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Policy paper

The New Silk Roads 2.0: Turning Connectivity into Competitiveness in Central Asia

Zoé Toulouse
Research Fellow for Central Asia, the Caucasus, and Russia
Institute for Applied Geopolitical Studies

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SUMMARY

Executive Summary

After centuries of being bypassed by major international trade routes (primarily maritime) Central Asia is regaining strategic importance due to the geoeconomic shifts triggered by the war in Ukraine. As regional powers seek to circumvent heavily sanctioned Russia, interest in Central Asia has surged. This renewed attention offers a potential opportunity for the region's five landlocked countries (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan), whose transport networks are uneven and whose customs policies lack coordination. While their search for foreign partnerships has long been essential, the conflict that began on February 24, 2022, has clearly accelerated efforts to establish new trade corridors that bypass Russia. Consequently, Central Asia's transport infrastructure is expanding in two main directions: westward, with Kazakhstan and the Caspian Sea playing a key role in China-Europe trade routes; and southward, via both maritime links (Kazakhstan's and Turkmenistan's ports connecting with Azerbaijan and Iran) and land corridors (notably a planned railway linking Uzbekistan, Afghanistan, and Pakistan).

Today, intra-regional connectivity remains weak, hindered by infrastructure disparities, geographic constraints, and political fragmentation. These challenges significantly impact economic development and undermine the region's potential for greater integration into global supply chains. Addressing them will require coordinated policy efforts, substantial investment, and strengthened regional cooperation.

To enable the region's competitiveness, foreign investment banks must:

- Invest in the Digital and Regulatory Modernization of Trade and Transport Infrastructure ;
- Prioritize Strategic Infrastructure with High Commercial and Regional Integration Potential ;
- Facilitate the Development of Local Capital Markets and Encourage High-Quality FDI ;
- Support Workforce Transformation and Innovation-Driven Growth ;
- Promote Regional Economic Integration and Regulatory Convergence.

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Country Overview: Transport Connectivity in Central Asia

Each Central Asian country faces unique challenges and opportunities in the development of transport connectivity, with varying levels of infrastructure and strategic initiatives shaping their roles in regional and transcontinental trade.

Kazakhstan stands out as a regional transport hub, boasting over half of Central Asia's railway infrastructure. Its rail network is heavily used due to the poor condition of many roads, particularly in the western and southern regions. The country's access to the Caspian Sea, through the ports of Aktau and Kuryk, further enhances its logistical potential. Kazakhstan is also investing heavily in infrastructure through its national development program Nurly Zhol ("Bright Way"), which prioritizes road and railway modernization. Key projects include integration into major transcontinental routes such as the "Western China–Western Europe Corridor" and China's "Belt and Road Initiative."

Turkmenistan is also leveraging its Caspian coastline by expanding the modernized port of Turkmenbashi and developing railway corridors toward Iran and Afghanistan. A strategic line connecting Turkmenistan to Tajikistan via Afghanistan bypasses Uzbekistan, reflecting Ashgabat's broader ambitions to become a regional transit player.

Uzbekistan is actively modernizing its transport infrastructure, expanding electrified railway lines, and operating the region's first high-speed passenger trains. It is strengthening cross-border connections and supports regional integration through projects like the proposed railway linking Uzbekistan with Afghanistan and Pakistan, which would open access to South Asian markets. Uzbekistan also supports long-discussed plans for the China–Kyrgyzstan–Uzbekistan railway, which would significantly boost east–west connectivity.

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Kyrgyzstan and **Tajikistan**, by contrast, face substantial geographic and financial constraints. Their mountainous terrain limits railway development, and they rely heavily on international assistance—particularly from the Asian Development Bank (ADB) and the Japan International Cooperation Agency (JICA)—to rehabilitate key road corridors. Despite limited infrastructure, both countries are involved in multilateral discussions to enhance connectivity and unlock trade potential.

Collectively, Central Asia is positioned to become a key transit corridor between Europe, Asia, and the Middle East. Initiatives under the CAREC program and broader regional strategies have contributed to growing connectivity. However, this potential remains underutilized due to persistent challenges: inadequate infrastructure in parts of the region, poor market access, fragmented trade facilitation efforts, institutional mismatches, and weak bilateral cooperation. Realizing the region's full potential as a transshipment hub requires intensified regional coordination, comprehensive infrastructure investment, and stronger engagement from international partners.

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Regional Challenges to Transport Connectivity

Despite ambitious efforts to develop freight transport infrastructure, Central Asia faces several persistent challenges that hinder regional connectivity and integration.

The first major obstacle is financial. Not all countries in the region, particularly Kyrgyzstan and Tajikistan, possess the fiscal capacity to rehabilitate or construct modern transport infrastructure. This financial constraint is compounded by a shortage of skilled personnel, leading to inefficiencies such as slow travel and border crossing times. In 2019, the average rail speed including delays was only 19.0 km/h, compared to 22.6 km/h by car (Kalyuzhnova, 2021). Furthermore, soft infrastructure issues—including complex tariff regimes, lengthy customs checks (averaging 20.6 km to cross a border by rail), cumbersome procedures, and limited digitalization—contribute to high trade costs and undermine the region's attractiveness as a transit corridor.

The region's geographical position poses an additional challenge. Central Asia is landlocked, bounded by the isolated Caspian Sea, major powers with divergent interests (Russia, China, and Iran), and an unstable neighbor, Afghanistan, which complicates efforts to connect with South Asia. This isolation limits access to global markets and increases reliance on external transit corridors.

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Political fragmentation and nationalism also obstruct regional cooperation. Central Asian countries are generally reluctant to harmonize customs procedures or engage in multilateral frameworks, preferring unilateral management of border controls. This is especially problematic in areas with tightly interwoven borders, such as the Ferghana Valley, shared by Kyrgyzstan, Tajikistan, and Uzbekistan. Despite the strategic rationale for greater integration, progress is impeded by local tensions and differing regional alignments—for instance, Kazakhstan and Kyrgyzstan's membership in the Eurasian Economic Union (EAEU).

Efforts to establish logistics and industrial platforms to support cross-border trade have largely fallen short, except in cases where they serve non-Central Asian partners, such as the Khorgos dry port (Kazakhstan–China) and the Serakhs Special Economic Zone (Turkmenistan–Iran).

Lastly, poor Logistics Performance Index (LPI) scores across the region highlight a broader lack of competitiveness in managing freight flows. Even Kazakhstan, which ranks comparatively better, suffers from critical inefficiencies—its customs administration, for example, can cause delays of up to 40 hours, undermining trade fluidity and illustrating that higher LPI scores do not necessarily reflect seamless logistics management.

However, the call made by Kazakh President Kassym-Jomart Tokayev during the latest Central Asia Heads of State Summit held on July 21, 2022, in Cholpon-Ata (Kyrgyzstan), to promote the region's economic integration through the creation of a network of cross-border structures (border checkpoints, free zones), sounds more like a pious wish than a concrete step—though such an initiative would significantly transform regional relations.

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A Challenge for Growing China–Europe Trade

The European sanctions regime against Russia—prohibiting the transit of goods destined for the EU through Russian ports and rail terminals—has not curtailed the momentum of China–Europe trade, which saw a 10% increase in the first quarter of 2022 compared to the same period in 2021. As a result, foreign logistics actors are increasingly turning their attention to Central Asia.

Consequently, Central Asia's transport infrastructure is expected to experience significantly greater demand in the coming years than prior to 2022, when only 2% of Asia–Europe trade flowed through Central Asian roads or railways. While road networks are more extensive than rail lines in the region, rail transport is expected to become the preferred option due to the prohibitive costs associated with the region's poor road conditions—approximately 65% of roads are in degraded condition—and because key rail routes in Kazakhstan run along the same longitudinal axis as the most direct overland trade corridors.

Despite this advantage, rail freight is not without its own limitations. The gauge disparity between Central Asia (1,520 mm, identical to Russia) and both East Asia and Europe (1,435 mm) requires break-of-gauge operations at both entry and exit points of the region. These technical disruptions translate into longer transit times and additional costs for operators. The issue is further exacerbated by the ageing rail rolling stock across Central Asia, which slows operations and reduces reliability.

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This poor connectivity is both a symptom and cause of weak regional cooperation and underdeveloped bilateral relations. It contributes to the isolation of Central Asian economies and works against regional economic integration, particularly in sectors like agri-food, which rely on rapid transport. It also undermines foreign direct investment (FDI) potential by signaling logistical inefficiencies and infrastructure risks. Without significant upgrades and policy coordination, Central Asia risks falling behind as a competitive exporter—its role may be reduced to that of a passive import or mere transit zone, as foreshadowed by China's advancing plans for a Trans-Caspian Corridor that bypasses much of the region entirely.

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The New Great Game

Since launching its Belt and Road Initiative (BRI) in 2013, China has made Central Asia a critical focus of its geopolitical and economic strategy. Beijing pursues a dual objective in the region: first, to build or upgrade local transport networks—both rail and road—and second, to incorporate these infrastructures into broader multimodal corridors. These corridors often serve as backbones for economic integration, as seen with the creation of Special Economic Zones (SEZs) such as the one in Kazakhstan's port of Aktau.

The war in Ukraine has further shifted China's priorities. With the Northern route through Russia (the New Eurasian Land Bridge Economic Corridor, NELBEC) now less viable, Beijing is focusing on the China–Central Asia–West Asia Economic Corridor (CCWAEC). Simultaneously, China is pushing southward, expanding its commercial routes toward South Asian markets. This is exemplified by the resumption of construction on the long-delayed China–Kyrgyzstan–Uzbekistan (CKU) railway in late 2022, as well as trilateral discussions on a new multimodal corridor connecting Kashgar (Xinjiang) to Hairatan (Afghanistan).

But China is far from alone in this "New Great Game" reshaping Central Asia. First of all, because the European Union at the other end is also pushing for the creation of the Trans-Caspian Corridor for its own interests, as demonstrated by the Global Gateway initiative and the visit to the region in March 2025 of the European Commissioner for International Partnerships, Jozef Síkela. Turkey and Azerbaijan, through their deepening strategic partnership, have emerged as influential actors too.

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With no direct borders to the region, Turkey uses Azerbaijan—linked across the Caspian Sea to Kazakhstan and Turkmenistan—as its launchpad into Central Asia. Ankara's regional ambitions have intensified since Azerbaijan's 2020 victory in Nagorno-Karabakh, culminating in plans for the Zangezur Corridor, which would bypass Armenia and open a direct route to the Caspian. This initiative has attracted strong interest from Uzbekistan, now engaged in trilateral talks with Turkey and Azerbaijan.

Turkey had already established the Lapis Lazuli Corridor in 2018, linking it to Afghanistan via Georgia, Azerbaijan, and Turkmenistan. These evolving dynamics reflect Ankara's broader goal of increasing its influence across Central Asia, a region bound to it by historical, cultural, and linguistic ties.

Not to be outdone, Iran is also repositioning itself. Taking advantage of Russia's diminished status, Tehran aspires to become a major interregional hub between Central Asia, the Caucasus, and the Persian Gulf. Its 2022 agreement with Kazakhstan marked the start of a new China–Kazakhstan–Iran–Europe corridor, rerouting trade flows away from Russian territory. The Bandar Anzali port, already connected to other Caspian ports since late 2021, has become a vital transshipment hub for containers heading toward South Asian markets.

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Invest in the Digital and Regulatory Modernization of Trade and Transport Infrastructure

Investment banks should support initiatives that accelerate the digitalization and simplification of customs procedures and regulatory frameworks across Central Asia. Interoperable digital systems and harmonized regulations between countries would significantly reduce trade friction, lower transaction costs, and enhance the predictability of cross-border operations. These changes are essential to transform existing transport corridors into fully functional economic corridors.

Prioritize Strategic Infrastructure with High Commercial and Regional Integration Potential

Infrastructure investment should focus on projects that are commercially viable, regionally integrative, and technologically forward-looking. These include logistics hubs, intermodal transport nodes, and smart SEZs (Special Economic Zones) with robust energy and digital connectivity. Emphasis should be placed on corridors that facilitate East-West and North-South trade, enabling greater access to both European and South Asian markets.

Facilitate the Development of Local Capital Markets and Encourage High-Quality FDI

To ensure sustainable investment environments, foreign banks should promote the development of domestic capital markets, encourage responsible lending, and mobilize high-quality foreign direct investment (FDI). This includes prioritizing projects aligned with long-term growth sectors (e.g. green energy, petrochemicals, ICT), while helping countries implement risk mitigation mechanisms to avoid over-indebtedness and ensure financial resilience.

Support Workforce Transformation and Innovation-Driven Growth

With the acceleration of digitalization, automation, and green technologies, infrastructure and industrial investments must be paired with human capital development. Banks should fund programs that support labor re-skilling, innovation ecosystems, and start-up infrastructure, helping Central Asian economies move up the value chain, particularly in areas like services, petrochemical processing, and knowledge-intensive manufacturing.

Promote Regional Economic Integration and Regulatory Convergence

Greater regional integration is essential to unlock scale economies and enhance competitiveness. Foreign investors should advocate for and participate in efforts to harmonize regulations, reduce "soft" trade barriers, and promote cross-border cooperation on transport, trade, and energy. Supporting regulatory convergence—inspired by models like the Schengen Area—can pave the way for a future regional free trade area, boosting long-term investment attractiveness.

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Institut d'études de géopolitique appliquée
121 rue du Vieux Pont de Sèvres 92100 Boulogne-Billancourt
Email: secretariat@institut-ega.org
Website: www.institut-ega.org