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SECONDARY SANCTIONS AND ECONOMIC VULNERABILITY IN THIRD COUNTRIES: TRADE, FINANCE, AND COMPLIANCE CHANNELS

(Evidence from Uzbekistan, Kazakhstan, Kyrgyzstan and Armenia)

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Abstract. This article compares the exposure of Uzbekistan, Kazakhstan, Kyrgyzstan and Armenia to the risks of secondary sanctions under Western sanctions on Russia after 2022. Exposure is assessed across trade, finance and compliance channels using a simplified index of nine indicators; cases without information are coded separately, and results are reported as lower and upper bounds. Kyrgyzstan ranks first or joint-first under every variant of the calculation, while the ordering of the other countries depends on methodological choices. For Uzbekistan, the main risk lies in its dependence on remittances and the vulnerability of payment channels.

Keywords: secondary sanctions, third countries, economic vulnerability, remittances, correspondent banking, compliance, Central Asia.

Annotatsiya. Maqolada 2022-yildan keyin Rossiyaga qarshi joriy etilgan G‘arb sanksiyalari sharoitida O‘zbekiston, Qozog‘iston, Qirg‘iziston va Armanistonning ikkilamchi sanksiyalar xavfiga ta’sirchanligi qiyosiy tahlil qilinadi. Ta’sirchanlik savdo, moliya va komplayens kanallari bo‘yicha to‘qqizta ko‘rsatkichdan iborat soddalashtirilgan indeks yordamida baholanadi; ma’lumot topilmagan holatlar alohida belgilanib, natijalar quyi va yuqori chegaralar ko‘rinishida beriladi. Qirg‘iziston barcha hisoblash variantlarida eng yuqori yoki teng eng yuqori o‘rinni egallaydi, qolgan mamlakatlar tartibi esa metodologik tanlovlarga bog‘liq. O‘zbekiston uchun asosiy xavf pul o‘tkazmalariga bog‘liqlik va to‘lov kanallarining zaifligi bilan izohlanadi.

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Kalit so‘zlar: ikkilamchi sanksiyalar, uchinchi mamlakatlar, iqtisodiy zaiflik, pul o‘tkazmalari, korrespondent banklar, komplayens, Markaziy Osiyo.

Аннотация. В статье сравнивается подверженность Узбекистана, Казахстана, Кыргызстана и Армении рискам вторичных санкций в условиях западных санкций против России после 2022 года. Подверженность оценивается по торговому, финансовому и комплаенс-каналам с помощью упрощённого индекса из девяти показателей; случаи отсутствия информации кодируются отдельно, а результаты приводятся в виде нижней и верхней границ. Кыргызстан занимает первое или разделённое первое место во всех вариантах расчёта, тогда как порядок остальных стран зависит от методологических допущений. Для Узбекистана основной риск связан с зависимостью от денежных переводов и уязвимостью платёжных каналов.

Ключевые слова: вторичные санкции, третьи страны, экономическая уязвимость, денежные переводы, корреспондентские банки, комплаенс, Центральная Азия.

INTRODUCTION

In September 2022, Uzbekistan’s national card processor Uzcard stopped servicing Russia’s Mir payment cards, officially for “technical reasons” (Kun.uz, 2022). Uzbekistan had not joined any sanctions against Russia, and no Uzbek law required the decision. In July 2026, several large Uzbek banks suspended transfers through Zolotaya Korona, the main Russian money transfer system, after the EU sanctioned its settlement bank (Kursiv Uzbekistan, 2026). Both episodes show that sanctions aimed at one country are increasingly felt, and acted upon, in countries that never imposed them.

Secondary sanctions can expose foreign financial institutions and other third-country actors to restrictive measures for specified dealings with sanctioned persons or activities, even where those dealings are not prohibited by the third country’s domestic law. Such extraterritorial measures should be distinguished from direct designations for sanctions evasion, export-control listings and voluntary de-risking. In December 2023,

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US Executive Order 14114 authorised sanctions on foreign financial institutions that facilitate significant transactions involving Russia's military-industrial base (Exec. Order No. 14114, 2023), and in January 2025 Kyrgyzstan's Keremet Bank was designated under this authority (U.S. Department of the Treasury, 2025). For Central Asia and Armenia, the pressure is hard to avoid: Russia remains a major trading partner and the main destination for labour migrants, and three of the four countries studied here belong to the Eurasian Economic Union (EAEU), whose members generally trade without internal customs duties, subject to applicable controls and exceptions.

Sanctions research has mostly examined effects on the target country, although secondary sanctions exist precisely to change the behaviour of third countries (Hartwell, 2024). This article asks: through which channels are third countries exposed to the risks of secondary sanctions, and how does this exposure differ between countries?

Scientific novelty. First, the article operationalises a three-channel framework (trade, finance, compliance) as a simplified index of nine indicators with an explicit source, period and coding rule for each, so that every value can be checked. Second, it separates conditions verified as absent from conditions for which no information was found, and tests how far the results depend on this and other methodological choices. Third, by comparing Uzbekistan, which is not a full EAEU member, with three EAEU members, it provides preliminary insights into the association between customs-union membership and sanctions-related exposure.

LITERATURE REVIEW

Farrell and Newman (2019) explain why financial sanctions are so powerful: states that control the hubs of global networks, such as dollar clearing, can monitor and exclude other actors ("weaponized interdependence"). A bank in Tashkent or Bishkek that needs dollars is therefore highly sensitive to US policy.

Early (2015) shows that sanctions often fail because third countries step in to trade with the target; secondary sanctions are designed to close this gap. Early and Peterson (2024) show that US enforcement actions reduce third-country trade with sanctions

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targets even when the penalised firm is located elsewhere – the mechanism known as de-risking or over-compliance.

For the post-2022 period, Chupilkin, Javorcik and Plekhanov (2025) trace the rerouting of EU and UK goods to Russia through Armenia, Kazakhstan and Kyrgyzstan, and Ito (2026) finds a significant but small rise in Kazakhstan's exports of sanctioned dual-use goods to Russia. Regional studies add context: Migranyan and Litvinov (2026) link the slowdown of Russia's trade with Central Asia in 2023 to EU measures against third-country companies, while Mamatkhanov (2020) and Kim and Abdiualieva (2025) warn of Uzbekistan's excessive dependence on remittances. The studies reviewed here do not provide the same nine-indicator, three-channel comparison of these four countries. The contribution is therefore a transparent exploratory comparison rather than a claim that no earlier cross-country analysis exists.

METHODS

The study uses a structured, focused comparison of four cases (George & Bennett, 2005). Because measuring vulnerability in full would require estimating losses against a counterfactual, vulnerability is approached through exposure: the presence of channels through which sanctions-related risk can reach a country, together with documented disruptions. The index summarises heterogeneous risk signals observed over 2021–2026; it is not a time-consistent panel or a measure of realised economic losses. All four countries face the same sanctions regime and have not adopted Western sanctions; Kazakhstan, Kyrgyzstan and Armenia are full EAEU members, while Uzbekistan has observer status. To avoid circular reasoning, EAEU membership is not part of the index and is examined afterwards as a possible explanation.

Each channel is measured by three indicators (Table 1). An indicator is coded 1 if the condition is documented, 0 if it is verified as not met, and n.d. if no reliable information was found. For F3, only direct legal measures against a bank are counted (US SDN designation, UK designation or an EU transaction ban). For T2, a company counts if it was designated on an asset-freeze list or placed on an export-restriction list by the US, UK or EU. For T3, part-year data are accepted as a proxy only if they cover

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at least ten months of the year; they are not strictly equivalent to full-calendar-year totals, and the resulting classification is provisional. For C2, "beyond legal requirements" means beyond what domestic law requires, and only bank-specific or official evidence is accepted; general regional reports are not sufficient.

Table 1. Indicators, reference periods and main sources

Code	Indicator (value 1 if documented)	Period	Main sources
T1	Identified in empirical research as a re-export route to Russia	2022–2023	Chupilkin et al. (2025); Ito (2026)
T2	Non-bank companies in the country designated or placed on export-restriction lists by the US, UK or EU for supplying Russia	2022–2026	OFAC; EU; UK; media
T3	Exports to Russia more than doubled	2022	National statistics
F1	Russia supplied more than 50% of remittances	2021	World Bank; IOM
F2	Remittances of 10% of GDP or more	2024	World Bank (WDI)
F3	A bank in the country designated or under an EU transaction ban	2022–2026	US Treasury; UK; EU
C1	Banks or the national processor stopped servicing Mir cards	2022–2024	Bank announcements
C2	Banks restricted other Russia-related transactions beyond legal requirements	2022–2026	Central banks; media

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Code	Indicator (value 1 if documented)	Period	Main sources
C3	The state adopted measures to monitor sanctions-risk trade or payments	2023–2026	Government statements

Source: developed by the author.

The thresholds in T3, F1 and F2 are simple cut-off points chosen because no established standard exists: a doubling of exports signals a break in trade patterns, a majority share makes Russia the dominant source of remittances, and 10 percent of GDP marks macroeconomic significance. Each channel score is the mean of its indicators (0–1), and the overall index is the unweighted mean of the channel scores. Ratings are: below 0.25 – low; 0.25 to below 0.50 – medium; 0.50 to below 0.75 – high; 0.75 and above – very high. The baseline treats n.d. as 0 (lower bound) and the upper-bound calculation treats it as 1; this interval reflects coding assumptions, not statistical uncertainty. Equal weights and the thresholds are tested in the Discussion. These indicators combine different types of evidence (structural dependence, enforcement and institutional response); scores are descriptive and should not be interpreted as probabilities of sanctions or causal effects.

RESULTS

Trade channel

Chupilkin, Javorcik and Plekhanov (2025) show that after 2022 EU and UK exports to Armenia, Kazakhstan and Kyrgyzstan rose in product groups subject to sanctions, and that roughly half of the additional exports were not recorded as imports by these countries, suggesting onward shipment to Russia (T1). Ito (2026) confirms this for Kazakhstan. Neither study covers Uzbekistan, which is therefore coded n.d.

Named companies from all four countries have been targeted (T2). In Uzbekistan, the US State Department designated Promcomplektlogistic in June 2022 (Eurasianet, 2022); in June 2023 the EU placed two Tashkent-based firms on its list of entities subject to export restrictions, after the US Department of Commerce had listed them

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(Eurasianet, 2023); and US sanctions on Uzstanex and The Elite Investment Group in October 2024 halted their operations (Kun.uz, 2024b). In Armenia, OFAC designated Taco LLC in September 2022 for procurement on behalf of the Russian defence company Radioavtomatika (Armenpress, 2022). In Kazakhstan, OFAC sanctioned KBR Tekhnologii in June 2024 for redirecting chip-manufacturing equipment to Russia (Vlast.kz, 2024). In Kyrgyzstan, the UK designated the crypto companies Grinex and Old Vector in August 2025 (The Times of Central Asia, 2025b).

Export growth differed (T3). Armenia's exports to Russia tripled in 2022 (RFE/RL, 2024) and Kyrgyzstan's rose 2.5 times in January–November 2022 (24.kg, 2023), which covers eleven months and therefore meets the stated proxy rule, although December could affect the full-year comparison, while Uzbekistan's grew by 47 percent (YuzNews, 2023). For Kazakhstan, the available data cover only March–July 2022 and show a 5.1 percent decline (Bykova, 2022); because five months fall short of the data rule, T3 is coded n.d.

Financial channel

Two countries meet F3. In January 2025, the US Treasury designated Kyrgyzstan's Keremet Bank for cross-border transfers on behalf of the sanctioned Russian defence bank Promsvyazbank (U.S. Department of the Treasury, 2025), and in August 2025 the UK sanctioned Capital Bank of Central Asia (The Times of Central Asia, 2025b). The EU's 19th package of 23 October 2025 (Council of the European Union, 2025b) added two further Kyrgyz banks, Tolubay and Eurasian Savings Bank, to its transaction ban, with effect from 12 November 2025 (Spot.uz, 2025). For Kazakhstan, Kazakh media and regional reporting state that the package also restricts VTB Kazakhstan (Kapital.kz, 2025); this is the basis for coding F3 as 1. The EU Council confirms that the package placed four banks from Belarus and Kazakhstan under a transaction ban (Council of the European Union, 2025a), and the Deputy Chairman of the National Bank of Kazakhstan publicly commented on the EU sanctions against VTB Kazakhstan, stating that they posed no risk to financial stability (Bank.kz, 2025); the precise legal entry for VTB Kazakhstan should nevertheless be verified against the applicable annex before treating

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the bank-specific identification as conclusive. No sanctions against a bank in Uzbekistan or Armenia were found (n.d.).

For Uzbekistan, remittances are the core of the financial channel (Figure 1). Cross-border transfers roughly doubled to 16.9 billion US dollars in 2022 (Kun.uz, 2023), fell in 2023 as transfers from Russia almost halved (Kun.uz, 2024a), and reached a record 18.9 billion dollars in 2025 (Central Bank of the Republic of Uzbekistan, 2026). Russia's share stood at 87 percent in 2022, 78 percent in 2023 and 77 percent in 2024 (Kun.uz, 2024a; The Times of Central Asia, 2025a).

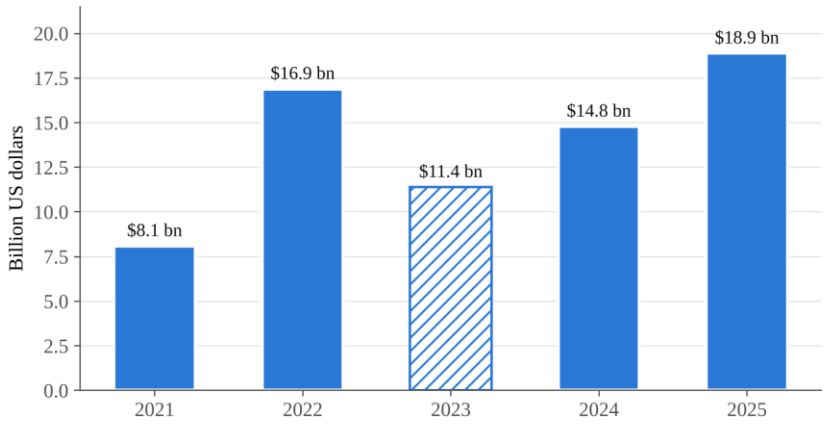


Figure 1. Cross-border transfers to Uzbekistan, 2021–2025 (billion US dollars)

Source: author's chart based on Central Bank of Uzbekistan data (Kun.uz, 2023; The Times of Central Asia, 2025a; Central Bank of the Republic of Uzbekistan, 2026). The 2023 value (hatched) is the 2024 total minus the reported increase of 3.4 billion dollars.

All four countries meet F1: in 2021 Russia supplied 55 percent of remittances to Uzbekistan and 51 percent to Kazakhstan (UN News, 2022), 83 percent to Kyrgyzstan and more than half to Armenia (Ratha & Kim, 2022); for Armenia, Central Bank data put Russia's share at 55 percent in the first quarter of 2022 (Hergnyan, 2022), and remittances from Russia averaged 72 million US dollars a month in 2021 (Ktoyan, 2023). Their macroeconomic weight differs much more (Figure 2; F2): in 2024 remittances equalled 17.6 percent of GDP in Kyrgyzstan and 13.7 percent in Uzbekistan, but only 5.4 percent in Armenia and 0.08 percent in Kazakhstan (World Bank, 2026).

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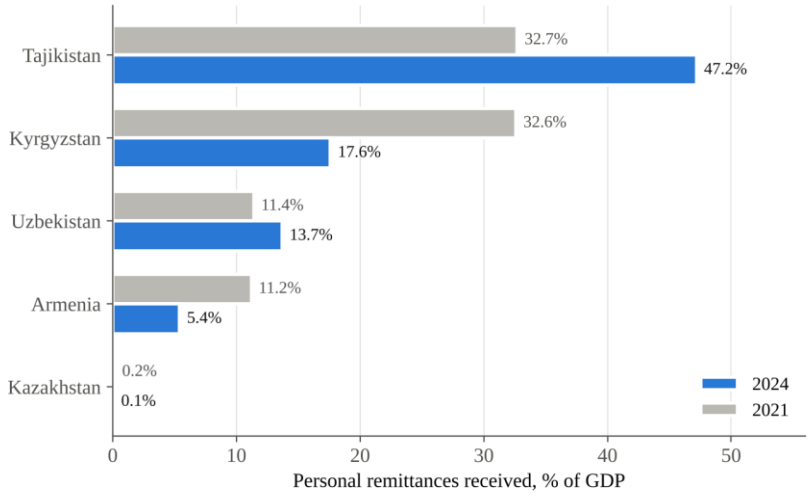


Figure 2. Personal remittances received, 2021 and 2024 (% of GDP)

Source: author's chart based on World Bank, World Development Indicators, BX.TRF.PWKR.DT.GD.ZS (World Bank, 2026).

The clearest direct evidence of this channel dates from July 2026. Following the EU's 21st sanctions package, which listed 94 banks and major financial institutions (European Commission, 2026), reporting identified restrictive measures affecting RNKO Platezhny Tsentr, the settlement centre of Zolotaya Korona, through which almost 2.4 billion of Uzbekistan's 9.3 billion US dollars of remittances passed in the first half of 2026 (Kun.uz, 2026b). According to the cited report, the Central Bank said payouts could continue from collateral deposits and emphasised avoiding secondary-sanctions risks (Kun.uz, 2026b).

Compliance channel

All four countries meet C1. Uzcard suspended Mir services in September 2022 (Kun.uz, 2022). In Kazakhstan, the largest bank, Halyk, refused to use Mir as early as 2022 (Bykova, 2022); Freedom Finance Kazakhstan Bank suspended Mir operations in February 2024, citing sanctions risks (Interfax, 2024a); and by April 2024 Halyk, CenterCredit, Forte and Nurbank were not servicing Mir cards (Interfax, 2024b). In Armenia, 17 of the 18 commercial banks stopped servicing Mir cards in March 2024 (RFE/RL, 2024), and in Kyrgyzstan Mir transactions had ceased entirely by the third quarter of 2024 (Akchabar, 2025).

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C2 is met in three countries. In Kazakhstan, Home Credit Bank ended its cooperation with VTB Kazakhstan to exclude the risk of secondary sanctions before any binding measure applied (The Times of Central Asia, 2024a). In Kyrgyzstan, more than a dozen banks suspended transfers to Russia in 2024 (The Times of Central Asia, 2024b), and the National Bank stated that commercial banks were strengthening control over clients and counterparties to reduce the risk of secondary sanctions, a measure it described as the banks' own response rather than a legal requirement beyond standard know-your-customer rules (The Times of Central Asia, 2024c). In Uzbekistan, the Central Bank Chairman stated in October 2024 that banks had adopted their own rules for exporters and importers aligned with OFAC and EU requirements, which the cited report describes as bank-level risk-management practices rather than a general domestic obligation to apply foreign sanctions (Kun.uz, 2024b); and in July 2026 Kapitalbank, Asakabank, Agrobank, Aloqabank and Asia Alliance Bank suspended Zolotaya Korona transfers after the EU sanctioned the system's settlement centre, while the cited reporting indicates that domestic rules did not categorically require this response and that the Central Bank stated payouts could continue (Kursiv Uzbekistan, 2026; Kun.uz, 2026b). No bank-specific evidence was found for Armenia (n.d.).

C3 is met in all four countries: Kazakhstan introduced re-export tracking in 2023 (Baker McKenzie, 2023); Armenia required permits for exports of electronics to Russia from May 2023 (Zargarian, 2023); Kyrgyzstan routed ruble transactions through one state-controlled bank from April 2025 (Eurasianet, 2025) and ordered 50 companies flagged for sanctions risks to cease operating in 2026 (The Times of Central Asia, 2026); and in Uzbekistan two government commissions monitor sanctions risks in foreign trade and money transfers, according to the Central Bank Chairman (Kun.uz, 2024b); the legal acts establishing them were not identified, so this value rests on an official statement rather than a published decision. Draft law No. QL-1113, which would have given the Central Bank explicit powers to regulate sanctions risks, was adopted in first reading on 13 February 2024, but in August 2024 the committee's proposal to reject it was placed on the agenda of the Legislative Chamber (Council of

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the Legislative Chamber, 2024); its adoption was not confirmed, so the coding does not rely on it.

Comparative assessment

Table 2. Exposure index values by indicator and channel

Indicator	Uzbekistan	Kazakhstan	Kyrgyzstan	Armenia
T1 Re-export route	n.d.	1	1	1
T2 Firms sanctioned	1	1	1	1
T3 Exports to Russia >2×	0	n.d.	1	1
Trade score	**0.33 (0.67)**	**0.67 (1.00)**	**1.00**	**1.00**
F1 Russia >50% of remittances	1	1	1	1
F2 Remittances ≥10% of GDP	1	0	1	0
F3 Bank sanctioned	n.d.	1	1	n.d.
Finance score	**0.67 (1.00)**	**0.67**	**1.00**	**0.33 (0.67)**
C1 Mir service stopped	1	1	1	1
C2 Bank over-compliance	1	1	1	n.d.
C3 State measures	1	1	1	1
Compliance score	**1.00**	**1.00**	**1.00**	**0.67 (1.00)**
Overall index	**0.67 (0.89)**	**0.78 (0.89)**	**1.00**	**0.67 (0.89)**
Rating	**High (very high)**	**Very high**	**Very high**	**High (very high)**

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Source: calculated by the author. n.d. – no data; values in brackets are upper bounds with n.d. treated as 1.

Kyrgyzstan meets every indicator, so its index of 1.00 does not depend on missing data. Kazakhstan's score (0.78) is driven by the compliance channel, while its remittance exposure is minimal. Uzbekistan and Armenia have the same baseline value (0.67) for different reasons: Armenia's exposure lies in trade, Uzbekistan's in finance and compliance. In the upper bound, Kazakhstan, Uzbekistan and Armenia all reach 0.89.

DISCUSSION

Sanctions versus other drivers. The remittance data cannot be read as a direct measure of sanctions effects. The Central Bank attributed the 2023 decline to ruble volatility, inflation and fewer migrants: work permits issued to Uzbek citizens in Russia fell by 12 percent in the first half of 2023 (Kun.uz, 2024a), and the strong ruble was again cited behind the record of 2025 (Kun.uz, 2026a). Sanctions affect these variables only indirectly; their direct effect works through payment channels, as the Zolotaya Korona episode shows. Remittances therefore enter the index as a measure of exposure, not of loss.

Customs-union membership. Because EAEU membership is outside the index, its association with the results can be examined without circularity. The three members have baseline trade scores of 0.67–1.00, against 0.33 for Uzbekistan, which is consistent with the view that open internal borders make members natural transit routes. The difference disappears in the upper bound, however, and four cases cannot establish causation; the finding is preliminary.

Costs and durability. For a bank exposed to international correspondent networks, the potential cost of designation or loss of banking relationships may outweigh expected earnings from some Russia-related transactions, making de-risking commercially understandable. The costs of such de-risking, however, may fall on small exporters and migrant families, and institutional changes such as abandoned card networks and

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suspended transfer links may prove harder to reverse than shifts in trade flows. This study does not quantify these costs.

Robustness. Table 3 reports alternative specifications. Kyrgyzstan is never below any other country, although it shares first place when the highest channel score is used and, under an F2 threshold of 5 percent, ties with Armenia in the upper bound. The ranking of the other three countries changes with the treatment of missing data, the weights and the thresholds, so the index identifies Kyrgyzstan as the most exposed case but cannot reliably order the others.

Table 3. Sensitivity of the exposure index

Variant	Uzbekistan	Kazakhstan	Kyrgyzstan	Armenia
Main specification	0.67 (0.89)	0.78 (0.89)	1.00	0.67 (0.89)
Highest channel score	1.00	1.00	1.00	1.00
Finance double weight	0.67 (0.92)	0.75 (0.83)	1.00	0.58 (0.83)
F1 threshold 75%	0.56 (0.78)	0.67 (0.78)	1.00	0.56 (0.78)
F2 threshold 5%	0.67 (0.89)	0.78 (0.89)	1.00	0.78 (1.00)
F2 threshold 15%	0.56 (0.78)	0.78 (0.89)	1.00	0.67 (0.89)

Source: calculated by the author. A T3 threshold of 1.5× leaves all values unchanged. For F1 at 75%, Armenia is coded 0, because Central Bank of Armenia data indicate a share from Russia of about 55% (Hergnyan, 2022).

Limitations. The study relies on secondary data, and some events are documented only in media reports. Export data come from national sources rather than a harmonised database such as UN Comtrade. Binary indicators simplify differences in degree, the indicators refer to different periods, and countries with less media coverage may be under-scored despite the n.d. category.

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CONCLUSION

Using a simplified index of nine indicators, the article finds that Kyrgyzstan is the most exposed, or jointly most exposed, of the four countries to the risks of secondary sanctions, while the relative positions of Kazakhstan, Uzbekistan and Armenia depend on methodological choices. For Uzbekistan, the most clearly documented risks lie in the financial and compliance channels: 77 percent of remittances came from Russia in 2024, and the channels through which they flow have already been partially disrupted by sanctions. The comparison also provides preliminary support for an association between customs-union membership and trade-related exposure.

The policy implications follow from the indicators. Because remittance dependence is high (F1, F2), payment channels should be diversified further; in 2025, transfers credited directly to bank cards already accounted for 46 percent of inflows to Uzbekistan (Central Bank of the Republic of Uzbekistan, 2026). Because banks restrict lawful transactions (C2), clear official guidance on permitted Russia-related operations is needed. Because the status of draft law No. QL-1113 and the full scope of existing banking powers were not established in this study, policymakers could review whether existing guidance adequately clarifies banks' sanctions-risk decisions before considering further legislative or regulatory changes (C3). Because Uzbek firms have been sanctioned (T2), exporters need practical support with due diligence. Finally, publishing data on rejected payments and compliance measures would close the information gaps (n.d.) that limit this and future assessments.

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