KCS Group International

We look at the world differently...

Central Asia: from sanctions to strategy

August 2025

Kazakhstan is moving the fastest. Construction is under way on the new Darbaza-Maktaaral rail link to Uzbekistan (US$523 million) and a second track on the Dostyk-Moiynty section to lift China-Europe capacity five-fold by 2027. At the Caspian end, Aktau will add a 200,000 TEU container hub by 2025 for just US$42 million, while Kuryk gains a multi-purpose sea terminal for grain, oil and break-bulk. In total, Astana has earmarked €5.5 billion across 13 "hard" corridor projects, a figure validated by the EU-EBRD connectivity study. The objective is clear, squeeze journey times on the Middle Corridor and lock in Kazakhstan's role as the region's consolidator of east-west traffic.

Uzbekistan's priority is now road-rail convergence. In 2025, strategic upgrades begin on the Tashkent–Andijan highway and the Samarkand corridor. Both are bundled into a PPP pipeline designed to position the Ferghana Valley as a cross-docking point for China-EU truck traffic. Complementing the roads, the 532km China-Kyrgyzstan-Uzbekistan (CKU) railway (construction began in April) aims to shave seven to ten days off rail transits once its 15 million-tonne annual capacity is fully deployed. Forward-looking investors are already mapping warehouse plots along the route to capture value-added logistics.

For Kyrgyzstan, the third phase of the North-South Alternative Highway is the make-or-break asset. Built with Chinese finance, the road will finally give Bishkek year-round passage to Osh and link seamlessly into the CKU spine.

Until it is finished, heavy freight must still detour through mountainous passes that close in winter - an operational risk worth factoring into contingency plans.

Flagship hubs and project pipeline

Astana has begun to walk the walk with resources. In July 2025, the government unveiled 14.3 trillion tenge (US$26.7 bn) for 17 logistics schemes (ranging from dry-port upgrades along the Nurly Zhol rail grid to a new container berth at Aktau), intended to lift east-west throughput before 2027.

In Kyrgyzstan, Phase 3 of the Chinese-financed North-South Alternative Highway, linking Balykchy with Jalal-Abad by 2027, is still the missing segment. Until completion, heavy freight must detour over winter-prone passes.

It is financing, not engineering, that now poses the greatest hurdle. Asia House estimates a €6.5 bn gap in corridor modernisation despite fresh EU-EBRD commitments. Unless private capital can close that hole, today's bottlenecks at Dostyk and the Caspian ports will simply migrate south to Makmal and Qamchiq.

Incentives vs informal costs

On paper, Central Asia (especially Kazakhstan) dangles some well-proportioned carrots. Participants in its fourteen special economic zones pay 0% corporate, land and property tax, and escape import duties on equipment under the Law on Investments, while priority projects enjoy customs-duty waivers even outside the zones.

The 2023 Investment Policy Concept expands the package. Foreign investors are promised accelerated visas, a "green-corridor" Fast Track for project approvals, and a digital one-stop platform, all geared toward attracting US$150 billion in FDI by 2029.

However, reality is less straightforward. A 2025 EY survey shows executives rate "*customs transparency*" and "*predictable tax changes*" higher than labour costs when deciding where to deploy capital. Their main desire is clearer, more stable interaction with tax and customs officials. Governance gaps amplify that friction.

According to the latest OECD Anti-Corruption Network review, only three of 21 monitored economies (Kazakhstan, Ukraine and Uzbekistan) operate a functioning business-ombudsman, leaving most firms without an independent channel to resolve disputes. The same study notes that just one-third of countries verify beneficial-ownership data, complicating due-diligence on local partners.

Balancing West, Russia and China

Astana, Tashkent and Bishkek continue to walk a diplomatic tight rope. In meetings with the Kremlin, presidents stress the danger of Western secondary sanctions. When they sit down with EU officials, the same leaders argue they are under Russian coercion and need exemptions. This message and tactic have so far allowed for continued market access on both sides.

The EU has responded with bigger chequebooks rather than penalties. At the Samarkand summit in April 2025, Brussels upgraded ties to a "*strategic partnership*" and, through the Global Gateway, ring-fenced €10 billion for the Trans-Caspian corridor and critical-minerals supply chains, money that could give EU shippers a tariff-stable route bypassing Russia.

Beijing, meanwhile, is shifting from hard infrastructure to influence-building. During the June 2025 China Central Asia summit, President Xi pledged RMB1.5 billion (≈US$210 million) in grants for education, poverty-reduction and smooth-trade platforms, signalling a softer Belt-and-Road phase that complements rather than competes with EU's funds.

Russia is not to be forgotten either. Gas-swap pipelines reversed to feed Kazakhstan and Uzbekistan keep Moscow's energy leverage intact, and the number of newly registered Russian SMEs in the region continues to climb, anchoring commercial ties despite the war-time exodus from Europe.

Who really benefits? Local content and social impact

Kazakhstan is moving quickly into critical raw material extraction, which President Tokayev calls the "*new oil*". Big investors are coming in, but early deals still channel most profits to foreign-led ventures and state-linked firms. Civil groups warn that without strong safeguards, the sector could repeat the isolated, unequal growth of the 2000s, and trigger local opposition over the high-water use of lithium and rare-earth mining.

Some redistribution mechanisms are starting to bite. UNDP's regional Aid-for-Trade programme has linked small suppliers (many run by women) to corridor value chains, generating 727 new female jobs since 2018 and nudging larger shippers toward local sourcing targets. However, royalty and tax terms on uranium or rare-earths remain negotiated case by case. Provincial budgets rarely see a direct share of corridor toll income, limiting visible organic gains.

Transparency is improving, albeit unevenly. All projects funded under the EU's €10 billion Global Gateway envelope must publish ESG metrics and local content spend, raising the disclosure bar for competing Chinese or Gulf lenders. Domestically, Kazakhstan's 2026 budget will pilot a fully automated public-procurement portal, covering corridor works with a complaints' mechanism aimed at exposing bid-rigging and compelling e-invoicing, a step that could widen SME participation, if rigorously enforced.

Conclusion

Drawing all this together, Central Asia's supply-chain promise will reward firms that balance vigilance with agility. Compliance must, however, sit at the core. Treat the region as a mid-risk trans-shipment zone and keep audit rights extending all the way to local freight agents.

Flexibility is next. Warehousing, rail slots or trucking capacity should be structured so they can swing between the Middle Corridor, the Gulf-backed routes and, when feasible, the Trans-Afghan backbone. Equally important is a visible local foothold. Tapping UNDP, ADB or EBRD co-financing channels (and embedding supplier-development or social-impact targets) can soften political risk and head off future royalty hikes.

Finally, stay alert to the policy calendar. The forthcoming EU sanctions-compliance assessment and the expected financing decision on the CKU railway will each reset cost and risk assumptions. Being ready to recalibrate when these markers land will separate early movers from proactive. In short, resilience lies in rigorous due diligence.