreased significantly in 2022; however, the exports to Georgia and Belarus have increased exponentially.



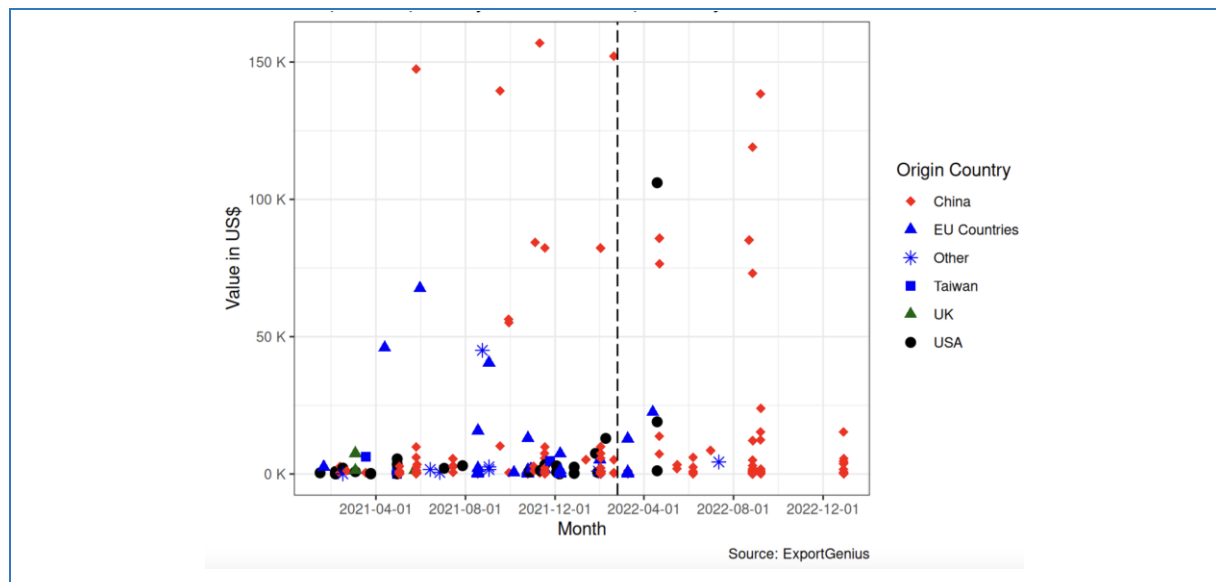
The graphs above reveal irregularities in Russia's import-export patterns, including concealed semiconductor imports and shifting trade patterns. These irregularities indicate potential efforts to circumvent sanctions. More worryingly, Western-produced sanctioned goods have continued to flow into Russia, albeit in decreased quantities. A survey by the Gaidar Institute for Economic Policy showed that 15% of Russian producers have not faced any interruptions in supplies of sanctioned equipment, and 23% have maintained supplies of the spare parts they needed. Most of the substitutes have come from China (67% for equipment and 54% for spare parts) (Kommersant, 2023). A recent report by the International Partnership for Human Rights (IPHR) and the Independent Anti-Corruption Commission (NAKO) (2023) revealed that certain Western-made components are still reaching Russia either via official distributors of Western-based companies or via third countries such as Türkiye and special administrative regions such as Hong Kong. The graphs for the Russian high-tech and IT companies Skolkovo and Kronshtadt (Graphs 9–10) reveal that despite a slight decrease in overall supplies after March 2022, indicating partial success of sanctions, China-based companies have now emerged as major suppliers.

Graph 9 shows how, aside from Chinese companies, two prominent Turkish freight forwarding and transportation companies, namely Marind Endustriyel and Stein Freight Lojistik, are among the primary suppliers. This development may be attributed, at least in part, to the reluctance of some original suppliers, including those based in the West, to reveal their identity.

Graph 9. Imports by Kronshtandt as reported by Russia, 2021–22



Graph 10. Imports by Skolkovo as reported by Russia, 2021–22



The Russian government has encouraged parallel imports in other ways as well. Russian financial institutions have consulted Russian importers on how to circumvent sanctions via Kazakhstan. For instance, Sovcombank has proposed a scheme that allows importers to find intermediaries in Kazakhstan who will help them purchase goods from Europe. Russian companies would then ‘purchase back’ their goods from such intermediaries. The bank has then also proposed that Russian companies open their own businesses in Kazakhstan to act as non-Russian purchasers. The Russian customs service will recognise such transactions (Vasilenko, 2022).

Parallel imports increased the share of unvetted suppliers in new supply chains, some of which are at risk of criminal exploitation. Russia's customs service has itself admitted that the parallel imports scheme has also become a conduit for counterfeit goods sent to Russia mostly from Asian countries, including equipment, garments, and toys that have now flooded shops throughout Russia (The Moscow Times, 2022).

Parallel imports have also caused losses in the Russian state budget. Customs duties have decreased from certain products (for example, kinds of electronic appliances) because smaller suppliers that transport the goods into Russia in small quantities without submitting customs paperwork have proliferated (The Moscow Times, 2023b). According to the poll conducted annually by the Industrial Trade Chamber of Russia, 29.8% of respondents indicated that corruption had increased in Russia because of the sanctions (RBC, 2022). Parallel imports and related ambiguities in the import-export regulations may have added to the confusion that Russia's customs employees use to extract bribes from the trade flows.

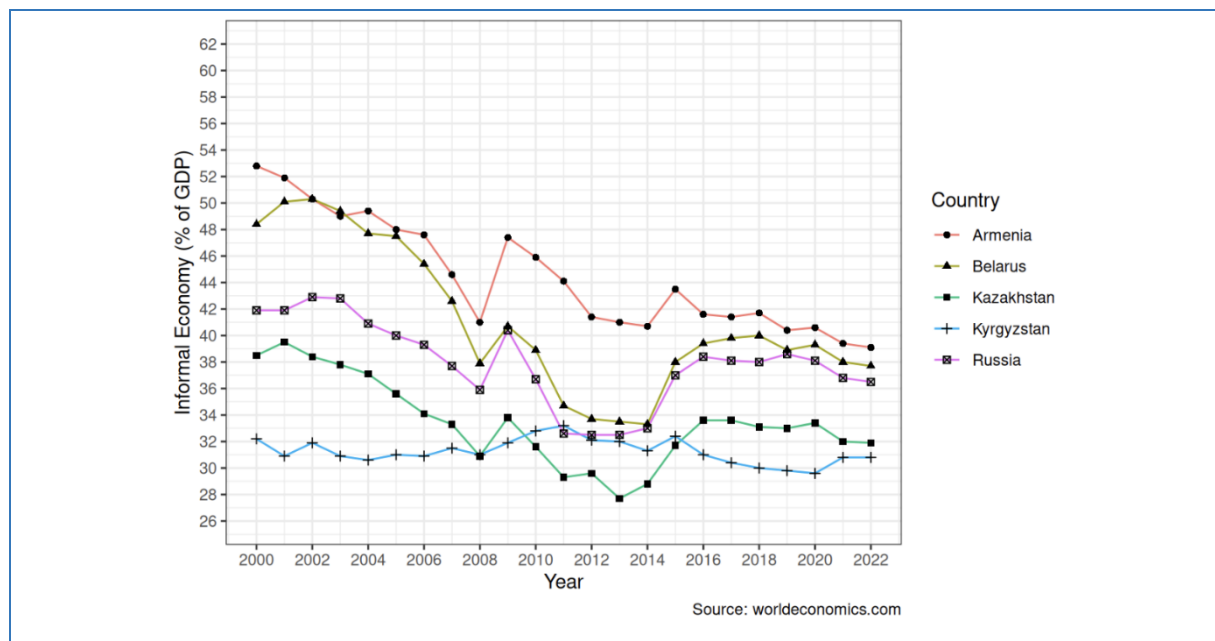
This section has provided crucial context and evidence of parallel imports in Russia. The graphs presented highlight potential irregularities and suspicious patterns in various goods, shedding light on possible smuggling, concealed origins, redirection of exports, and shifting trade patterns. Understanding these issues is crucial for assessing the impact of parallel imports on the Russian market, identifying sanctions evasion strategies, and evaluating the effectiveness of Western sanctions. The next sections focus on Georgia and Kazakhstan, countries that help Russia evade sanctions.

5. Comparing the impact of sanctions on smuggling in Georgia and Kazakhstan

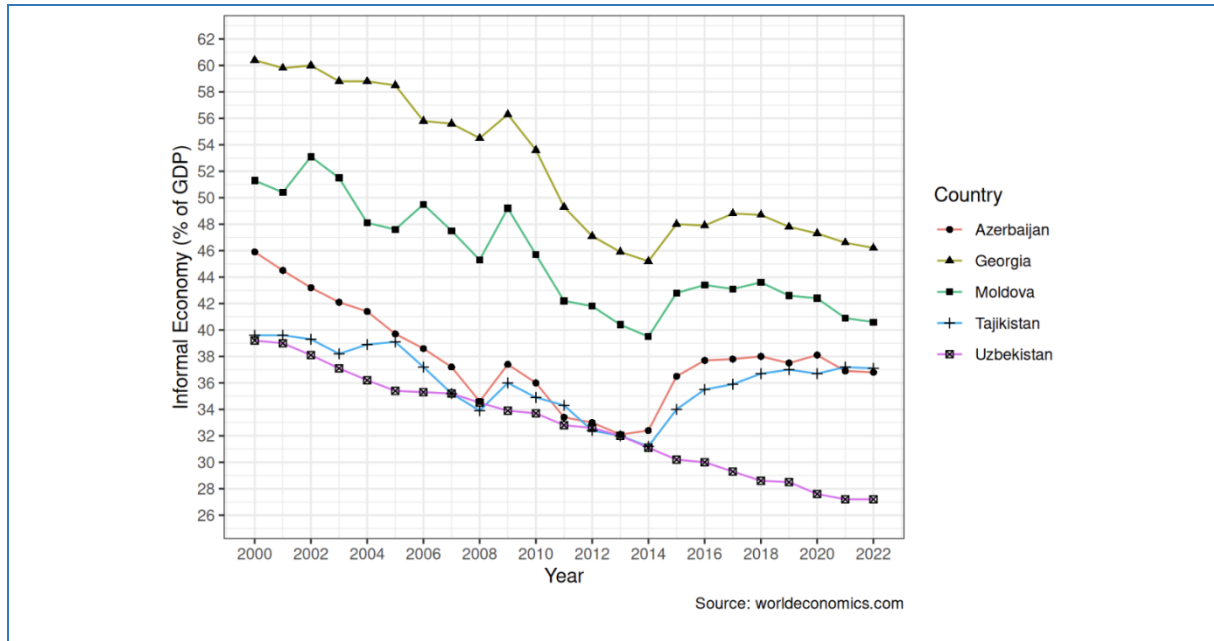
Altogether, we have identified three new types of networks of trade intermediaries who may or may not evade taxes and customs tariffs. The first network consists of formal businesses based in Georgia and Kazakhstan that trade in sanctioned goods with Russia, and that represent a particularly high risk of sanctions evasion. The second kind of network consists of Russian businesses based in Russia that trade with intermediaries in neighbouring states. These two types of networks also facilitate the re-exportation of Russian commodities to the rest of the world. Finally, the demand for goods from Russian migrants has created smaller networks of intermediaries who may be affiliated with formal businesses or make up informal groups with links to formal businesses.

Over a year after the Russian invasion of Ukraine, Western sanctions have had a mixed impact on the Russian economy (Viksnins, 2023). Thanks to parallel imports, the reported shadow economies have not expanded in neighbouring states (Graphs 11–12). Parallel imports have contributed to the legal economy instead, because the countries shown on the graph have not joined Western sanctions and, therefore, have not outlawed trade with Russia.

Graph 11. Informal economy as percentage of GDP among EEU countries



Graph 12. Informal economy as percentage of GDP among non-EEU countries



As shown in the following sections, Kazakhstan’s and Georgia’s supplies of sanctioned brands and goods to Russia is a possible explanation for the lack of change in their informal economy. Most of their transiting trade is not considered as ‘smuggling’ or ‘illegal’ from their perspective, and it does not always contribute to the shadow economy, despite the increased economic activity associated with sanctions evasion. As Graphs 11 and 12 demonstrate, there is no discernible impact of sanctions on the informal economy either in EEU members or in non-member countries. The following sections show how media reports suggest that formal distributors located in Kazakhstan and Georgia, as well as in other countries neighbouring Russia, probably serve as intermediaries in parallel exports to Russia, instead of the brands themselves. National import-export data seems to under-report real trade with Russia by misreporting origin and destination. In sum, both Russia and neighbouring states formalise sanction-dodging practices.

6. The South Caucasus

The complex geopolitical landscape of the South Caucasus presents several challenges for countries in the region, including Georgia, which must navigate the risks of sanctions evasion and illicit trade. Georgia's neighbour Armenia is a higher-risk jurisdiction for sanctions evasion because of its membership of the EEU and relaxed rules of trade with Russia. Additionally, corruption levels are much higher in Georgia's neighbouring countries, especially in Azerbaijan. Armenia and Azerbaijan are also currently playing key roles in Russia's trade with Iran. The Azerbaijani Port of Baku at Alat is a significant trans-shipment point for goods transiting from Central Asia and travelling to the West, and for Iranian goods heading to Russia (Railfreight.com, 2019). In general, the entire region is at risk of becoming a highway for illicit trade given the attempts by Türkiye and Iran to establish sanction-proof trade corridors with Russia. However, Georgia remains a valuable case study due to its strategic location as a natural geographical conduit for transit trade between Russia, Iran, Türkiye, and Armenia. Moreover, Georgia's successful anti-corruption and anti-crime measures, and its efforts to limit the shadow economy, make it a compelling point of comparison with Kazakhstan.

6.1. Georgia

Political relations between Georgia and Russia have been strained since 1991. In the early years of the post-Soviet transition, Georgia demonstrated a strong preference for pro-Western foreign policy; however, the country remained economically dependent on Russia until the 2004–07 reforms under the Saakashvili administration. The reforms resulted in full energy independence, and a significant part of Georgia's trade flows were diverted away from Russia. Economic relations were largely restored after the political transition in 2012 when Bidzina Ivanishvili's Georgian Dream came to power, even though Georgia remained less dependent on Russian fossil fuel commodities. For example, the share of Russian natural gas totalled no more than 12.2% of overall imports in 2020 and 23.1% in 2021.⁵ Georgia's dependence remained high for other commodities, with 78% of the wheat flour consumed in Georgia coming from Russia, for example (Transparency International Georgia, 2023).

Ivanishvili, a billionaire businessman and founder of the Georgian Dream political party that has ruled since 2012, earned his fortune in 1990s Russia. He has insisted that his business is uniquely clean and devoid of any corrupt practices and connections to organised crime, which were often a necessary condition for any business to thrive at the dawn of Russia's capitalist transition. Although there is some evidence that contradicts his claims (Gente, 2013), there is currently no hard evidence to support the involvement of Ivanishvili in illegal practices during the 1990s. What is clear is that his links to major business actors in the Russian Federation include some of the recently sanctioned individuals, such as Vladimir Yevtushenkov, the former majority stakeholder of Sistema JSFC. In April 2022, a secretly recorded conversation between Ivanishvili and

⁵ Geostat, the external trade portal for Georgia, is available at <http://ex-trade.geostat.ge/en>.

Yevtushenkov was posted on YouTube, in which they discussed business dealings and the facilitation of a meeting between Yevtushenkov's representative and the current prime minister of Georgia, Irakli Garibashvili, who used to serve as a personal assistant in Ivanishvili's business conglomerate.⁶ The leaked recording does not imply anything outright illegal, and its authenticity has never been officially validated, but later Yevtushenkov confirmed that his associate Ali Uzdenov met the Georgian prime minister, Irakli Garibashvili, to discuss wheat imports from Russia (Civil.ge, 2022).

Transparency International Georgia (2022) claimed that Ivanishvili's network in Russia has probably facilitated business relationships between his family members and politically exposed business people in Russia. These relations have served as a possible reason for the president of Ukraine sanctioning Ivanishvili's brother, his cousin, and his cousin's wife in October 2022.⁷ Transparency International found that these individuals have business relations with the US-sanctioned former KGB general and governor of St Petersburg, Georgy Poltavchenko, and with the former high-ranking official of Volgograd, Roland Kherianov, whose wife is a former member of the State Duma. The Transparency International report argued that none of these business links would have been possible without leveraging Ivanishvili's contacts in Russia, and so Ivanishvili's family members must be part of his business empire (Transparency International Georgia, 2022). Overall, the connections between Ivanishvili and business actors in Russia, including recently sanctioned individuals, coupled with the political fallout between the Georgian Dream government and the EU and US in early 2023 (Gabrichidze, 2022), have given rise to the speculations that there is a lot of hidden trade between Georgia and Russia circumventing Western sanctions to investigate further.

6.2. The implications of Western sanctions on Russia

The participation of Georgia in Western sanctions against Russia became a matter of political debate, as numerous pro-Western political parties urged the Georgian government to actively engage in implementing these sanctions. The Georgian Dream government speculated that joining sanctions against Russia would be equated with 'opening a second front against Russia', but they did take the firm stance that Georgia would not become a venue for sanctions-busting (Natchkebia, 2022).

Western sanctions have covered some of the owners of Russian companies operating in Georgia or the companies themselves. For example, the sanctioned oligarch Mikhail Fridman owned Veon Georgia, one of the key players in the mobile communications market, as well as IDS Borjomi, a mineral water producer whose ownership was transferred to the Georgian state free of charge after the Russian invasion of Ukraine (Institute for Development of Freedom of Information (IDFI), 2022a; Agenda.ge, 2022). The presence of sanctioned businesspeople in the Georgian market does not automatically imply the presence of illicit practices, but it does potentially increase the risk of sanctions-busting because of their links with businesses and trade networks in Russia.

⁶ See Netgazeti (2022); the conversation recording is available at https://youtube.com/watch?v=CY9Tc_yXBbM.

⁷ See the presidential decree dated 19 October 2022, available at https://president.gov.ua/documents/7272022-44485?fbclid=IwAR1vf8if0jCbGFpfaF_YUUDyrWZ0TD0g88FrNmBm0IA2cAfSyLCm7yRSHPw.

The impact of war on regional trade and supply chains was detrimental, including the loss of the Ukrainian market, one of the key markets for Georgian products. The invasion lowered expectations of economic growth, and in early to mid-2022, predicted economic implications included declining exports to Russia and Ukraine and shrinking remittances from Russia (IDFI, 2022b). The impact was not uniform, however, and some evidence suggests that parts of the Georgian economy have benefited from sanctions indirectly, and according to a survey of the Georgian economic climate, the situation improved in the third quarter of 2022 (Taktakishvili, 2022a).

In 2022, remittances from Russia to Georgia increased fivefold, for example, amounting to US\$2.1 billion (Transparency International Georgia, 2023). An industry of financial and legal services tailored towards many Russian citizens who have moved to Georgia has also emerged. The news reports indicated that representatives of these services would often target customers outside the business registration offices in Tbilisi and offer their services as intermediaries dealing with the owners of the business addresses for sale, which Russian citizens could then use to register their businesses. Consequently, some deserted villages in South Georgia have come to host hundreds of businesses registered by Russian citizens – a situation more commonly experienced in offshore jurisdictions and tax havens (Lomsadze, 2022). According to Tabula (2023), there is another notable example of a Georgian businessman with shady business links to Russia co-owning a Moscow-based company along with former high-ranking government officials; this company has helped wealthy Russians to emigrate to Georgia and other countries.

In 2022, about 15,000 Russian companies were registered in Georgia, which is 16 times more than the number in 2021 (Transparency International Georgia, 2023). Russian citizens opened more than 60,000 accounts in Georgian banks (Transparency International Georgia, 2023). In December 2022, several banks started closing down the personal accounts of Russian citizens. The banks claimed that nationality was not a decisive factor, but the reports by Businesspressnews (Darchiashvili, 2022) demonstrated that 97% of the individuals affected by account closures were Russian citizens. The likely cause was named as suspicious cryptocurrency transactions. A loophole in the regulations was quickly found by shadowy entrepreneurs who had started hiring unemployed young Georgian men to serve as fictional receivers of funds from Russia. They would withdraw these funds in cash and hand the money over to the real beneficiaries (citizens of Russia) in exchange for a fee.⁸

What is perhaps more surprising is that exports have actually increased rather than shrunk since sanctions began. In 2022, Georgian exports to Russia increased by 6.8% and amounted to US\$652 million (Transparency International Georgia, 2023). From March to December 2022, the increase was primarily driven by the re-export of automobiles (Transparency International Georgia, 2023). In this period, the export of automobiles to Russia increased fivefold. This can be partially explained by the dramatic increase in prices in Russia in the first half of 2022, but prices started to come down

⁸ This has been reported widely in the Georgian press, but the best coverage has been provided by investigative journalism completed by the television company TV Pirveli, 28 January 2023, available at <https://youtube.com/watch?v=w0XYQY4ywg8&list=WLandindex=70>.

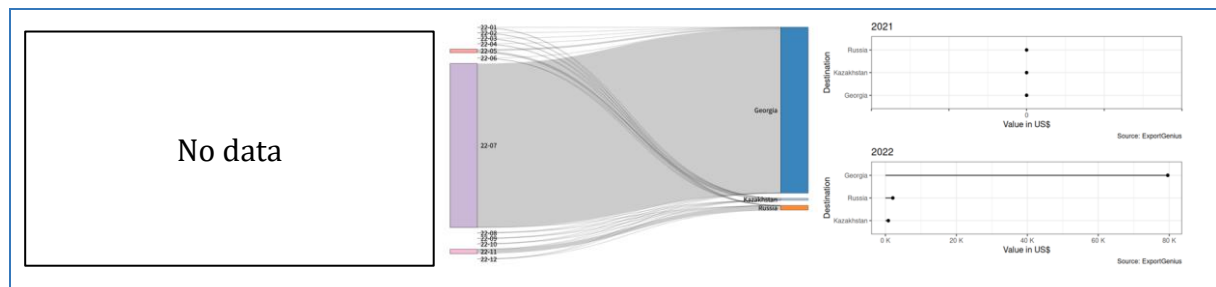
towards the end of the year (Aleksandrov, 2022). By December 2022, the price increase amounted to an annual increase of 11% (Ixbt.com, 2022). The lack of spare parts has led to a massive theft of cars in Russian regions. In December 2022, car theft had increased by 25% compared with previous months (The Moscow Times, 2023c).

Automobiles from Georgia reach Russia mostly via Armenia, but re-exports have also increased from Georgia to several Central Asian countries because supplies from Russia to Central Asia have been obstructed (Commersant.ge, 2022). The Institute for Development of Freedom of Information report (IFDI, 2023c) found that some automobiles have been refused shipment via Georgia (such as the 2020 Toyota GR Supra, Ford Mustang, and others); however, it was not clear from the customs documentation whether the specific reason was ownership by a sanctioned individual or something else.

The northern route (via Russia and Ukraine) for transiting goods is no longer available, and so demand for a transport corridor through Georgia (the ‘Middle Corridor’) has also grown significantly, with some logistical companies reporting an increase in workload of 30-40% (Business Media Georgia, 2022). Truck traffic through Georgia increased by 12% in 2022 compared with the previous year, including a 16% increase in traffic between Georgia and Türkiye (Gabrichidze, 2022). While this may be good news for the Georgian economy, there are significant risks of banned and regulated commodities being camouflaged in elevated trade flows and slipping through undetected. The increase in trade could be used as a cover up for illicit trade, making it difficult for authorities to detect and prevent such activities (Kupatadze & Kumar, 2022). Graphs 13-15 show trends in Russia-Georgia trade in selected commodities and compares before and after invasion periods.

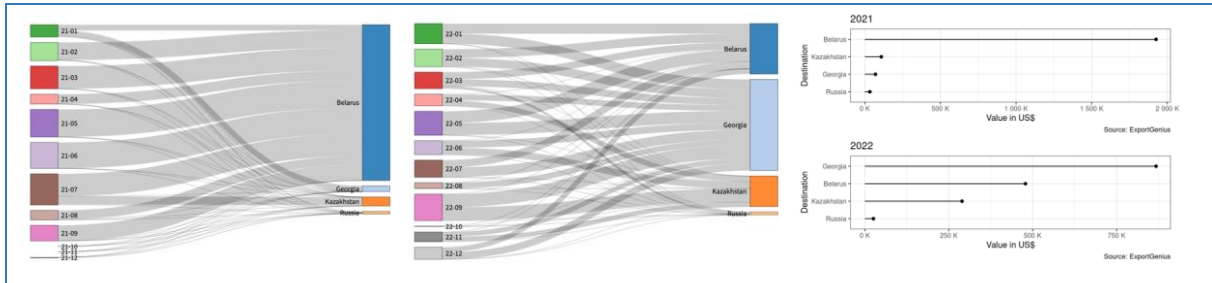
Graph 13. Semiconductor imports reported by Georgia, 2021-22 (USD, thousands).

The graph demonstrates that Georgia imported semiconductors in 2022, but the origin is listed as ‘Georgia’ which may suggest an attempt to conceal the actual origin of the imports.



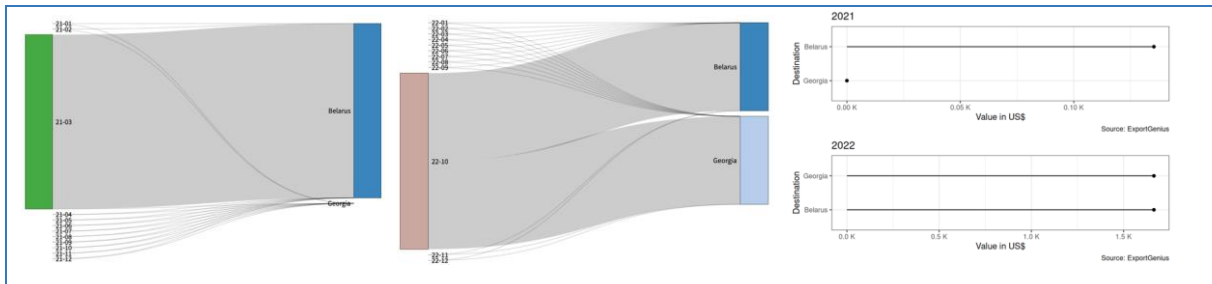
Graph 14. Automobile exports reported by Georgia, 2021–22 (USD, thousands).

The graph demonstrates a highly significant increase in automobile exports from Georgia. The listed destination of exports as ‘Georgia’ has increased exponentially in 2022, which may suggest an attempt to conceal the actual destination of the exports.



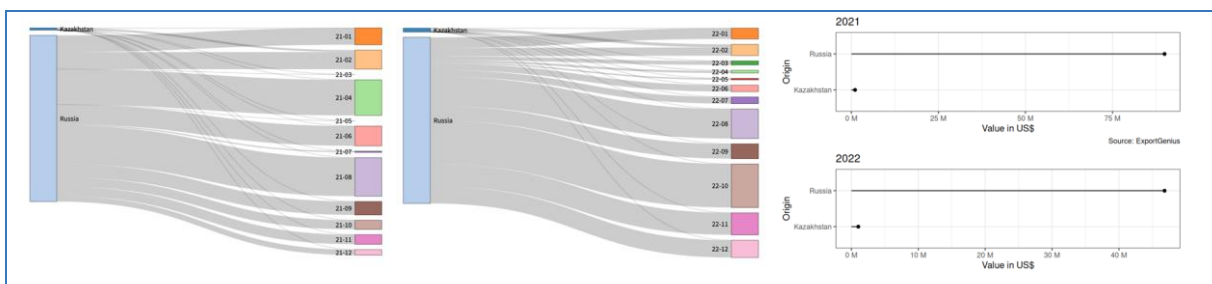
Graph 15. Communication exports reported by Georgia, 2021–22 (USD, thousands).

The graph demonstrates some increase in communication exports from Georgia. The listing of ‘Georgia’ as the destination of exports has increased exponentially in 2022, which may suggest an attempt to conceal the actual destination of the exports (note the same trend in case of automobile exports in Graph 14).



Graph 16. Wheat imports reported by Georgia, 2021–22 (USD, millions).

The graph suggests that a significant proportion of the wheat imported by Georgia has been sourced from Russia. However, this is not reflected in Russia’s official exports of wheat in Graph 7.



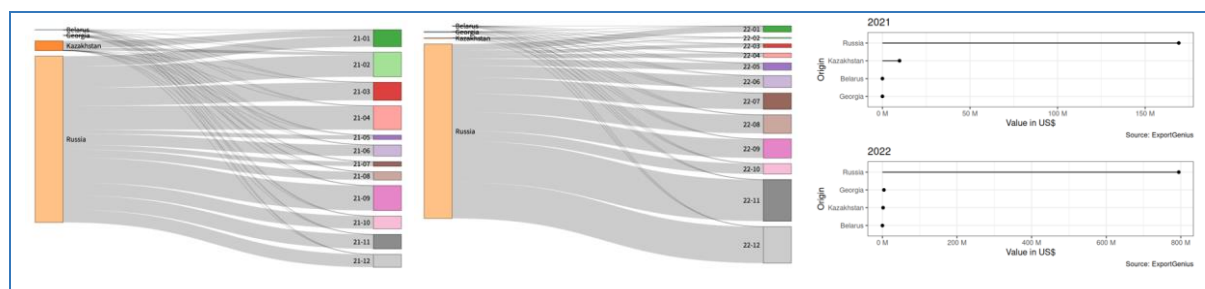
Research by the IDFI (2022c) showed that from February to August 2022, the Revenue Service of Georgia issued a total of 204 goods and vehicle registration certificates that turned away cargoes destined for the Russian Federation and Belarus. The largest shares of sanctioned cargo (or the cargoes of a sanctioned person) were shipped from

Türkiye (39%) and Armenia (35%). The most frequently attempted shipment was of machine and mechanical devices, with some instances of attempted shipments of drones and heat exchangers used in civil aviation. According to a statement made by Lasha Khutsishvili, the Minister of Finances, as of March 2023, the number of decisions made by Georgian customs to turn back shipments amounts to 1,020 (Fortuna.ge, 2023). Considering the colossal scale of transit trade passing through Georgia, the occurrence of 1,020 cases may be deemed as modest. Nevertheless, it indicates a potential willingness on the part of authorities to counteract sanctions-busting.

There is more evidence that Georgian territory is used for re-exporting goods produced in Russia to third countries, including to EU member states. Graphs 17 and 18 show the consistent increase in exports and re-exports of oil products from Georgia. This most probably relates to tremendous hikes in oil imports from Russia. No other oil-producing country, including from among the Central Asian countries, has reported an increase in oil product shipments to Georgia over the same period, and so the hike in Georgia's exports can only be explained in terms of re-exports of products produced in Russia. There have not been any investigations into this matter. In an isolated incident in June 2022, a ship loaded with cargo belonging to a Russian company under the sanctions was discovered at Batumi seaport.⁹ The ship had been at the port for two days and had been allegedly inspected by the port authorities and customs; however, alarm bells only sounded after the press reported their suspicions about the sanctioned company's involvement. This triggered speculation that the authorities were deliberately ignoring the matter. The press speculated that Davit Iakobashvili, a Russian and Swedish businessman of Georgian descent, was behind the shipment (Palitra News, 2022).

Graph 17. Oil and petroleum imports reported by Georgia, 2021–22 (USD, millions).

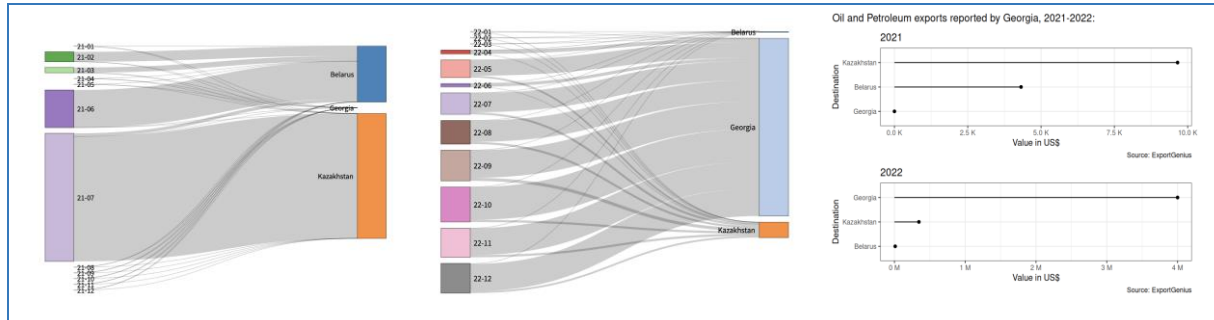
The graph shows that oil and petroleum imports from Russia to Georgia increased significantly in 2022, while imports from Kazakhstan declined.



⁹ The sanctioned Russian cargo entered Batumi Port on the Turkish-flagged tanker Esenka. The tanker was in the Batumi oil terminal. According to the television company Matavari Arkhi, the ship was loaded with up to 30,000 tonnes of oil products from the sanctioned Russian company Rosneft. See Taktakishvili, N. (2022b).

Graph 18. Oil and petroleum exports reported by Georgia, 2021–22 (USD, millions).

The graph demonstrates that exports of oil and petroleum products from Georgia have increased dramatically, suggesting that these are re-exports of Russian oil and petroleum products. The destination is reported to be ‘Georgia’ which may suggest an attempt to conceal the actual destination of the exports.



The Georgian government has strongly denied the possibility of sanctions-busting on its territory and has declared that every sanctioned item is strictly monitored,¹⁰ even though by its own admission there have been ‘frequent and daily attempts’ to smuggle equipment and food products (Interpressnews, 2022). In fact, there is evidence that Georgian authorities have been policing re-exports to Russia more than re-exports from Russia. Conversations in a Telegram channel for truck drivers transporting goods via countries in the South Caucasus¹¹ emphasise that incoming cargoes are systematically checked by Georgia and long investigations follow if there is some suspicion of sanctioned goods being transported. Some even suggested that to avoid getting ‘stuck in Georgia’, drivers transporting similar cargo considered reaching Russia from Türkiye by sea or circumventing Georgian territory by driving from Türkiye to Iran, onwards to Azerbaijan, and then on to Russia.

In conclusion, sanctions have yielded both positive and negative consequences for Georgia’s economy. While they have contributed to an upsurge in remittances from Russia and an overall surge in trade, they have also raised the potential for sanctions evasion and illegal trade practices. The sanctions have indirectly resulted in a surge in demand for the transportation corridor through Georgia, and the emergence of a thriving financial and legal services industry that caters to Russian nationals. The role of Georgia in re-exporting commodities produced in Russia is particularly noteworthy.

¹⁰ See the statement from Georgia’s Ministry of Finance dated 4 April 2022, available at <https://1tv.ge/lang/en/news/any-type-of-goods-indicated-in-sanctions-list-is-subject-to-tight-control-at-customs-georgian-finance-ministry-states/>.

¹¹ The Telegram channel Kavkaz Dal’nobojshiki has more than 5,000 subscribers.

7. Central Asia

All Central Asian countries are believed to have helped Russia evade sanctions and have reaped benefits from their newfound role, serving as a transit zone for sanctioned goods from the EU to transit to Russia (Marlow, 2023; Atkins, 2023; Burna-Asefi, 2023). They also sell dollars and other currencies in exchange for rubles, and export Russian products to third countries. EU goods may be exported to Central Asian countries via Russia, but then some goods either stay in Russia or end up as re-exports from these countries to Russia. Finland's customs service reported, for instance, that its export of goods to Kyrgyzstan grew by more than 800% in 2022 (Hiilamo, 2023). While the EU's trade with Russia sharply declined, its trade with the EEU countries increased by 15–90% (Chupilkin et al., 2023).

Previous trade and economic connections between Russia and Central Asia have helped to position the region as a transit zone, and new ties have emerged as well, from individual entrepreneurs to major import-export companies participating in the shadow economy. For instance, entrepreneurs with business and personal connections in Russia began exporting dollars from Central Asia to Russia, causing a shortage of the currency at home. An investigation by Radio Free Europe/Radio Liberty (RFE/RL) found that while Uzbekistan suffered from natural gas shortages in early 2023, Russian operatives profited from multi-billion-dollar deals. These deals involved proxies of Gennady Timchenko, a Russian oligarch under US and EU sanctions (RFE/RL, 2023).

Reports of corruption suggest that public employees have benefited from the high demand for export services across Central Asia. For instance, in December 2022, the Anti-Corruption Agency of the Republic of Kazakhstan interdicted a corruption scheme that involved several employees of Kazakhstan Temir Zholy (the national railway company) (ElDala.kz, 2022). In Central Asia, only one company, Promcomplektlogistic from Uzbekistan, was placed on the US sanctions list for its collaboration with Radioavtomatika (Kapital.kz, 2022a).

Among the Central Asian countries, most sanctioned goods probably pass via Kazakhstan, which shares the longest border with Russia. Kazakhstan's own large energy economy also allows it to camouflage Russia's oil exports to third countries. Although Kazakhstan's own economy probably benefited from the parallel trade, neighbouring Central Asian countries also benefited from informal and illicit deals. The following section focuses on how the shadow economy expanded in Kazakhstan.

7.1. Kazakhstan

Kazakhstan's border with Russia is the second longest in the world (after the US-Canada border): it stretches for 7,644 kilometres with 16 border crossings. After Belarus, Kazakhstan is Russia's biggest exporter with whom it shares a border. Kazakhstan's imports from Russia totalled 36.9% of its economy in 2021. The Eurasian Economic Union plays a key role in encouraging parallel imports from Kazakhstan. From the outset, Kazakhstan announced that it would not join Western nations in imposing

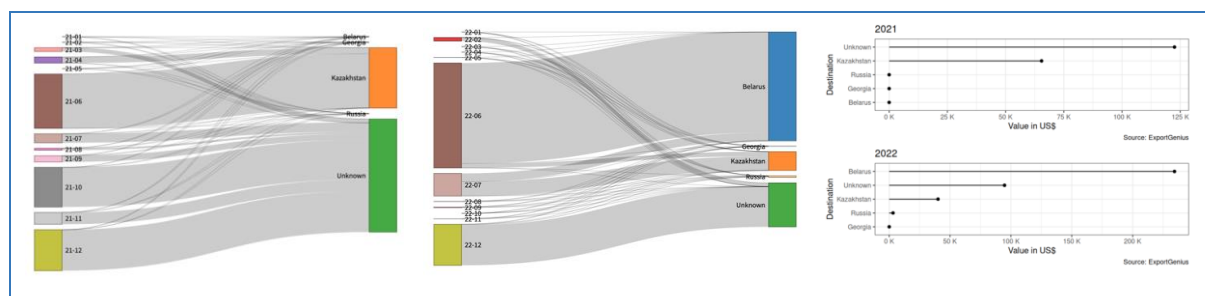
sanctions on Russia, but it also would not help Russia circumvent sanctions (Kapital.kz, 2022b). In reality, as we will see, Kazakhstan's businesses exported sanctioned brands to Russia, while Russian firms have used Kazakhstan to camouflage exports, for instance oil and grain products, to Western countries.

In the first few weeks after the sanctions were enforced, supply chains between Russia and Kazakhstan were disrupted, which caused delays in Kazakhstan's manufacturing sector (Mami & Kenzheali, 2022). Inflation increased in Kazakhstan and other Central Asian countries, especially for food items, imported goods, and real estate rent. To mitigate the economic downturn, Kazakhstan imposed limits on exports of hard currency and gold, but national currencies across the region lost value, while Kyrgyzstan and Tajikistan experienced a shortage of US dollars (Hunter, 2022; RFE/RL 2022).

Soon, however, several Western companies relocated to Kazakhstan and contributed to the nation's economy. By September 2022, Kazakhstan's exports had reached US\$65.8 billion, increasing by 47.5% from the previous year, but imports from Russia grew by only 3% (Mami & Kenzheali, 2022). Kazakhstan also benefited from high oil prices, and oil and gas exports increased in 2022. Most goods imported from Kazakhstan to Russia are availed of customs duties thanks to the EEU regulations. When products are imported to Kazakhstan legally, they can then be exported to Russia. Analysis of semiconductor exports in 2021–22, for instance, shows that Belarus became a primary destination, followed by the 'unknown' category in June 2022 (Graph 19). It is a safe assumption that the likely destination is Russia.

Graph 19. Semiconductor exports reported by Kazakhstan, 2021–22 (USD, thousands).

The graph demonstrates that there has been a noteworthy rise in semiconductor exports from Kazakhstan. A major portion of these exports in 2022 were directed towards Belarus, which is a significant change from the minimal exports to that country in 2021. This change is atypical and may suggest an attempt to evade sanctions, especially when viewed alongside the reported exports of Belarus in Graph 8.



In summer 2022, Kazakhstan's Ministry of Finance announced that it would ban parallel imports from Kazakh distributors, but this regulation never came into force (Vasil'yev, 2023). Exports from Kazakhstan to Russia increased by 25% in 2022 compared with the previous year (Stognei & Ivanova, 2023). Kazakhstan's trade with the rest of the world increased as well.

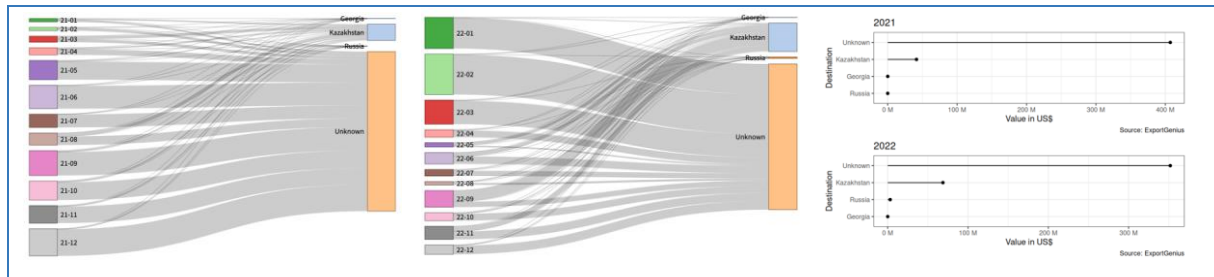
7.2. Four ways in which Kazakhstan's shadow economy expanded

Even though not reported as such, the shadow economy still expanded in Kazakhstan in four main ways. These included: (1) the export of everyday goods to Russia by retailers, (2) the camouflage of Russian transit goods such as wheat and oil, (3) increased demand from Russian consumers travelling to Kazakhstan, and (4) an expanded informal labour market.

First, according to media reports, Russian parallel imports incentivised the smuggling of everyday goods such as car parts, phones, and clothes. Graph 20 show how more automobiles were exported to 'Kazakhstan' in 2022. More communication devices were exported to an 'unknown' country and Georgia in 2022 (Graph 21). Stogney and Platonova find that electronics and car parts retailers who operated before the war witnessed a significant increase in demand from Russia (2023). Old and new entrepreneurs can follow shifting market demand for goods and find partners in Russia through Telegram channels. Kazakhstan's dealers purchase automobiles in Dubai for delivery to Russia, and ship them first to Iran, yet another country sanctioned by the West, then across the Caspian Sea. In 2022, the number of smartphones exported to Russia reached 183,600 compared with just 560 a year ago. The informal market for phones is likely to be even larger (Stogney & Platonova, 2023; Markova, 2022).

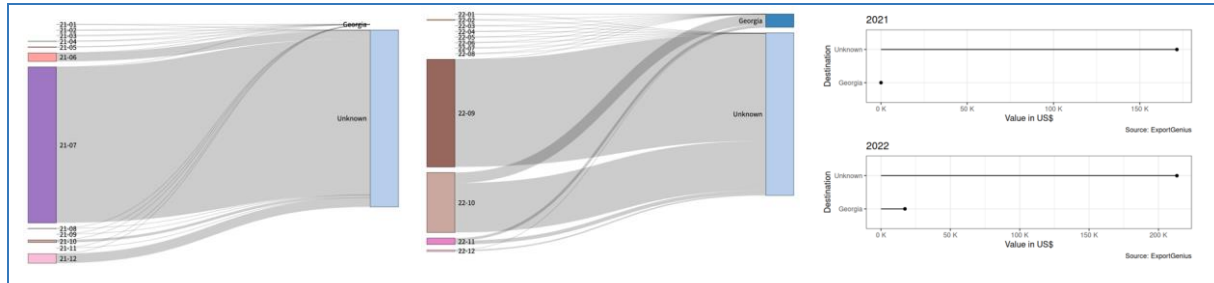
Graph 20. Automobile exports reported by Kazakhstan, 2021–22 (USD, millions).

The graph does not register any significant changes in automobile exports from Kazakhstan.



Graph 21. Communication exports reported by Kazakhstan, 2021-22 (USD, thousands).

The graph shows a slight uptick in communication exports from Kazakhstan. However, most of these exports have been listed as going towards an 'unknown' destination, which could indicate an attempt to hide or conceal the true destination of these exports.



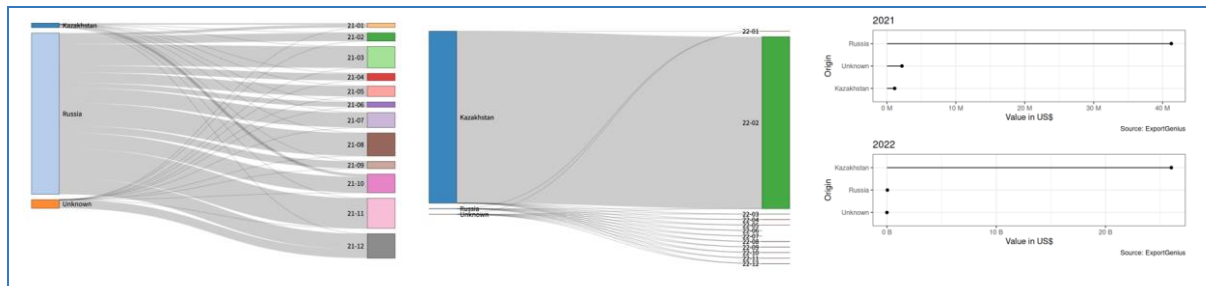
Mostly small businesses and individual entrepreneurs leverage the new shadow market. Large distributors of Western brands avoid violating sanctions (Stogney & Platonova, 2023). Car dealerships sell cars to local intermediaries who then register cars to Russian buyers for a fee of US\$200-US\$300 (Stogney & Platonova, 2023). Given that tens of thousands of such transactions are likely to have occurred in 2022, the system for avoiding sanctions turned into a lucrative enterprise for large groups of people in Kazakhstan. Intermediaries reportedly earned up to 20% from each transaction (Stogney & Platonova, 2023). According to the Russian media, a year into the war, Russian customers encountered greater difficulties in finding informal 'middlemen' to purchase cars in Kazakhstan (Razmahnin, 2023). An investigation by the Organized Crime and Corruption Reporting Project (OCCRP) showed how entrepreneurs from Russia facilitate supplies of drones and microelectronics through Kazakhstan, Kyrgyzstan, and Armenia (Zholobova et al., 2023). Members of the same families often participate in transnational networks supplying goods from the EU countries to Russia via Kazakhstan.

Evidence suggests that large companies are involved in sanctions evasion when trading in non-Western brands. An investigation by the OCCRP reported a sharp increase in exports of Belarusian wood into the EU via Latvia, documented as originating from Central Asian countries (Cerniauskas et al., 2022). The amount of exported wood increased from 445,000 euros in 2020-21 to over 30 million euros in just a few months in 2022. Latvian customs officials have difficulties in interdicting such shipments because it is hard to prove the trees' origin is not in fact Central Asia (Cerniauskas et al., 2022).

Second, according to the European Policy Centre, intermediaries in Kazakhstan and Central Asia conceal sanctioned goods from Russia transiting to the EU and to various countries (Taran, 2022). The volume of shadow exports of Russian grain to Kazakhstan is estimated at 1-1.5 million tonnes per year. Russian exporters to the EU, especially of natural resources (iron, steel, crude oil, and coal) conceal the source of origin in Kazakhstan. Oil of Russian origin is blended with Kazakh oil then exported as of Kazakh origin (Aris, 2022). While in 2021, Russia was the leading exporter of grain, in 2022, Kazakhstan was the leading importer of grain from 'Kazakhstan' Graph 22).

Graph 22. Wheat imports reported by Kazakhstan, 2021-22 (USD, millions).

The graph demonstrates that in 2022, the key source of imported wheat was listed as 'Kazakhstan' compared with 'Russia' in 2021. This may suggest an attempt to conceal the actual origin of the imports.



According to the Russian Federal Service for Veterinary and Phytosanitary Supervision (Rossel'hoznadzor), shadow exports of grain through Kazakhstan allow Russian sellers to trade with third countries without paying VAT, railway transit tariffs, and export duty (IDK.Ekspert, 2022). This fee (currently approximately 5,000 rubles per tonne) is not imposed on deliveries within the EEU, but it is mandatory for the export of Russian wheat to non-CIS countries. After importing Russian wheat illegally to Kazakhstan, however, Russian traders report it as Kazakh and transport it on to Uzbekistan. Furthermore, the Alliance of Agrarian Associations of Kazakhstan reports that even before Western sanctions, annual losses in Kazakhstan's budget due to the smuggling of wheat from Russia were estimated at 30 billion tenge (US\$62 million), with another 200 billion tenge (US\$400 million) lost by legal business (Slinkova, 2022). Kazakhstan's producers and exporters of wheat called on the government to prevent shadow imports from Russia that unfairly disadvantage them on the domestic and international market (IDK.Ekspert, 2022).

Third, Russian consumers found favourable conditions in Kazakhstan (Kursiv.media, 2023). Russian consumers travel to Kazakhstan to purchase sanctioned goods including cars, household items, clothing, and construction material. According to Kursiv.media, weeks after the start of the invasion, growing commodity prices boosted the Russian ruble against the Kazakh tenge (2023). Car dealerships in Kazakhstan were also likely to issue discounted car loans to buyers from Russia, a privilege previously only accessible to Kazakh citizens (Yakubov, 2022). Cash-based purchases by migrants from Russia and the Russian-based Zolotaya Korona payment system facilitate quick transnational transactions. Most contraband services are in cities bordering Kazakhstan: Novosibirsk, Yekaterinburg, Chelyabinsk, and Omsk (Yakubov, 2022). Russian consumers have therefore been able to enjoy greater purchasing power in Kazakhstan.

Russian citizens have also opened Visa and Mastercard accounts in the Central Asian and South Caucasus republics. The 'relocated' Russians have launched a series of enterprises in Kazakhstan servicing Russian consumers by selling telecommunications technologies, car parts, cars, and pharmaceutical products. They advertise their own services as specifically bypassing sanctions by delivering EU and Chinese goods to Russia. One such enterprise established in Aktau, named 'reloparts.ru', offers a range of transportation services from 'third countries via Kazakhstan to Russia' and customs

brokerage in EEU countries. According to the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market, Russians brought more than 40 billion rubles to the republic's banks over the last three months of 2022 (24 kg, 2023).

Finally, the shadow labour market has expanded in Kazakhstan. Over 930,000 Russian citizens have crossed the border since the start of the invasion, but the number of Russians who stayed in Kazakhstan is probably much lower (Najibullah, 2023). Russian migrants have continued to do freelance or corporate work with international firms without declaring this work to the authorities and Russian migrants employed remotely by international companies do not report to Kazakhstan's tax authorities. According to Arina Pirogova, the CEO of Quick Work, for example, the share of informal labour has probably expanded to up to 40% of the working age population (Baigenews.kz, 2023).

Despite increased reports of illicit trade, in August 2022, the Kazakh government claimed that since 2020, the shadow economy's share had declined to 20%. The government claimed that it interdicted 33 organised criminal groups and investigated them (Kapital.kz, 2023c). In January 2023, Kazakhstan's president, Kassym-Jomart Tokaev, announced a plan to establish an Agency against Economic Crime (Агентство по борьбе с экономическими преступлениями) to reduce the size of the shadow economy to 15%. This intention follows the logic of decision-making in Kazakhstan: numerical indicators are set out as benchmarks without specific paths outlined for achieving the goals. In May 2023, Tokaev once again promised to prevent transit of sanctioned goods through Kazakhstan (Putz, 2023). However, it remains to be seen whether Kazakhstan will take serious steps in preventing parallel imports.

8. Conclusion

Our research has examined practices linked to evading the sanctions imposed on Russia after its full-scale invasion of Ukraine in 2022. We have used granular data on the import-export operations of Russia, Belarus, Georgia, and Kazakhstan to show that sanctions-busting has become a significant problem in Russia's neighbouring countries and that it involves a wide range of actors, including legal businesses and private individuals. We found that the sanctions did not cut supplies to Russia but have instead empowered trade networks and intermediaries of various kinds by creating additional sources of income for them. In some cases, transiting goods are probably re-exported to Russia with implicit approval from Western producers who have formally committed to new trade restrictions. States neighbouring Russia turn a blind eye or actively cover up transit of sanctioned brands and services via their territories.

The authorities of Georgia and Kazakhstan, our two main case studies, have formally committed to abiding by the new trade rules, but analysis suggests that they have indirectly benefited from transiting trade that has increased exponentially. On paper, and according to the information available in the official sources, there appears to be little to no increase in trade flows with Russia, particularly regarding restricted goods. Yet, a substantial portion of the inflated traffic has been surreptitiously concealed through a myriad of obfuscating techniques, such as the intentional misrepresentation of origin and destination points, the deliberate underestimation of trade volumes and valuations, and the omission of critical details pertaining to the suppliers and importers involved. Nevertheless, a discernible disparity has emerged among the relevant states: Georgia has demonstrated more concerted efforts towards combating the circumvention of sanctions, while Belarus and Kazakhstan have proven inadequate in their efforts to mitigate such activities.

Western states have prioritised their focus on the re-exporting of restricted goods to Russia, with the primary objective being to undermine the operational capacity of Russia's military apparatus and diminish the influx of goods that can be leveraged in armed conflict (U.S. Department of State, 2023). Despite such concerted efforts, the role of third-party states, such as Georgia and Kazakhstan, in enabling Russia to sustain its international trade activities cannot be understated, as these activities yield substantial financial gains that are allocated for the country's military expenditure. The identification of evidentiary support compounds this issue – it indicates that both Georgia and Kazakhstan are actively facilitating the transit and re-export of Russian oil products and wheat to markets located further afield.

Given the sheer volume of international trade, fully monitoring every conceivable incident of sanctions circumvention is a formidable challenge. We recognise that there are currently few incentives for these potential measures to be explored, but by making sanctions circumvention more visible we hope our research will provide further support to reformers. Nevertheless, Western governments, states that share a border with Russia, and commercial entities could adopt more proactive measures to combat the ubiquitous phenomenon of sanctions violations. Likewise, suppliers in EU countries should be more diligent about increased demand and trade levels from countries

neighbouring Russia because of sanction-dodging practices. Based on our research, we propose a few potential measures for discussion:

- 1 Engage with governments in the Caucasus and Central Asia to bolster scrutiny of merchanting trade and re-exports, both to and from Russia. This will require a heightened level of vigilance, with a particular focus on the implementation of more stringent measures to deter any potential violations.
- 2 Encourage Western-based companies to conduct more comprehensive due diligence about their partner entities located near Russia. It is also essential to integrate countermeasures against sanctions evasion into environmental, social, and governance (ESG) strategies to ensure the ethical conduct of business operations.
- 3 Increase reputational risk against Western brands and companies based in the Caucasus and Central Asia. This can be achieved by highlighting the negative consequences associated with engaging in such practices, and the risk of damage to a brand could serve as a significant deterrent. Furthermore, a heightened awareness of the reputational risks associated with sanctions violations could encourage companies to prioritise ethical business practices, thus promoting greater corporate responsibility and contributing to a more ethical business environment.
- 4 Leverage pre-existing connections in Georgia and Kazakhstan, which could serve as a viable means of influencing specific companies engaged in sanctions evasion. For instance, a supplier of aviation goods from Tajikistan who has previously received funding from the European Bank for Reconstruction and Development (EBRD) could be the subject of focused efforts to discourage them from any further involvement in sanctions-busting activities. Such an approach has the potential to tackle the issue effectively by addressing the conduct of individual companies.
- 5 Support programmes and reform initiatives geared towards promoting transparency and professionalism in the customs agencies of countries near Russia. There is a pressing need for increased technical assistance to aid the implementation of programmes aimed at enhancing the analytical and technical capacity of national customs agencies, so that they can effectively detect the various methods of sanctions evasion, including more sophisticated trade-based money laundering schemes. Such efforts hold significant potential for improving the integrity and efficiency of customs operations, thereby contributing to the overall success of efforts to combat sanctions violations.

Our recommendations are politically feasible and there are signs that the efforts in these directions are already under way. For example, Western governments have been raising issues of sanctions evasion by countries bordering Russia (recommendation 1) but these efforts can be further supplemented by leveraging other connections as outlined in recommendation 4. Recommendations 2 and 3 are aimed at private companies and are also feasible given the demonstrated willingness of Western governments to clamp down on sanctions evasion (Financial Times, 2023).

Future research could expand to include more countries and examine the broader implications of sanctions. It could also examine the extent to which organised crime, such as cybercrime and trade-based money laundering, are linked to sanctions evasion. Further research could also explore opportunities for developing more specific

strategies for detecting and preventing sanctions evasion, including the use of new technologies and data analysis techniques.

Another possibility for future research is to focus on how shadow economies expanded because of parallel imports in countries beyond Belarus, Georgia, and Kazakhstan. Moldova, Armenia, Kyrgyzstan, and Uzbekistan have all seen the expansion of trade with EU countries and with Russia – a likely indicator that they, too, are re-exporting sanctioned goods to and from Russia. The dynamics in the shadow economy will continue to change because of Kazakhstan’s recent announcement that it will strengthen policing of parallel imports to Russia through its territory (Lillis, 2023). Will expanded regulations force more entrepreneurs into the criminal economy?

Finally, we still lack an understanding of how changes in markets for illicit commodities shifted because of the war in Ukraine. For instance, how organised crime and illegal trade activities have been displaced, their modes of operation, and their geographical trajectories. Illegal trade between Russia and Ukraine persists, pointing to continued links between the two countries’ shadow economic and trade networks. We selected Georgia and Kazakhstan as case studies, since both countries have strong economic and trade relations with Russia, but are also different in the depth of their political ties with Russia and the composition of their national political economy. Notably, Ukraine also had significant ties with Russia, including connections to Russian organised crime, prior to 24 February 2022. The consequences and present state of these relationships remain ambiguous, particularly the potential transformations that organised crime may undergo once the war reaches its conclusion, independent of the specific timing or conditions of its end.

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